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>> Councilmember Constant: This is the Public Safety, Finance and Strategic Support for November 15th. Just going to be the three of us. Councilmember Chu won't be joining us today. I don't believe we have anything to review in the work plan unless my colleagues have anything. Nope. Nothing on the consent calendar, so we're going to go right into the reports to the committee, starting with item D 1, report on Public Safety communication initiatives, and we have Chris with us. Welcome, Chris.

>> Good afternoon everyone, Chris Godley director of emergency services City of San José. Very brief report this month. Regarding SVRIA. The development of the first phase of the Silicon Valley Regional interoperable Communications System, or SVRCS, is now underway with Motorola as the selected contractor. Final site negotiations for phase 2 are also in progress at this time, and both phases will be complete by October of 2013. I'm currently working with SVRIA staff to determine if we may be able to leverage other grant funds to enable the City of San José to install a SVRCS site here at City Hall. We hope to have a decision on that by the end of this year. The target date for council action regarding the transfer of ecom microwave system from the city to BayRICS is now set for December 18th, and SVRIA is also planning to apply for approximately \$1 million in fiscal year 2013 urban area security initiative grant funds. As regards BayRICS, the regional interoperable communications system, they're continuing to attempt to attain a frequency license approval in order to develop and operate the BTOP wireless broadband project. The chair of BayRICS and general manager will be going to Washington to attend the next meeting of the First Net governing board. However it remains unclear as to whether or not first net governing board will in fact allow the BayRICS to obtain frequency approval. We hope to receive a final determination within the next three months. For First Net, the 700 megahertz broadband data initiative, the state of California office of technology, which is lead, is still planning to host the first of three forums by the end of this year as a first step in developing the California first net executive governance board, and myself and other staff are ensuring that we remain in contact with the state of California and first net to ensure that San José is adequately represented in that process. That concludes the report pending your questions.

>> Councilmember Constant: Any questions for Chris? Go ahead.

>> Councilmember Oliverio: Chris, on the city hall, we'd be basically putting one of the, for lack of better words, radios on the top so that you could get coverage?

>> Yes, it would be a radio site that would allow radios in close proximity to city hall to link into the system.

>> Councilmember Oliverio: Based on this location, my assumption then is that would basically all out to Santa Clara?

>> Somewhat, that's correct.

>> Councilmember Oliverio: Which is a good thing to some extent, right?

>> It is.

>> Councilmember Oliverio: That's to the interoperability?

>> That's right. Ultimately we may need about 14 sites in San José, but given the two we've already got on the books, plus this one, we'd be well on our way to moving down that path.

>> Councilmember Oliverio: Thank you so much.

>> Councilmember Constant: I'll just provide a brief add-on from SVRIA. The JPA board continues to talk about how funding down the line for the future buildout of the interoperability Public Safety communication he project, looking at all the different options for funding and they'll be doing continual exploration both on the legal kind of mechanics of doing it as well as the I guess the public's palatability for funding something like that. And also just like to mention that I mentioned last time that we're trying to get more public awareness to the situation, the fact that there's a lot of people who just think this problem's been solved since it's been a dozen years since it was really highlighted but in fact it hasn't. So I had an opportunity on the 2nd of November to speak at the joint venture

Silicon Valley's second annual Silicon Valley wireless symposium, which had technology leaders from throughout Silicon Valley talking about the wireless world. And we had a panel specifically on Public Safety communications and it was very well received. There were a lot of people in that room who thought we had this fixed. And the people on Silicon Valley who were working on all the technologies that didn't have a clue that we from a government perspective haven't fixed this issue yet. We're going to continue to raise that public awareness as we continue to go forward. Anything else from the committee? Anything else Chris? Thank you very much. We'll move into our next item which is our monthly report on burglary rates by the police district rates by police district for the year-to-date compared to last year. We have Chief Goede with us.

>> Good afternoon, Ricki Goede, assistant Chief of Police. I'm here to do the monthly burglary, but before I present my reports on the burglaries, I would like to take a minute to address the messaging and the professional communications issue that was talked about at length at last month's public safety meeting. As I stated last month I firmly believe that the vast majority of our officers are doing a remarkable job under some very challenging circumstances that are quite frankly not any one person's or any one entity's responsibility or sole fault. That being said, the chief and I are also very cognizant that we must continue to reinforce the message of professionalism to all of our officers. To that extent, we recently distributed a department-wide memo reminding officers of the need for professionalism and providing them with specific suggestions on how to best deal with difficult questions asked by our residents with regard to our current staffing issues in the department's ability to respond to certain calls and/or investigate all crime types and I believe you guys all have a copy of that training bulletin. This memo was followed up by several town hall pipe type meetings for people to discuss this issue and additionally I want to say that we're moving forward to purchase body cameras, it's something that is being talked, purchasing and putting the numbers together to be able to present to council, we would like these body cameras for all of patrol. This is certainly going to address this issue, but more important, it's going to provide a valuable prosecutorial civil and administrative tool for the department and the city. As I personally looked into several of the e-mails, well, all of the e-mails that were provided to me by the City Manager's office, as to the very -- as to the various constituencies complaints about our action or inactions of the officers and/or dispatch personnel I can tell you that only one incident was found and that incident had already actually been a complaint to a supervisor and a department-initiated investigation had already been undertaken on that and in the process of

being investigated even prior to my looking into any of this. I think I want to point out that there's a lot much frustrations on both sides of this. It is very clear that our constituents as our officers and everybody else are frustrated by things that are really not in any of our controls and not next any one person like I said or one entity's fault. But what I can tell you is in doing these town hall meetings and talking about that this issue at length with both our officers and our dispatch personnel as well as our records our administrative assistants and our police officers there is a lot of frustration and again it goes both ways because they are getting a lot of the brunt of the frustrations of our residents. And it's not okay when I have an administrative assistant in burglary and fraud or what's left of the unit that literally is being reduced to tears because she's being called a blankety blank idiot on the phone and people are hanging up on them. So the frustration's on both sides, the dispatch personnel that have to deal with the calls and field the calls, and the officers that are going out to the events and taking the investigations. And they're being asked repeatedly what can be done and what follow-up. They are very frustrated to not be able to do more than they can. It is something everybody is dealing with. They generally want to help people, the officers do. There's not hidden agendas and some of the things quite frankly that were in the e-mail, the e-mails you all received they're not true number 1. But I think it's very important in what we need as a police department and for people to understand is there is no other entity in this city that deals with the community in the regular basis that our officers do. And to that extent I would just ask for the council and all of your help when the constituents contact you that if they have specific things that you please pass those on to us. Or direct them to the division captains. To the IPA if that's where it needs to go to internal affairs so they can investigated. Like I said I investigated every single one of those and what's happening is the perception, I'm not saying everything is being done 100% right, we're human beings, and people don't do things 100% right all the time, not all of us do. But I think there is a lot of frustration on the parts of the citizens and by the time it gets to you, their perception and what they're saying is not always the same thing as what really occurred. Keeping in mind a lot of the contacts especially with our dispatch personnel are recorded so we hear what was really said. We go out and it's not the same as what's being portrayed. And again there's a lot of frustration involved in there. So I would just ask that from you once again we are doing our best to combat this issue but we have a lot of men and women on the police department that are doing like I said very very good job during some difficult times and during the extent possible that we can get that help in the messaging it would be greatly appreciated. So with that I will go into the burglaries. So the first slide, where are -- okay, so this is the first slide is

