



# Memorandum

**TO:** PUBLIC SAFETY, FINANCE, AND STRATEGIC SUPPORT COMMITTEE      **FROM:** Julia H. Cooper

**SUBJECT:** FOURTH QUARTER FINANCIAL REPORTS FOR FISCAL YEAR 2017-2018      **DATE:** August 1, 2018

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Approved

Date

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## **RECOMMENDATION**

- (1) Accept the following Fourth Quarter (period ending June 30, 2018) Financial Reports for Fiscal Year 2017-2018 for the following programs:
  - (a) Debt Management
  - (b) [Investment Management](#)
  - (c) Revenue Collection;
- (2) Refer the Fourth Quarter Financial Reports for Fiscal Year 2017-2018 to the September 11, 2018, City Council meeting for full adoption.

## **OUTCOME**

Provide the quarterly update on debt management, investment management, and revenue collection work efforts.

## **BACKGROUND**

The attached Fourth Quarter Financial Reports for Fiscal Year 2017-2018 presents the Finance Department's quarterly activity for the City's Debt Management, Investment Management, and Revenue Collection programs (Attachment A). Additionally, the Fourth Quarter Investment Report has been distributed to the City Council via email and is available on the Finance Department web page at <http://www.sanjoseca.gov/index.aspx?NID=759>. As part of the ongoing effort to streamline work efforts within the Finance Department, these three reports are combined in one single report for submission to the Public Safety, Finance, and Strategic Support Committee (the "PSFSS Committee") for its review and acceptance. A brief narrative discussion is provided below for all three components of this quarterly report.

## **ANALYSIS**

This section of the report is divided into the following sections: Debt Management Program, Investment Management Program, and Revenue Collection Program which includes Marijuana Business Tax.

### **Debt Management Program**

This Fourth Quarter Debt Report focuses on the City's debt activities for the period ended June 30, 2018, and relates to the following elements of the City's Debt Management Program:

- Completed financings and current debt portfolio
- Debt issuance and management activities completed and anticipated to fiscal year end
- Current interest rate environments and credit ratings

The City's current general obligation bonds are rated Aa1/AA+/AA+ and lease revenue bonds are rated Aa2-Aa3<sup>1</sup>/AA/AA by the Moody's Investors Services Inc., Standard & Poor's Ratings Services, and Fitch Ratings, respectively. These ratings are based on the rating reviews through June 30, 2018.

### **Investment Management Program**

A quarterly investment report for the period ended June 30, 2018, was distributed separately to the Mayor and City Council and is posted on the Finance Department website<sup>2</sup>. Pursuant to the City's Investment Policy, verbal presentations in addition to the written reports are provided to the PSFSS Committee for the Second and Fourth Quarter Reports. The materials that are presented in this consolidated report provide a "snapshot" of the investment portfolio. The report will be agendized for acceptance by the City Council pursuant to the Investment Policy.

### **Revenue Collection Program**

The Revenue Collection report highlights the key aspects of the City's ongoing collection efforts. These efforts focus on reducing delinquent accounts receivable and enhancing revenue compliance through three primary collection programs: Business Tax, Accounts Receivable, and Revenue Compliance and Monitoring. This report provides the highlights of the Revenue Management Division's collection efforts and summarizes the progress towards meeting the annual collection target of \$7.5 million. Actual collections through the fourth quarter of fiscal year 2017-18 are approximately \$14.5 million which represents 193% of the annual collection target. Additionally, supplemental information is provided on the Marijuana Business Tax

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<sup>1</sup> Moody's determines its lease revenue bond ratings in part based on "essentiality" of leased asset; bonds tied to an essential asset, like City Hall carries higher rating (Aa2) than bonds tied to a less essential asset such as Convention Center (Aa3)

<sup>2</sup> <http://www.sanjoseca.gov/index.aspx?NID=759>

(“MBT”) and the extended community outreach effort related to the Business Tax Modernization changes that went into effect July 1, 2017.

### **Marijuana Business Tax**

*MBT Revenue Collection* – The MBT revenue collected this fiscal year through June 2018 is approximately \$12.8 million<sup>3</sup>. This represents a 21.9% increase over the \$10.5 million in revenues collected through the same period in the prior fiscal year. The increase in revenue collected this fiscal year is attributable to an overall increase in marijuana business activity. The increase is driven by the legalization of non-medical marijuana sales in California, effective January 1, 2018. With the enactment of Proposition 64, MBT revenues have increased by approximately 27.9% through the second half of fiscal year 2017-18 as compared to the second half of fiscal year 2016-17.

