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Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Scott P. Johnson

SUBJECT: REVENUE COLLECTION
ACTIVITIES

DATE: March 8, 2010

Approved

Date

3/9/10

INFORMATION

This memorandum is to provide additional information on the City's pro-active revenue collection efforts and to update Council based on questions that have been raised by the press recently regarding the FY 2009-10 First Quarter Revenue Collection Strategic Plan Report, item 3.2, which included a listing of bad debt write-offs for the City Council's approval on March 9, 2010.

Revenue Collection Strategic Plan

The Finance Department has historically focused on collecting funds due to the City along with targeted proactive collection programs. In January 2007, the Finance Department implemented a Revenue Collection Strategic Plan (RCSP) which realigned staffing resources to facilitate proactive collection efforts, focusing on reducing delinquent accounts receivable and enhanced revenue compliance.

Below is a summary of the results of the RCSP from January 2007 through December 2009 as reported to the Public Safety, Finance and Strategic Support (PSFSS) Council Committee.

City of San José Finance Department			
Revenue Collection Strategic Plan			
Fiscal Year	Budgeted Revenue Target	Actual Revenue Collected	% of Target
2006-2007 (Jan - June 2007)	N/A	\$5,276,942	N/A
2007-2008	\$2,650,000	10,805,301	408%
2008-2009	2,650,000	11,221,254	423%
2009-2010 (Jul - Dec 2009)	<u>2,650,000</u>	<u>2,741,323</u>	<u>103%</u>
Total	\$7,950,000	\$30,044,820	378%

Brief History on Delinquent Account Collection

Presented below is a summary of the City's delinquent accounts receivable balances as submitted in the RCSP reports to the PSFSS Committee. Delinquent accounts are those that are 91 or more days unpaid from the City's invoice date.

City of San José				
Delinquent Accounts Receivable Balance				
	FY 2009-10 2nd Quarter as of 12/31/09	FY 2008-09 4th Quarter as of 6/30/09	FY 2007-08 4th Quarter as of 6/30/08	FY 2006-07 4th Quarter as of 6/30/07
91 – 120	\$420,451	\$1,211,190	\$3,500,118	\$3,360,491
121 – 365	2,902,892	1,904,015	2,737,040	3,936,836
366 – 730	2,052,910	1,752,482	742,064	1,339,324
731 – 999	<u>6,572,184</u>	<u>6,657,274</u>	<u>8,969,688</u>	<u>11,851,635</u>
Total	\$11,948,437	\$11,524,961	\$15,948,910	\$20,488,286

As demonstrated on the chart above, the RCSP achieved a 41.7% reduction in delinquent accounts receivable in the past 2 ½ years, equal to over \$8.5 million to the City.

Delinquent Accounts Receivable as a Percentage of Accounts Receivable Billings

The chart below summarizes the accounts receivable billings assigned by various departments to the Finance Department's Revenue Management Division Collections Unit to pursue collections since 2006-07. The accounts receivable billings over this three and one-half year period total \$227,583,375. As noted above, the delinquent accounts receivables outstanding as of December 31, 2009 total approximately \$11.9 million, representing approximately one-half of 1% (.05%) of total billings assigned to the Collection Unit since 2006-07.

City of San José	
Accounts Receivable Billing	
Fiscal Year	Billed Amount
2006-2007	\$49,774,840
2007-2008	59,960,404
2008-2009	83,122,896
2009-2010	34,725,235
(As of 12/31/09)	
Total	\$227,583,375

Recommended Bad Debt Write-Offs

The December 2009 Report to the PSFSS Committee recommends Council's approval for bad debt write-offs in the amount of \$1,702,757.42, which represents approximately seven one-hundredths of 1% (.007%) of the billings noted above.

In addition to pro-actively collecting the City's delinquent accounts, it is also important to write off the City's uncollectible debts to ensure that the City's financial statements are reflected accurately. On a periodic basis the City's Finance Department establishes reserves for bad debts to cover potential write-offs for uncollectable accounts. The bad debt reserves are funded as an estimate of total billings each year, in each revenue category billed. The accounts recommended for bad debt write-off will be offset by the bad debt reserves that have been established.

The annual analysis of the City's bad debt reserves are conducted by the Finance Department and reviewed by the City Manager's Budget Office during the budget development and Annual Report process. In addition, during the City's annual external audit of the City's financial statements, the City's external auditors review the City's bad debt exposure as well as the adequacy of the bad debt reserves.

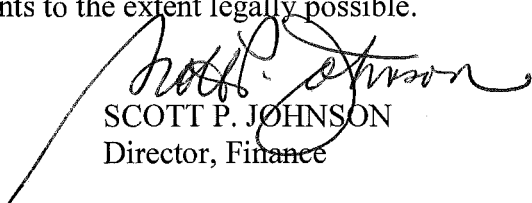
As accounts are considered for write-off through the City's annual accounts receivable evaluation process, the following criteria is followed to determine if an account should be written off as a bad debt.

- Debtor has no assets; out of business or has no indication of future assets;
- Debtor is deceased and has no estate;
- Debtor is incarcerated for an extended or unknown period;
- Debtor has filed bankruptcy;
- Debtor has "skipped", moved or sold property and has no forwarding information; or
- Statute of limitations has expired.

It should be noted that such write-offs is not a relinquishment of the City's claim for debts due the City. In addition, as a last resort for collecting accounts that are delinquent and considered for bad debt write-off status, such accounts are assigned to the collection agencies under contract with the City to make further attempts for collection action, in order to exhaust all remedies available to the City.

Collection Efforts (Post Write-Off)

Even after writing off accounts that are deemed uncollectible, the Finance Department will continue to pursue collection on these accounts to the extent legally possible.


SCOTT P. JOHNSON
Director, Finance

For any questions, please contact Scott P. Johnson, Director of Finance, at 408-535-7000.