became of January through September of 2011 versus the same time period in 2012. We saw an overall 28% increase in burglaries with five districts as you can see having a 40% or greater increase. Three of those districts were in southern division. District Charles and foothill saw the largest overall increase from 2011 to 2012 with 158%. But simply looking at one year to the next does not necessarily tell the whole story as one month to the next can increase or decrease dramatically simply by the right group of people being arrested, suspects moving to and targeting another division or district, or even another city altogether, and even the factor of whether or not school is open or in session. All of these things can affect the burglary rates at different times, which is why our best information is from month to month. You go to the next one. To that point much more can be gleaned from month to month especially with regard to trend or sudden spikes which is really what we're looking for. If you recall we saw a citywide decrease in burglaries from July to August of this year of slightly less than 1%, and that was 441 total to 438 citywide. However, from August to September, we've seen an overall 6% increase, 438 to 464. And burglaries from July to September represent 36% of the city wide total for the calendar year through the month of September. And again, our stats are always one month behind because October's are still being indexed so hence it's August to cement. Of the 16 total police districts and that's not counting the airport obviously seven had overall decreases in burglaries from August to September. Districts Victor Sam Nora and Adam had the largest increases from August. District Victor saw a 100% increase with the majority of those occurring in the beat Victor 1, and that was 1 in August to the 11 that we reported in September. I'd point out that these trends are shared with the division captains to look for discernible patterns and opportunities obviously to proactively combat the increases and these efforts continue to be reported at our monthly impact meetings. Currently the department is at 1035 street ready staffing with at least seven more resignations pending. And I do want to point out that the 1035 street ready means these are not the 44 in the academy, they are not the 15 that are in field training, and they also don't represent the 57 that are currently on modified or long-term disability. So that number obviously goes down from that. It has resulted in a significant reallocation as you all are well aware of sworn resources from other areas of the department back to patrol. To ensure adequate staff to respond to emergency calls for service. This has significantly limited the follow-up investigative efforts and shifted responsibility to patrol officers to do as much investigation on the front end and to the extent possible complete the investigation within the initial contact. Although patrol officers are actively continuing to utilize the contact to completion philosophy, their efforts are often cut short by priority calls for service for violence crimes or other emergency calls with immediate

potential for imminent danger to life or property. For the month of September officers arrested suspects responsible for 11 different burglaries, many of those case involving multiple suspects. Six of the successful investigation is were in foothill division. Including a case in which four truant students from Overfelt high school were arrested after they were caught breaking into at least two separate residences. Four cases were in southern division including one that revealed a marijuana grow house. these efforts have continued into October with over 17 suspects arrested in the first half of the month. I'll give you a couple of recently activities of note. In one recent case, this was just this prior week, officer Nakamura responded to a burglary in District Frank in which an iPad was one of the items stolen out of the house. Officer Nakamura was able to trace the iPad through GPS to another location that wasn't far away from the actual burglary scene. An individual who lived at the house where he traced it Tao to was contacted and that individual had an outstanding felony warrant for his arrest. Officer Nakamura arrested the individual for his warrant and he did follow up investigation which turned up all the missing property from the burglary he went to investigate as well as property from other recent burglaries in the area. In another case Sergeant Moody one of our southern division sergeants and members of his team, they conducted follow up on information that Sergeant Moody had received regarding I guess several commercial burglaries that were occurring at Valley Fair and Oak Ridge Malls in which jewelry were taken. Sergeant Moody identified and contacted a suspect, and he was able to obtain initial incriminating statements from the suspect but they weren't statements that were incriticism necessitating enough to arrest him at that point. He and two members of his patrol team conducted follow-up on the information they had and they were able to gather enough evidence to obtain an arrest warrant that they successfully served. That suspect ultimately confessed to 15 different burglaries to Sergeant Moody and his folks. At the time the burglary occurred back in March officer Solis responded he was able to collect items that were left by the suspect which were processed for DNA and they were successfully linked to gang members out of Watsonville. Sergeant Moody again and members of his team through contact to completion program that they're doing out of southern division they did extensive follow up on the suspects identified out of Watsonville. They worked with the burglary detective, Katie Reyes, that remains up there and successfully obtained a search warrant for the suspects. They worked with Watsonville PD they conducted several searches in Watsonville, lid to the investigation of two primary suspects which they obtained arrest warrants on those two suspects, one was successfully arrested one is still outstanding and they're continuing to track that second one. So these are just a few examples of the outstanding efforts of our patrol officers with

regard to burglary investigations. We do continue to diligently work with the community on burglary prevention and other crime prevention efforts such as neighborhood watch, the community blogs like next door, the lock or lose it campaign that we started in foothill division a couple of years back, and we continue to use overtime burglary suppression cars to supplement our contact to completion efforts and with that I'll answer any questions you have.

>> Councilmember Constant: Thank you. First of all this is exactly the type of information I was hoping we'd get, because we keep hearing there's no burglary unit, no investigation of burglaries. And I think this helps illustrate that we are investigating burglaries. And you know, I know in my district? It's been happening, in the context that I'd had with the captain in my district. But as I say, the messaging to the residents has not been anywhere near as clear. I am thankful for this training bulletin that we just got. Looks like it went out a couple of weeks ago. This is exactly the type of thing that I've been asking for, for a couple of years, that we have this type of clear messaging and communications that everybody knows what's expected. I did have a question about the complaints. And you basically said they were all investigated and pretty much they all weren't true which basically translates into the residents were lying. Or not being truthful. I just find that hard to believe, given the vast number of complaints that came in, not just from one district, police district or council district, but among several districts. And I know that I went through a whole list of them. And at least one of the people I talked to had never been contacted for follow-up. So I just I don't know what -- how in depth investigations were or anything like that. But I think we should be careful about saying that our residents are lying because that's the message I got. I actually got a text message from somebody who was watching the meeting that said, is she saying that our residents are lying to you? So it's just, I think again it's about communication. And how we talk about things and how we present things. And the us versus them mentality of whose fault it is. I think instead it's much more productive to talk about what it is we should be doing going forward. It shouldn't be telling people who to complain to, but avoiding complaints going forward.

>> Let me clarify one thing councilmember. I'm not in any way shape or form saying that anyone is lying. This is a perception issue. We have residents I am one of these residents that are frustrated. I have been burglarized before, I do know how it feels to have my home burglarized. You do feel violated knowing a stranger was rifling

through your things and took things. It's maddening. I do not believe that your constituents us against them. It's a perception with their frustrations that they take out and our officers get that and you get it in e-mails. The same kind of frustrations and you read the e-mails you see what people are saying. That same frustration is also happening to our officers in the street. So we do expect them to maintain their professionalism but I would make that very clear right now that I'm not saying any resident is lying. It's their perception and their frustration at the lack of resources to be able to do some of the things that they are used to us doing. And that they have expected in the past.

>> Ed Shikada: Assistant chief, if I could also add, Ed Shikada assistant City Manager. Both councilmembers involved with this committee as well as others who have forwarded those concerns to our office, so we've in the City Manager's office now been working directly with the police department on the individual concerns as they come in and ensuring the loop is closed which is helpful just to again make sure that we're all operating off of the same initial message. In some cases there can be the echo effect as well where one person heard about a concern, that then gets translated and amplified by others. So you know again, as assistant chief has pointed out I don't think anyone is suggesting that there's any lack of truthfulness but there is clearly a level of frustration. Ultimately one that relates back to the diminished resources and the ability to apply those resources in a manner that has the greatest effectiveness.

