



**Agenda Item B.3**  
**CONSENT CALENDAR**  
**Meeting Date: December 18, 2018**

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**TO:** Mayor and Councilmembers

**FROM:** Luke Rioux, Finance Director

**CONTACT:** Tony Gonzalez, Accounting Manager

**SUBJECT:** Adjustment of Uncollectable Accounts

**RECOMMENDATION:**

Authorize adjustment of uncollectable accounts in the amounts described in this report.

**BACKGROUND:**

In a typical month the City is in possession of developer deposits ranging from \$300,000 to over one million dollars. These funds are intended to cover costs incurred by the City in the processing of various private development projects. While it is the City's policy to require that sufficient funds be on hand with the City prior to initiating work on private project cases, this has not always been the practice in the past. In some instances, account receivables have been generated where services were provided beyond the amount of funds on deposit. This problem was compounded where an agreement to pay was not obtained, where records of charges were incomplete, where regular invoices were not sent or where disputes arose. As a result, staff had identified the need to promote fiscal responsibility through the adoption and execution of a policy addressing accounts receivable and the write-off of uncollectible debt. On November 19, 2013 the City Council adopted Accounts Receivable and Write-Off Policy (Write-Off Policy) that provides for consistency in account administration and establishing and maintaining public trust and accountability for staff working to collect outstanding amounts.

In recent years, additional policies have been put in place that require work to stop on any negative developer deposits case accounts. Staff involved with developer deposits are to work with Finance staff, in which Finance staff will generate invoices and perform collection efforts. Updates on all account balances are provided to staff involved on a bi-weekly basis. Departments are to investigate any questionable balances and inform Finance staff of any action needed to be taken (i.e., new invoices, transfer of funds, account refund and close out, etc.). In addition, starting in 2018 through the present, staff has updated its agreement to pay, that stipulates the City will send an invoice to the financial responsible part for an amount equal to the initial deposit whenever the

balance falls below \$500.00, and if necessary, the initial deposit in addition to any negative balances are invoiced. These steps have assisted to prevent most deposit cases from converting to receivable accounts, and quicker recovery of City resources.

In the event that collection attempts are made on negative balance accounts without success, staff utilizes the Write-off Policy that outlines the steps to be taken to prevent outstanding debt, collect payment on accounts and establish conditions under which an account may be written-off. Additionally, this policy describes due diligence documentation and defines authorization levels for write-offs. Some of the collection efforts included are sending multiple invoices, phone collection, letters to account holders, and working with the City Attorney for collection assistance if warranted. The negative developer deposit accounts may exist for a variety of reasons. In some cases, the projects were long ago abandoned and the applicant cannot be located. In some cases, a dispute exists as to the services provided. In other cases, there are inadequate documentation of the charges, while in others, no agreement to pay costs was secured from the applicant. Although each situation is different, if staff does not find that it is cost effective to use additional resources to make further attempt to collect these obligations, staff will consider the account to be uncollectible after the appropriate collection procedures have been followed, and the outstanding account has met one or more criteria in the Write-Off Policy, which is described below:

- The debt is disputed and the City has insufficient documentation to pursue collection efforts;
- The cost of further collection efforts will exceed the estimated recovery amount;
- The amount is up to \$50 and remains unpaid after one year;
- The account remains unpaid after the lesser of four years or the applicable period for commencement of a recovery action (statute of limitations);
- The debtor cannot be located, nor any of the debtor's assets;
- The debtor has no assets and there is no expectation they will have any in the future;
- The debtor has died and there is no known estate or guarantor;
- The debtor is a company that is no longer in business;
- The debt is discharged through legal action (bankruptcy or court judgment); and
- The debt has been forgiven by action of the City Council.

Depending on the transaction amount, recommended write-offs are presented and authorized by the following Council approved authority levels:

<b>Transaction Amount:</b>	<b>Write-Off Authority:</b>	<b>Reported to:</b>
Up to \$100	Finance Director	City Manager
\$101 up to \$5,000	City Manager	Finance Committee
Excess of \$5,000	City Council	City Council

It should be noted, that Council was made aware of uncollectible cases during the close-out of FY 2009/10, and set aside \$250,000 in a deferred revenue account to mitigate the risk of being unable to collect the balances. Since FY 2009/10, the City Council has dismissed debt totaling \$202,905.02 leaving a balance of \$47,094.98 in the account reserved for uncollectable accounts.