*MBT Compliance* – There are a total of 16 registered collectives in the City’s marijuana regulatory program. All 16 are remitting MBT timely and are compliant with the MBT ordinance. As of June 30, 2018, there were seven non-registered MBT accounts which were delinquent and required further staff collection efforts. The summary of staff collection efforts related to the seven delinquent accounts is as follows:

- Six of the non-compliant store fronts have been closed through Code Enforcement action.
  - Four are actively being pursued by City staff for collection of taxes owed;
  - One account remains with the City Attorney’s Office for legal action; and
  - One account is currently in the settlement process with the City Attorney’s Office.
- One newly identified non-registered store front has been contacted for an audit and is also with the City Attorney’s Office for legal action.

### **Extended Outreach Plan for Business Tax Code Changes effective July 1, 2017**

The Business Tax Modernization Measure, approved by San José voters on November 8, 2016, went into effect July 1, 2017, and represents the first Business Tax increase since 1986. The City Council extended the community outreach plan and deadline to register residential landlords with one or two units until June 30, 2018, without incurring interest or penalties.

The Business Tax Modernization changes required outreach to the business community through a variety of mediums. Staff from the Finance Department, Office of Economic Development, and City Manager’s Office executed the initial and extended outreach plan to spread awareness of the changes. Specific examples of the completed outreach efforts are as follows:

#### Direct Mailings

- Finance Department commenced a letter campaign targeting residential landlords, owning one or two units, that are now required to register and remit Business Tax. The

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<sup>3</sup> MBT collections reported through June 2018 include an estimate of \$1.2 million for June 2018.

campaign continued through November 2017, in which 23,400 letters were mailed to potential residential landlords; and from March through May 2018, second mailing of 18,000 letters was mailed to potential unregistered residential landlords.

#### Advertising

- An online advertisement was placed on the Silicon Valley Organization's website in October 2017 and will run through the end of November 2018; and
- Additional advertisements were extended through June 30, 2018 with Radio KRTY/KLIV and the San Jose Mercury News.

#### Outreach to Business Organizations

- Finance staff distributed Business Tax Modernization flyers to the following organizations and associations for circulation: Santa Clara County Association of Realtors, San José Silicon Valley Chamber of Commerce, Hispanic Chamber of Commerce Silicon Valley, Black Chamber of Silicon Valley, Silicon Valley Leadership Group, Silicon Valley Small Business Development Centers of Northern California, Building Owners and Managers Association Silicon Valley, California Apartment Association, and Silicon Valley SCORE.

#### Community Meetings

- Finance staff presented information regarding the Business Tax Modernization Measure at several community meetings including the Berryessa Business Association and Doing Business in San Jose Workshops.

#### Online Resources

- The Finance Department has updated online resources with information on changes resulting from the Business Tax Modernization, including translations of the direct mailing in Spanish and Vietnamese.

As of July 1, 2017, taxpayers can access an online payment portal to pay Business Tax and businesses can register online for Business Tax accounts at the Finance Department's website. Through June 30, 2018, the Finance Department registered a total of 7,700 new residential landlords due to the Business Tax Modernization resulting in just over \$1.5 million in ongoing future revenue to the City.

### **EVALUATION AND FOLLOW-UP**

The Finance Department prepares this report on a quarterly basis for review and approval by the PSFSS Committee. Finance Department staff will be available to answer questions on the Third Quarter Financial Reports for Fiscal Year 2017-2018 at the PSFSS Committee meeting on August 16th, 2018.

**PUBLIC OUTREACH/INTEREST**

This memorandum will be posted on the City's website for the August 16, 2018, PSFSS Committee meeting and the September 11, 2018, City Council meeting.

**COORDINATION**

This memorandum has been coordinated with the City Attorney's Office and City Manager's Budget Office.

JULIA H. COOPER  
Director of Finance

For questions, please contact Lisa Taitano, Assistant Director of Finance, at (408) 535-7041.  
Attachment A: Third Quarter Financial Reports for Fiscal Year 2017-2018  
Attachment B: Citywide Write-Off Report April 2018