>> Councilmember Constant: Thanks. So then we have the press release which I got via e-mail on Friday and just the one comment I'll make on this, this is one of the few press releases about arrest that had no details in it. And it says for more information go to SJPD.org which I went to and couldn't find any more information because I had community members that I was meeting with and I was excited to share with them the news Saturday morning but there was no information. Usually if you -- and I went through several of the press releases online, they usually say who was arrested where the circumstances -- this doesn't even say where it was. Couldn't tell fit happened in my district, some other district. So it would be I think a lot more effective if we were able to give details versus just something that gives just enough to pique someone's interest but not enough to communicate any information out. I think that would go a long way. I was happy to see in these charts that we actually have

areas of the city where burglaries are going down because that's not something that seems to be ever communicated. And I wanted to --

>> Ed Shikada: Councilmember there might want to repeat that because it doesn't seem to get picked up.

>> Councilmember Constant: There's several burglaries in one district are down depending which chart you're looking at, I think they're the same numbers, just ordered different. One is down 14%, one is down 12.3% another one down 8% another one down almost 7%, another one down 3% that's in stark contrast to what we've been hearing in a number of meetings. Both here in City Hall and otherwise. Chief I was wondering if you had any information about what the county chiefs are doing, the issue I brought up last meeting, the county chiefs rise in burglary and they have been working on some concerted plan and I was hoping we'd have more information about what's going on there.

>> And I'm not sure what you're referring to when you say concerted. I think everybody is looking at this, everybody is looking at this issue the same way. I mean Palo Alto is having one of the most significant increases in burglaries of one of the cities and it's the same. Everybody is looking at going about the same type and as far as a specific plan, county chief wide, I wasn't at the last county chief meeting but the county chief meeting the month before right after, it never came up so I'm not sure if there's something they are doing. I think everybody is doing the same types of contacts to completion type work, analyzing the data that to do pin maps and link analysis and going through the time reports, doing a lot of the same things we're doing, the same methodology that everybody else is doing and trying to put as much resources towards it as possible. We unlike a lot of the county agencies have a much bigger violent crime issue that take up a significant amount of our time and patrol time as well. I don't know if that answer he your question but I'm not certain as to exactly what you're referring to.

>> Ed Shikada: If I could add, I had a chance to chat with chief Moore, Chris Moore about it and he indicated the chiefs are actually tracking it as a group, really hasn't turned to a point of developing a strategy, much of the discussion we have had at the council is the question around causality, whether there is a specific source and or trend that's leading to that causality. But that's basically the nature of the discussion that he shared with me.

>> Councilmember Constant: Yeah, that's what I was talking about because last month I brought up the article in the paper where one of the chiefs from another agency was quoted as saying that the county chiefs were concerned and were doing something about it and that's the information I was looking for. And I do know there's been a lot of talk about correlation or negative correlation as to burglaries and staffing and in fact as recently as yesterday I had a couple of press outlets calling me asking about the pressure, the messaging from the city that there's a correlation between our burglary rate and our staffing. And that it was a positive correlation or it was a direct correlation between the two. And I just want to make sure that as we're talking about that, if we are making official statements about correlation hopefully we have some evidence to document that. Because we see a stronger increase in burglaries in other areas that don't have the staffing issues we do. So I just worry about just putting something out this that's saying there's a correlation or not, if we don't have anything to back it up. And then, on the contact to completion, is there a reason we're not doing that in all three divisions?

>> Well, in actuality to be honest with you councilmember, the officers, you're seeing it in foothill too, the officers are doing it to the extent possible. We did the pilot program to actually put the resources from overtime cars, suppression cars in southern division so we rolled it out in southern division first to see if it would have an impact. But quite frankly they're doing it in alt divisions, sergeant Rick Foster apples team in foothill, that's directly related to some wonderful arrests that those officers made out there. Keep in mind the one thing about burglary, you just don't ever know, one string of arrests could all of a sudden cause of cause a complete, one group of people that were responsible for multiple burglaries. So it's a very up and down thing. And I -- oh go ahead.

>> Ed Shikada: Chief Goede I was going to suggest, maybe you should describe what contact to completion is from a layperson's perspective.

>> Basically what contact to completion is from the moment -- to go back to the correlation with the staffing, where we have had to redeploy people back to the patrol have been from the back end of the investigation. The patrol response, initial response that's your frond end part, has always been and no matter what happens will remain the most important part of the investigation, that's the point they make the initial contact with the resident

or the victim of the crime, they're able to collect the evidence, they're able to do the canvass, they're able to do all of the things that can add up. Now, there's a lot of times that you get specific information and suspect information. In past when we've had the resources to do it a lot of that could be passed on to the burglary investigators, to then follow up and get the arrest warrants and the search warrants because that was the their jobs on the back imaged and patrol would be busy not have time to do that. With not having that back end part of the investigation anymore, that falls onto the patrol guys. So you have to -- not why it was a pilot project, in Southern Division, because you also have to give them the amount of time and allow them the flexibility to be able to follow up on a lead from the moment they get that all the way to the end. That could include as you heard earlier getting search warrants, arrest warrant, all those kinds of things. Taking every possible investigative lead forward to the point they cabinet take it anymore which is not always easy to do given when it gets busy that gets thrown to the way side if we have to respond to homicides or stabbings or shooting that do occur.

>> Ed Shikada: Thank you, I thought it might be helpful to have that background given clearly much of the concern and perhaps I could use a term miscommunication is around the existence or nonexistence of staffing of the burglary unit. So to the extent that you might say is it true or not? Are we investigating burglaries or not? The reality is, it depends. And to a certain extent on the resources available so to the extent that the contact to completion model is being used it's the availability of the patrol officer on both the front end as well as to do the follow-up work that ultimately determines the ability to do follow-up on the individual incidence.

>> Councilmember Constant: So we still have a pilot program or we don't, I guess that's the question.

>> So I mean this is how we're doing business.

>> Councilmember Constant: Okay.

>> We did it initially as a pilot program but make no mistake about it, this is our new reality, this is how we do business.

>> Councilmember Constant: And that's what I wanted to hear because again it's communication. When residents hear we have a pilot program in one-third of the city versus we know it's happening other places, I think it really helps to have burglary statistics like we have here, but also, have it coupled with the arrest statistics which up till now we've never had because it shows two completely different pictures. One shows a rise in burglary and the impression that we're not doing anything and the other shows a rise in burglary and investigation follow through and arrest being made by our officers. Whether they're in patrol or anywhere else in the department that we're doing something about it and getting that message out to the public I think is really important. And this is one avenue here. And I know I just had a community meeting in my district with four different neighborhood associations joining together to talk just about the burglaries and people left with a completely different impression than when they walked in the door. A lot of it had to do with having Tim Gaddis there, talking about the target hardening and all the things that she does but not going into the full neighborhood watch program and having Tony Ciaburro there and giving specific examples of arrests and follow up and all that. I think it's important to keep that kind of information linked.

