



City Council Report

Date: January 12, 2009
To: City Council
Through: Bryan Raines, Deputy City Manager
From: Edward Quedens, Business Services Director
Subject: Quarterly Receivables Deferred to Collections
Citywide

Purpose and Recommendation

The purpose of this report is to request Council approval to assign delinquent uncollectible accounts to collection services and to charge their respective bad debt expense accounts. Bad debt amounts for the three-month period ending September 30, 2008 totaled \$991,362. This request for the first quarter of FY 08-09 is required to properly state the City's accounts receivable balances.

Background

Accounts that are considered uncollectible are charged to bad debt expense. This standard accounting method for receivables helps provide a true picture of account balances that are considered collectible. Prior to assigning to bad debt, efforts to notify the account owners of the amounts due and to collect on these accounts have occurred. These collection efforts can include several statements of balance owed and delinquency notices, certified letters, the filing of liens and direct customer contact.

Collection efforts will continue with respect to all of these accounts.

Discussion

Utility Accounts

The recommended assignment of delinquent Utility accounts for the period ending September 30, 2008, totaled \$309,484 and is approximately 0.39% of the total Utility revenue for the period. These accounts are over 120 days old and prior collection efforts have occurred. The last twelve months bad debt as a percentage of Utility revenue is approximately 0.46%. Recovery of prior Utility bad debt during this period totaled \$61,424.

Sales Tax

The recommended assignment of delinquent Sales Tax accounts for the period ending September 30, 2008 totaled \$648,848 and is approximately 2.46% of the total Sales Tax

revenue for the period. The bad debt for the period is unusually large due to one taxpayer account. Other amounts are due mostly from taxpayers that are out of business and/or bankrupt. Tax liens have been filed and claims submitted to the courts in all cases where appropriate. The last twelve months bad debt as a percentage of Sales Tax revenue is approximately 0.86%.

Miscellaneous Accounts

Miscellaneous Accounts include: Miscellaneous Accounts Receivable (includes returned checks), Damage Claims, Centennial Center, Falcon Field and Excessive False Alarms. The recommended assignment of total delinquent Miscellaneous Accounts for the period is \$33,030 and is approximately 1.54% of the total Miscellaneous Accounts revenue for the period.

Summary of All Accounts

<u>Type of Account</u>	<u>Period Ending</u>	<u>Total Revenue</u>	<u>Recommended Assignment</u>	<u>Percent of Total Revenue</u>	<u>Recovery of Prior Bad Debt</u>
Utility	9/30/08	\$78,885,379	\$309,484	0.39%	\$61,424
Sales Tax	9/30/08	\$26,425,579	\$648,848	2.46%	\$0
Miscellaneous	9/30/08	\$2,150,969	\$33,030	1.54%	\$0
		<u>\$107,461,927</u>	<u>\$991,362</u>	0.92%	<u>\$61,424</u>

Alternatives

Assign the recommended accounts to collections and charge them to their respective bad debt expense accounts. This will give a true picture of the receivable amounts considered to be collectible. This alternative follows Generally Accepted Accounting Principles.

Do not assign the uncollectible accounts and leave them on our City financial statements as receivables. This practice will cause an overstatement of our accounts receivable balances. The auditing firm we use to attest to the accuracy of our financial statements may require adjustments to the receivable balances or opine that our financial statements are not accurate.

Fiscal Impact

All uncollectible accounts are sent to a collection agency. The collection agency charges a fee of 15% of any amount recovered by either the City or the collection agency on accounts assigned to the collection agency.

Concurrence

Accounting Division - Financial Services Department.



Pamela Chavez
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Management Assistant II



Edward Quedens
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Business Services Director



Bryan Raines
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