A write-off of uncollectible accounts receivable from the City's accounting records does not constitute forgiveness of the debt or a gift of public funds. Accounts receivable should generally be written-off during the fiscal year in which an account is determined to be uncollectible. Subsequent collection of an account previously written-off will be treated as new revenue in the appropriate fund.

At this time, staff has identified two Planning developer deposit case accounts that are recommended for write off. These two accounts have been sitting on our books, with multiple collection efforts starting in FY 2012/13 and FY 2013/14. Additional information is further outlined in the discussion section of this staff report.

## **DISCUSSION:**

Per the City's adopted Write-Off Policy, staff is recommending a total write-off of \$33,169.62, representing two abandoned Planning case deposits that have outstanding balances. After consultation with legal counsel and the Planning department, staff believes the collection effort, including past collection attempts, will outweigh any potential recovery and it is extremely unlikely that funds owed to the City will be ever collected by staff. The following cases and accounts have met the criteria described above to be considered uncollectible:

- Case No.64SBDP (Taylor Parcel Map) – Staff is recommending write-off of \$10,179.91 to account 801-6012.01. The case has remained unpaid in excess of four years, and further collection efforts will exceed the estimated recovery amount. Collection attempts began in FY 2013/14.
- Case No. 03053PM (Thrifty Cary Rental) – Staff is recommending write-off of \$22,989.71 to account 801-6027.01. The case has remained unpaid in excess of four years, and further collection efforts will exceed the estimated recovery amount. Collection attempts began in FY 2012/13.

Other outstanding account balances are continuously monitored on a monthly basis, and reviewed quarterly with the Finance and Audit Standing Committee. Collection efforts on outstanding account balances are still being pursued. Once all reasonable collection options have been exhausted, and deemed uncollectable per policy, staff may return to Council for authorization to discharge additional obligations as necessary. Staff will also soon have an Accounts Receivable software module during the Incode 10 implementation process that is scheduled to being in the next fiscal year. This module will assist with invoice tracking and timelier collection efforts, as it will have the ability to

automate certain processes. Currently invoices and aging balances are generated and tracked through excel.

**FINANCE COMMITTEE REVIEW:**

The Finance Committee met to review the recommended accounts for write-offs on December 6, 2018 and support the recommendation.

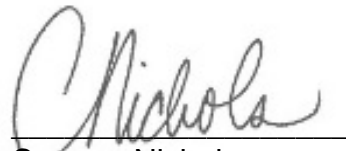
**FISCAL IMPACTS:**

Discharge of the outstanding accounts has an additional impact beyond the liability (101-2030) already on the books since FY 2009/10. The discharge will decrease the City's receivables, while also reducing the liability for deferred revenue by the same amount of \$33,169.62, leaving a balance of \$13,925.36 in the reserve account for collection exposure, as shown in Attachment 1. Finance staff at a later date may recommend an increase to the deferred revenue account, to provide as a safeguard for future uncollectible accounts.

**ALTERNATIVES:**

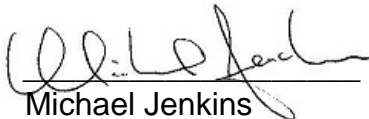
Council is being asked to authorize the adjustment of uncollectable accounts in the amounts described in this report. However, Council could choose to direct staff to continue collection efforts regardless of the low probability of collection.

**Reviewed By:**



Carmen Nichols  
Deputy City Manager

**Legal Review By:**



Michael Jenkins  
City Attorney

**Approved By:**



Michelle Greene  
City Manager

**Attachment:**

1. Recommended Discharge Items

## **Attachment 1:**

Recommended Discharge Items



## Recommended Discharge Items

GL Account No.	Planning/Public Works Case No.	Description	Balance as of 10/31/2018
801-6012.01	64SBDP	5971 Placencia /Thrift	\$ 10,179.91
801-6027.01	03053PM	509 N.Kellogg /Taylor	\$ 22,989.71
<b>Total Discharge</b>			<b>\$ 33,169.62</b>

Deferred Revenue for Developer Deposits		General Ledger Account Affected by Discharge
FY 2009/10 Deferred Revenue	\$ 250,000.00	101-2030
Previous Write-offs	\$ (202,905.02)	
Current Developer Deposit Write-off	\$ (33,169.62)	
Remaining Balance	\$ 13,925.36	