>> You bring up an excellent point. And this really goes back our city dealing with what we're going to deal with for a while. Our new reality. I've said this over and over in community meetings. If communities are waiting for us to solve their approximate they're going to be waiting for a while. But if they're willing to roll up their sleeves and work with us we'll solve the problems a lot quicker. You've got to have vigilance, you got to have neighborhood watches, you got to be cognizant of what you are leaving in your car and in plain sight. It's never been more important than it is right now in the City of San José for communities to come together and know their neighbors and be vigilant and watchful for not just burglaries but all crimes that occur and report on it.

>> Councilmember Constant: And coupled with you do your part and we're doing our part not extent that we can and like I said last month there's a big difference between how you say it whether we're taking the report and we're not going to follow it up but we're taking the report and if we have leads and resources we're going to do something about it and in fact we have been able to do this I forget how many times you said 17 times this month and 11 times the month before it's a real clear messaging, it is a message of hope versus a message of despair. I'm happy to see the change. I've been dominating, I want to give my colleagues a chance. My last

question after I give them a chance to talk, I know we have other big items. The last thing the memorandum that came as a result of last month's meeting the one that came out on the 13th about police staffing allocation while I appreciate it I don't think it really went to what we were asking for and I know I've had an opportunity to talk to a couple of other folks that this is much like what we get in a budget discussion. Kind of a general thing of FTEs versus when we were talking last time we were talking about where people are assigned including TDYs and if you -- to the resident looking at this, having 51 people and property crimes, you know there's a lot of different division or different ways of investigating property times. And if, to me there's a difference if there's one of those people is in burglary or 40 of them are in burglary or three of them are assigned out at RADIF in a regional tasks or any of those other things and I think it's really important to see where the bodies lie so to speak. Where each person is, whether it's supposed to be -- and where people are TDYed to. I know there's a significant number of these that are TDYed to backgrounds. I don't know if my colleagues anticipated the same type of information but to me this didn't give me much more than what I get out of the budget.

>> Well again looking -- it does tell where all the TDYs, you're exactly right, the TDYs are in recruiting and background and AFR and MMS, there's 45 authorized there's 62 in there so the extra that's where they're -- that's TDY portion of it because that tells you the actual staffing. I think getting into exactly where people are it fluctuates number 1 because the deputy chiefs within their bureaus can move people as they see fit to handle different accidents and investigations, but our number 1 over 70% of our authorized strength is in BFO. I think getting too much into the operational can cause problems. We've discussed this especially when you start talking about districts and divisions and where people are. Some of those operational things wouldn't necessarily be in our best interest to get too much, too much out there because other people besides us see the public, you know the public reports.

>> Councilmember Constant: I beg to differ with you on that. I think when it comes to allocating resources it's an important question to ask. And you know where people are doing? People in administration, you know having people TDY for one or the other may be one thing but when we're looking at the fact that every time we talk about something the response is we're always taking those people from patrol. When we have you know, I don't know the exact breakdown here because I'm too tired to be doing math today but somewhere around 60% of the people

in patrol. And 40% of the people elsewhere. And the answer is always, we're going to have to take people from patrol to do that. And I do think that we as the policy makers, while we don't allocate or deploy the resources within the department we do allocate sworn staff. And I think we do have a reasonable expectation that we should know where that staff is. Because when it all accommodation down to it, from me, to the officer on the street, to the person who is maintaining our buildings, we all work for the residents. And it's the residents' priorities and the residents' concern I think have to be a factor in our decision making. They may not be the factor that the -- the deciding factor but they need to be a factor. And I don't think that often comes true. And I know I said this in budget meetings two, three and four years ago, you know when you have residents at that time, their number 1 complaint until this spike in burglaries was always traffic. But the first place bodies fled in the department were from the traffic unit. As many years as you can go back was the traffic unit where people always got taken out from and that was clearly a misalignment from what the priorities of the residents are versus the services the city delivers. So I do think it's relevant. I don't think it puts us in jeopardy if we know that right-hand has six people, the training department has eight people all those different things because I think it all is public information.

>> Councilmember Oliverio: Councilmember chair. May I make a suggestion that the chief come to closed session and provide further detail that you feel uncomfortable sharing it with the public if you feel it's giving our game plan away for public safety, but I think further detail should be known by the councilmembers and where exactly bodies are but I'd be happy to take it as a closed session item.

>> I think that's an excellent suggestion and I would say that we do not with the exception of our backgrounds and recruiting and the AFR K RMS which we must take care of those issues because that is vital to us replenishing what we've lost there are no TDYs out of patrol. It is very clear on this that we are nine short, we reallocated everything back to patrol. There's nothing TDYed out here. There is 51 property crime, keep in mind we did not get rid of these positions, they're just vacant right now because they are in patrol because that is the number one spot where we need our people. Our first priority is to respond to emergency calls for service. It always has been it always will be and that I think is the number one thing in line with what our residents want. They want us to be there when they pick up the phone and call 911. They don't necessarily want to have somebody be able to do that

back end investigation if it gets in the way of somebody being able to come to their house when somebody's right there, doing imminent threat to them. Or about ready to shoot or stab them.

>> Councilmember Constant: Right, and that goes exactly to what I'm talking about. I mean if there's five bodies in R&D and we need them at patrol we cannot do R&D for five months if that's what it takes to deal with an issue. So that's my point. And you know obviously, can't come to any conclusions when you don't have the information but that's the point I've been trying to get across. Anything else since we've beat this to death? I don't have any cards from the public. Okay. Thank you. We'll move on to our next item which is the City Auditor. We've got two items in a row, the monthly report of activities and then the audit of staffing reductions. Welcome Sharon.

>> Sharon Erickson: Thank you, Sharon Erickson, City Auditor. The first item is our monthly report of activities. You have before you the report for the month of October. We did issue a report on staffing reductions in November, as we said in the report there are several other items in process and I wanted to point out that the next upcoming report will actually be number 6. Which is the service efforts and accomplishments report and just for your information in case you had any concerns about it, we were thinking to print mid December, with a presentation instead of to this committee, to the full council potentially in January. So with that I'm happy to answer any questions.

>> Councilmember Constant: Questions?

>> Councilmember Oliverio: Sharon, one to the council would be number 6?

>> Sharon Erickson: Yes.

>> Councilmember Oliverio: Okay.

>> Councilmember Constant: I don't think I have any other than the one I keep asking about, the audit of overhead.

>> Sharon Erickson: Overhead duly noted.

>> Councilmember Constant: Okay, I just want to keep mentioning that because I know I've had discussions with different department heads, I know it's a concern all around, it's something we need to keep in mind, I know it's not going to be in time for budget but I'd like it to be.

>> Sharon Erickson: I understand.

>> Councilmember Constant: All right, motion to accept. We have a motion and second. Anyone from the public want to speak? All in favor? I guess that was an aye right? Okay, thanks we'll move right into the next one. Audit of staffing reductions.

>> Sharon Erickson: You have before you a report of ten years of staffing reductions in the city, impacts and lessons learned. With me I have Jasmine LeBlanc and Michael Houston from my office who conducted the audit testing in this regard. Over the past decade the City of San José has cut 2130 budgeted positions, it's 28% of our workforce. Our objective was to look at the effect of that on the organization itself. Our finding was that in addition to the sheer number of position eliminations, the City's layoff, bumping and reinstatement rules caused significant disruption to the City's workforce. And if I could walk you through a few of the graphics in this report, on page 3 and 4 of the report, it does show exhibit 1 on page 3 shows the ten years of General Fund budget shortfalls. And then you can see in exhibit 2 on the bottom of that page, the change in budgeted positions. To address those shortfalls, the city reduced positions. On the next page you can see the effect of that in exhibit 3, where you see the steadily declining number of authorized positions in the city. And as a result, in exhibit 4 you can see that San José's staffing levels compare favorably or unfavorably, depends on your status, with other local jurisdictions. With San José having far fewer employees per thousand residents than some of our other neighboring cities. We did find that the layoff, in addition to that substantial number of position eliminations, our layoff and bumping rules and the reinstatements did cause significant disruption in the workforce. Bumping and layoffs and reinstatements are determined strictly by seniority. Now, this is similar to every other jurisdiction that

we looked at. But because many city employees are broad across -- are in broad cross departmental classifications, even a few eliminated position could have a large impact on city employees in other departments. There's an example on page 10 of our report, where the elimination of a single position affected I believe four departments, I'll get this wrong, four departments, four positions, five employees, and four departments. And you can see the impact of that. A filled senior analyst position in HR is eliminated. However that person has rights to a position in another department. That person in turn has rights to a position in yet another department. That person has rights to a different position in different department. So finally when you saw the layoff happen, the layoff was in a completely different department, and that below instead of being laid off chose to retire. So you can see those -- we saw that effect of bumping on the city on page 11 of the report. You can see the cumulative effect varied by department. Where a department like the HR department that have a lot of broad classifications that runs citywide had a ratio of more than 40% of budgeted staffing had been bumped or moved at some point during the three-year period we reviewed, or four years since 2008. On the other hand a department like fire which believe me took its share of layoffs didn't have the same impact from bumping because their classification, firefighters is primarily located in that department so the seniority rules worked to lay people off straight out of that classification. I also wanted to talk briefly about how that impacts various positions. On page 13 of the report, there were a total of 965 positions that were affected by bumping. This does not include positions where layoffs occurred. So where there was strictly a position was eliminated the person was laid off. These were 960 other positions that were impacted by bumping. And as we show on the top of page 13, 59 positions which may not seem like a lot. But if one of these positions is in the department that you're responsible for, 59 positions were impacted four or more times. So it means that if you had a position in the department you had at least four people psych lining through that position in the space of four years, being bumped in and out of that position. Bumping also had a disproportionate impact on some employees. In our report we site the most unfortunate employee that we could find. Not all employee were affected this way. Some employees were affected only once. In this case an employee was affected eight times where they took a job with the city, six months later they were bumped out of that job into an unbenefited temporary position, eight months later they were moved back into permanent employment. But in a different type of position, in a different department, with a lower salary. And the list goes on, for on that page and onto the next page. You can see that a total of 12 -- 1274 employees were displaced during these layoff cycles. That does not include again people who were laid off

singly. I am looking at my staff to make sure I get these numbers right. Of those 903 employees were impacted once. That is they were not just laid off. They were bumped into a different position or into a different department and again like the unfortunate employee we mentioned earlier, 67 employees were impacted three or more times. Other jurisdictions have found ways to minimize the disruption of bumping. They limit bumping to within the department, you can only bump into positions that you previously occupied. In San José you can bump into a position that you were presumed qualified for, which can cause some problems. We found poor matches in some of these with some of these positions. We estimate at least \$2 million in lost productivity as a result of this. In only 25% of the employees who bumped into a position took six months to get up to speed, it's about \$2 million worth of lost time. We found instances where people were bumped from a position where they were considered an outstanding employee, into a position where they didn't have the skills or training, and the city unfortunately has also eliminated citywide training at the same time, making it difficult for these employees to get up to speed. An employee that was formerly an outstanding employee ends up needing improvement in a different department. We also found that reinstatements can be problematic. There's virtually no flexibility in reinstatements, if you are the first employee on the reinstatement list and you are offered a position you must take that position or you lose your rights to reinstatement. On the other hand if you are a department manager and the top person on that list is not a person that you think is qualified for the position, what we found was instances where department managers simply did not hire, held the position vacant. So you do have a large number ever veins in the city as well. And finally managing this whole process is extraordinarily time intensive for HR. We estimate at a minimum, \$600,000 worth of of staff time and that's probably understated of time trying to manage this entire process. And legality me say, me and my staff were amazed at the people in who are able to keep all of these employees in their heads and make sure that the employees to the extent they can land in the right place. Our report does recommend eliminating or dramatically modifying the bumping process and increasing flexibility for managers, employees and reinstatements. I'd like to say that we see this as part of a long term process. In consultation with bargaining groups to improve our civil service processes in a fair and equitable way so they work for both the employees and the employer. Our second finding was that the city faces continuing workforce challenges, and should track and monitor trends in employee turnover. As we said before knowledge, the city eliminated 2130 positions, 28% of the workforce, 337 employees were laid off, all but six of those in the last three years. A total of 2400 full time employees retired, 1500 full time employees have resigned. I wanted to

point out that the City's annual turnover rate has historically been between 5 and 6%. You can see on page 25 of the report, in exhibit 9, you can see those turnover rates. Now because of the way the city tracks data in its data systems we can only tell you how many employees resigned or retired. We can't tell you about the employee and the example I give previously where, in lieu of being bumped or laid off, they retired. We are unable in some of these to tell you exactly what was the reason for that. What you can see in this exhibit is the City's kind of turnover over the last ten years has been between 5 and 8%. You can see the spike, up to 14% turnover in those years where we cut 10% of staff, 8% of budgeted positions, those kinds of things, so we're seeing those numbers spike up in the years where layoffs happened. We did these numbers in calendar years because the layoffs you are happening. An employee would potentially be notified say in the January time frame that in the June budget their position or their function would be eliminated. We is a those medium leaving all the way up until the actual layoffs that happened, only of only if those employees would have stuck it through to the bitter end finally in July or August. As a result of all of this what we found is because the workforce and because we haven't been hiring through all of this, the workforce is actually older and has more years of service and is therefore closer to retirement triggers than it was when we began awfully this. On page 29 you can see the age distribution and how it shifted in the city. We also found that 11% of current staff are currently eligible to retire and another 13% on top of that are eligible to retire within the next three years. As such, the city will continue to see the impacts of employee departures as the baby boomers cycle through our system. The city faces higher resignation levels than it's experienced since the Dot Tom boom. The comparison to the Dot Tom boom is on make 36 of your report. Well, you can actually see the percent of full time staff resigning each year. In the dot com boom we were up above 4% resigning every year, it dropped and now is spiking back up past that level. With high vacancy rates, and actually, the vacancy rates I should point out are on page 39 of the report. So we can see lower vacancy rates in a department like fire but very high vacancy rates in some departments. These are as a percent of staffing, so the actual vacancies may be higher in departments of course with higher number of employees. But with these high vacancy rates we are concerned that with the diminished staffing in HR, some vacancies will have to wait to be filled. So for these reasons we think that monitoring employee turnover will continue to be an important component. A future workforce planning efforts. We're also recommending that employee retention tools like employee surveys and exit interviews would provide quantifiable, objective, and actionable answers as to what motivates San José employees to either stay or to leave city service aand could help shape city

policies. Moreover as the cities is training new employees. So our report includes recommendations to address these areas. In addition we're recommending that the city review job specifications to reduce barriers to entry. That is, many positions as they're posted require job experience. To the extent that we can hire people and not require experience, hire qualified people but who potentially or possibly don't have as much experience we could potentially get more people in here faster. And finally, we are recommending that the city develop ongoing human resource analytics for workforce planning. We like to think that this building is one of the primary assets the city has, actually, I've been saying it's the people in the building that are really our primary asset. With that I would like to thank the office of human resources of pulling ought of this data out of the PeopleSoft system. Their response is on the attached yellow pages. With that I'm happy to answer any questions, and I want to turn it over to Mr. Gurza potentially for a response.

>> Alex Gurza: Thank you, Alex Gurza, deputy City Manager. Very briefly. I would like to thank the City Auditor and her staff for this report. As the City Auditor indicated, the administration's response is in the back, and we generally agree with the recommendations. I think that this audit really highlights the challenges that our organization is going through, after having reduced our workforce by 2,000 staff, and as we put in the conclusion of our response, I think one of the most dramatic things is of those 2000 jobs, approximately 1600 were reduced in the last three years. And as our workforce has shrunk, continue to struggle to meet the resources with those significantly reduced demands. And I think the challenge also beyond just trying with 5400 employees to provide services, it is the impact of the bumping process that does make it more challenging. For example, though it's a good thing that people can remain employed, they are sometimes in positions where -- have become very technical, that they may not have the skills to perform. So that's another challenge that departments are dealing with. With that thank you very much for the audit report.

>> Councilmember Constant: Thank you. Vice mayor.

>> Vice Mayor Nguyen: Thank you very much, Sharon, and your team obviously for another outstanding audit. I just have two brief questions. One is, in regards to the bumping issue, on page I think it's in staff in staff's response on page 2 of 4. I'm a little perplexed because obviously we are very aware that this is -- posed a lot of

challenges. But the last sentence said, the implementation of the recommended changes to the civil service rules will be subject to the meet-and-confer process. So I would just wondering if you can talk to whether or not this is something that has been ongoing dialogue between and your team and the bargaining units and perhaps share with us what are some of their responses in reaction to that issue?

>> Alex Gurza: Vice Mayor, we haven't specifically talked about some of these recommendations in the report, although that over the years we have made some significant changes in our civil service process. Specifically the hiring process. Many cities use the traditional off the rank list process where we have gone, with everything but sworn personnel off of a hiring by position which allows more flexibility. In that sense we've worked with the bargaining under back, it's better than many after the audit is accepted by if committee and the council, we would then talk to the council about getting direction to meet-and-confer and then providing you updates about what the thoughts are of the bargaining units on these changes.

>> Vice Mayor Nguyen: Thank you. And also, in terms of the performance-based system, I understand that in the 2013 through 2017 five-year forecast, the city manager is talking about how this is something, the performance-based system is something that the administration is going to talk again to the bargaining units, if you have any status updates on that conversation?

>> We haven't started specifically the negotiations on that topic. Clearly as part of any direction we receive for 13-14, we will see about performance-based -- many elements of performance-based -- it could be performance-based compensation, and the City Auditor in this report talks about using performance as a potential element. One of the high priorities is for us to become current on performance appraisals, because if we are going to be using performance for these kinds of important decisions, we have to be sure that we're up to date, and that process is ongoing. We have made significant progress and are going to continue to do so.

>> Vice Mayor Nguyen: And then finally, just as a comment, just reading this audit and then listening to Sharon reiterate some of the things that she found in the audit, I just want to take the opportunity to thank the employees who are still here with us. This is really challenging times, and when we read these kind of things, we understand,

to a certain extent, not the full extent, the kind of work, the hard work and the hours and the resources that you have to put into. So I just wanted to thank all of our employees, and Sharon's right. This is a magnificent building, but it is the people that are doing daily work that provides service and programs to our residents that support, so thank you.

>> Councilmember Constant: Thank you. Are are so a few things for me some first of all, another great audit report, it's always, issues that are pretty complex. I just have a few things I want to go through, most of it is editorializing. Maybe a couple of questions mixed in. On page 4, exhibit 4, the staffing levels versus other jurisdictions, kind of on the per capita basis, I think one of the things that would help give some context to that number, is if we overlaid the average total cost of employee compensation, because I think we know that that's the issue that we have been attacking here at the city for a number of years, through all different methods of looking at that total compensation. And I think that ties in and you might see a correlation, you might not see a correlation. But I would virtue to say there's an inverse relationship between the total cost per FTE and the number of FTEs per thousand people. On page 13, the double, triple, quadruple bumping, the employee that used eight of their nine lives in bumping. Forget the disruption to the city, the disruption to the employee is incredible. So always not know, that poor person on the bottom of the totem pole who keeps getting bumped and has to learn a new job and has to learn new skills and has to go through multiple slips of paper coming in saying that they're getting laid off or bumped or whatever the case may be. That's a tough position to be in. So as we go towards looking at how we may change our bumping process, I think it would be important to discussion how we might be able to get a protection past X number of bumps. If you get bumped twice you get skipped the next tyke. If you get bumped three times you get skipped the next two times to get some level of certainty. I was shocked when I heard the one that hit eight times, what's more shocking is to read the last one and see they are still employed, which is pretty amazing after all that bumping. So I guess just a soft message to the administration, as we're looking at this, look for ways to get protections, I think that's in everyone's best interest, to protect from the double, triple, or quadruple bumps. Going to page 21. You know I know we had quite a bit of discussion at the council level about job performance and using that in relation to layoffs and bumping and stuff like that. It's interesting to see that other government agencies do it, I think what's a little more limiting to me is our charter is clear but we have Muni code or policies or practices or, I never understood how that could happen because

everybody, we all get in you can't do that because the charter says X or the charter is our constitution we can't violate that. We look at how the retirement boards operate and their disability retirements that conflict with the charter, and here where we tend to have a conflict with our charter, and I just think that's something that we need to keep in mind as we're moving forward that we don't keep stepping in it, so to speak.

>> Alex Gurza: If I could, I don't think that this is a conflict. I think this is a general statement, that appointments and promotions should be made on the basis of merit and fitness, that is obviously a very good policy I think turn it over to Sharon to respond, think simply an illustration of that principle doesn't flow to the bumping process that we have.

>> Councilmember Constant: And I would argue that even our promotions might be how you did on a test versus your merit in your job and what you're doing on a day-to-day basis. But I just think that's something we need to look at as we go forward going over to page 37. This is a chart of the separations. I think another thing that might help us illustrate where we are, is if we were to overlay periods of time when we did mass hirings. That's not in this equation. I know that as I is it often the retirement board you see groups of people going out. Because we had rapid expansion of our department at certain times, there was periods where we did almost no hirings. And then we did eight, ten academies in a row, and all those people come up on their ten-year or their 15-year or on the nonpolice and Fire could be their five-year mark where they're vested, their 15-year mark where they get their medical vested, their 20-year, their 25-year, all those different trigger points for retirement are, quite frankly, we know that most of the sworn staff goes out at about the 26.7 or 27.6 years or whatever that sweet spot number is. And I think if you overlaid that, that might explain some of the retired numbers, not the separation numbers. Because I think it's a different picture if someone's leaving because they just accumulated their time of service, versus someone leaving just for another opportunity or a better opportunity. And then finally the last one, the comments about exhibit 20 on page 39, about HR being able to keep up with filling the vacancies, and especially since we saw HR is the one that gets all the bumping, and it's also got one of the largest lines in the vacancy. And Alex, is there an ability to do temporary staffing, you know, temp-type work, contract-type work, to help us get through filling up the ranks as we go along.

>> Alex Gurza: Actually, your question is very timely, Councilmember Constant, because that's exactly what we're lookin at now. We definitely have huge demands to meet departments' needs for hiring. And as you can see having clear challenges in doing that. So we are looking for options to be able to bring in some temporary assistance to be able to meet those peak hiring demands.

>> Councilmember Constant: Great, and having just sat through the Federated board meeting all morning, long knowing that they've got the new tier ready to go. They've got the contribution rates, in fact the contribution rates are I think lower than any of us expected, and it's going to be a good time to get people in and get them into that system, and they'll have more money in their pocket, as well. Mr. Oliverio.

>> Councilmember Oliverio: Thank you, Chair Constant. Appreciate the audit, a lot of good questions have been asked, and it's actually a lot to dive into as far as the relevant examples you give which are sometimes difficult to get. This is obviously something I've been very interested in since I put a memo on this topic approximately April 2011, I believe. But I believe I'd like to make a motion to approve the report and cross reference to the council for the first council meeting in January.

>> Councilmember Constant: Okay, we have a motion and a second, and any members of the public? And for those who are wondering why it's November, and we're talking about January, there's only four councilmeetings left between now and the end of the year, and the agendas get completely overridden by stuff that has to be done by calendar year end. We think, or at least I think, and I'm assuming that's the purpose behind the motion, is that this something that needs a lot of attention and time for us to discuss it in depth, and we'll have that time in January, versus having it now.

>> Alex Gurza: And if I could, very briefly, I just want to amplify the City Auditor's recognition of our human resources staff. As in all departments, clearly a reduced staff. But particularly Sarah Nunez, our employment manager, and her team who have to manage this process, and do a phenomenal job of understanding all of the rules and the implications. I just want to really recognize their work.

>> Councilmember Constant: And then finally is there any -- there's no time sensitivity that we need to do this before January, right?

>> Sharon Erickson: No, I should have mentioned time sensitivity. We're seeing this as a long-term project. Quite honestly, we wanted to do this audit when we were fresh on the heels of having experienced the layoffs and bumping and the turmoils that that's caused, and recognizing how it's impacted the employees and the employer. But I see this as -- we just need to get this thing fixed before the next down cycle hits the city, ten, company years from now. Many hopefully, these rules won't be needed in the next few years.

>> Councilmember Constant: That's always good to have hope. Thank you again for the report. We have a motion and a second, all in favor, that passes. Thanks Sharon and everybody else. All right our next two items are from the finance department. Arn, I want you to know that I talked a lot just so you could finish your other meeting and not miss any of this excitement. The first one is going to be our CAFR and then our CADR. Julia, I assume you're going to lead us through this, great. Yeah, the first quarter financial reports, I didn't mention that one.

>> Item number 5 on your agenda is the first quarter financial reports for fiscal year 2012-2013. We are here available to answer any questions. As you may recall, we do a presentation on the investment report on the second and fourth quarter. So this being if first quarter we're not prepared to give a full presentation, but we are available to answer any questions you have on that item.

>> Councilmember Constant: Questions? No questions from us. So then I guess we just need a motion on this first item.

>> Vice Mayor Nguyen: Motion to accept.

>> Councilmember Oliverio: Okay.

>> Councilmember Constant: I'll take that as a second, any public? All in favor? I'll take that as a yes. None opposed. We'll move right along. Let's keep this pace up.

>> Okay, good. Let's -- we have -- today we have for you a review of our -- where we are with respect to our comprehensive annual financial report, and then to talk a little bit about the annual debt report. Today I have with me Pat Sawicky and Maria Oberg from our treasury and accounting division. Cindy Pon is here from Macias, Gini & O'Connell to help with the CAFR presentation part, and then also we have Arn and Peter Stetless and Grace Martinez from finance as well. So the annual preparation of our comprehensive financial report is a real citywide effort that involves coordination with key city departments including the airport, the treatment plant, and we have retirement services, particularly since we have two retirement plans, and then this year with the Redevelopment Agency dissolution. We also have implementation of some GASB pronouncements coming up in subsequent years. And extraordinary events really continue to be a challenge for our organization in terms of coming forward and getting this report to you by the November time frame. And this year, with the third Thursday in November being so early, we are challenged. So we don't have the full report for you yet. But we are working for it and having it for council in December. This year is most particularly challenged with the dissolution of the Redevelopment Agency as of January 31st. It is an extraordinary event, and with it happening at kind of an odd time in the year, it means that we had to produce two financial statements, one for the redevelopment agency through the end of January, and then for Sara for the period beginning February 1st through June 30th. So it kind of doubled our workload effort associated with that. I just kind of have have this quick unaudited statement of net assets, and Cindy is going to go into a lot more detail. But you can see here, the City's statement of net assets increased by \$1.7 billion for the fiscal year ending January or June 2012. And you might say, how does that happen? Well, that happens when you take over \$2 billion of liability from the Redevelopment Agency and yank it off your financial statements and put it over in a special purpose trust fund. And that's what happened. So it looks really good when you look at it from a balance sheet perspective. But in reality, what that is, is taking a huge liability and move it to another presentation purpose. Also what you'll see in the financial statements is that for the first time in five years, we're showing operating revenues exceeding operating expenditures, resulting in a surplus of a little bit under \$50 million. So that is showing that things are starting to improve, which is a good thing. So with that, I'll turn it over to Cindy, and she'll go into a little bit more detail.

>> Good afternoon. I just want to highlight -- back, there. Just want to highlight the one of the most significant changes to the City's financial statements that are coming forward. As of February 1st, 2012, the City's RDA is no longer in operation. This significant change prompted the California committee on municipal accounting, a joint committee comprised of representatives of the league of California cities and the California society of certified public accounting to draft a white paper on the accounting and financial reporting for the dissolution of California Redevelopment Agency. This guidance states that upon the dissolution of the assets and liabilities of the former agencies are to report it in that private purpose trust fund. What this means to the city is that effective February 1st, 2012, the assets and liability balances are no longer reported in the City's governmental funds nor in the city's government-wide financial statements. And only seven months of operating activity are reported in the city's government wide financial statements. These assets which includes cash, loans and capital assets, and also the former agency's liabilities including vendor payables and long term debt are removed out of the City's government wide financial statements and into a new successor agency trust fund. In total the former agency transferred more liabilities compared to its assets to the tune of \$2.1 billion. So this is deemed to be an extraordinary item because it is unusual in nature. And infrequent in occurrence. In addition to is the transfer of the former agency's assets and liabilities, the transfer of cash out of the housing activities fund, low and moderate income housing program to pay enforce obligations of the successor agency, Redevelopment Agency law also invalidated certain loans between the former Redevelopment Agency and the city. As such \$13.5 million of loans that were funded by the parking fund were invalidated and written off so that fund also shows a -- will show and extraordinary lose. And similarly, the General Fund also loaned and or assumed 18.8 million of loans that were fob received from the former Redevelopment Agency but were also written off. And finally, the invalidation of interest on loans that hat city deemed to be valued is capped under the legislation based on the LAIF rate since the loan's origination. Which will also account for another \$2.9 million of receivables that will be written off. At the end of the day, the city's preliminary results show that it will record an extraordinary gain from the dissolution of its Redevelopment Agency in its government-wide financial statements, and vice-versa, it will show an extraordinary loss in the successor agency trust fund. This is mainly due to the former agency had a significant amount of long term debt that is now transferred to the successor agency. But in change for this gain, the city would no longer be recording incremental property taxes, tax revenues from its merged project areas in the government-wide

financial statements. So there will be less funds flowing to the city to alleviate blight and to fund housing programs. These revenues will now be reported in a trust fund to pay the enforceable obligations of the former agency. And any remaining amounts will be distributed to various taxing entities of the county as is normal property tax distribution. And with that, I'll turn this back to Julia.

>> Councilmember Constant: We have a real quick question.

>> Councilmember Oliverio: First I was trying to find this slide later. If you go one slide back, and Julia, the \$18.8 million, is that the fourth street garage and convention center?

>> No, that is -- are the CRAF loans that came from like the ice center, the sewer fund, and because they have to be recognized as due and payable, they're loans that the general fund will assume. But since they are not due and payable until fiscal year 14-15 is that right? 14-15, they're not showing right now essentially as a budget impact to the organization.

>> Councilmember Oliverio: And the line above the 13.5?

>> That's the parking, that's the loan to the parking fund where the parking fund has been are paying the debt service on the 4th street garage.

>> Councilmember Oliverio: Just the garage, not the convention center?

>> Not the convention center. The convention center is not here. The convention center is under a reimbursement agreement in which that's been approved by the city council, still to be approved by the oversight board, and that the city hopes that, through the waterfall, we will eventually get paid for those advances down the road. So on the next slide, some of the factors that are impacting the city's financial condition that are discussed in the financial report will be the pension cost, you know, most importantly the impact that's having on the city, and also, the OPEB costs, and then finally the budgetary impacts associated with the dissolutionment of the

Redevelopment Agency. So that information will all be discussed in the management discussion and analysts of the financial report which we hope to have distributed to you next week, we hope. We're working very hard. So with that I'm going to start now and do a discussion of the comprehensive annual debt report, and you all should have received a bound copy of the report, hopeful, good. And that's we'll also be talking about there's a couple of other items we have here, we have the recommendations to amend the City's debt policy. And then we also have kind of an informational memo that has a comparison of our debt portfolio to other California cities. So that's in the packet as well. And in terms of the City's debt management program, we do the debt issuance, the debt administration and financial advisory program. 25% of the staffing resources and then 75% is dedicated to the debt administration and financial advisory services. And all those work efforts are done within the policy objectives of the City's debt policy. With that I'm going to turn it over to Maria Oberg, who is our acting treasury division manager, and she'll go into some more detail.

>> On the right side you will see a lovely pie chart which shows the outstanding debt we had as of June 30th, 2012. As you can see, we have \$5.2 billion, or a little less than that outstanding. And this excludes our conduit debt which is our multifamily housing revenue bonds which are paid by the borrowers of those bond proceeds. The following page shows a -- this is a quick summary of the debt issues in fiscal 11-12, we issued about \$713 million, that was a series of tax revenue anticipation notes, five series of multifamily housing revenue bonds, three series of airport revenue bonds, as well as some commercial paper. For this fiscal year we are planning debt issuances and refunding most of them, actually, of about \$854 million, will be another series of tax revenue anticipation notes that we issued in the summer. Two series of multifamily housing revenue bonds, one series of airport revenue bonds. Two series of general obligation bonds, two series of lease revenue bonds, as well as some commercial paper. The next slide we like to show you just because it puts the current interest rate environment in perspective with historic rates. As you can see, we are in a very, very low interest environment, which while I don't like it on the investment side, I love it on the debt side. And so this slides nicely into the next slide, which is why we're now refunding a whole bunch of debt to provide savings for the city. We just closed last week, we closed a private placement of airport revenue bonds, about \$49 million, which refunded the Series 2002 A bonds, and it will provide annual savings of debt service of about \$1 million on an ongoing behaves. We are also in the process of refunding the bonds held for this building as well as the employee parking garage. But

going to be about \$381 million, we refund four series of bonds. It will provide some mitigation of our variable rate exposure and we're asking up from savings to the city as a whole, all funds 6.6 million, in addition to that we're look to refund about \$229 million of general obligation bonds that are currently outstanding as well as issue \$9.3 million that was authorized would be refunding three series of bonds and we are estimating, it's important to note though that that's not to the city that's to the property tax owners. Next slide. As Julia mentioned we do provide financial advisory services to other departments in the organization. Some of the major projects we are working on is financial analysis related to the solar project, we are continuing to help out with the transition of the former Redevelopment Agency. We continue to do a lot of private activity analysis on facilities that have been financed with tax exempt debt, and we will complete the enactive improvement district close up process and continue to work with the housing department on various compliance projects. And with that I'll hand it off to Julia.

>> Okay. This kind of flows into the issue of the city's debt policy, as you know we have struggled over the last couple of years with our variable rate program and the letters of credit, and securing those letters of credit and the increasing costs associated with the letters of credit. So with this table right here kind of shows is how we have been working in a conscious effort to reduce our variable rate exposure over the last several years. So you can see as of June of 2010 we had \$1.1 billion of variable rate debt outstanding which is a fairly large number and most of it was attributable to the airport. That was oa purposeful activity because we were in a construction mode. Now we're in a maintenance rate mode, we are looking to reducing that variable raid exposure, in addition to the markets being difficult to find letter of credit replacement. Our variable rate exposure is about \$652 million, the bulk of that reduction has come related to the airport and then the agency has reduced some but most of that is attributable to paying principal on outstanding debt. We expect by February of this year that we'll reduce it a little bit more down to about \$511 million. And that is attributable to doing some reductions on the financing authority side that we mentioned related to the City Hall project. So as you may recall, we had a referral to look at short term and variable rate debt policies and what we did is we went back and we looked at the City's overall debt management policy that the council originally adopted in 2002, and looked at that policy and realized that policy had really served the organization very, very well over the last decade. This is the First Amendment we are making to the policy, and we believe that we can address the issues of short-term debt and variable rate debt by just adding a couple of sentences. So here on the short term borrowing you can see where we're recommending

adding the issue if we are going to do short term borrowing, that we need to have a reliable revenue source identified to secure repayment. That's a good thing. And a final maturity to -- shouldn't exceed the economic useful life of the project unless the council determines there's extraordinary circumstances and not to exceed seven years. Because when you're issuing debt for a short period of time it really should be a project that really has a short duration. And so we thought seven years was reasonable in that respect. And then in the next amendment --

>> Councilmember Constant: We have a question on that slide before you go on.

>> Councilmember Oliverio: So at first glance this seems pretty conservative. Pragmatic. You're saying that you have to identify the revenue source and it has to be a short term of time. It's not some day some way.

>> Right.

>> Councilmember Oliverio: Sort of pay as you go.

>> Right. So and then on variable rate side, this is where, when you can issue variable rate debt, they can have a long-term maturity, but essentially you're having a rate that's set on a variable periodic basis. So here the recommendation we're making to change the policy is when we bring forward a recommendation to do variable-rate mode, that we use consideration regarding the useful life of the projects or facility, the term of the project requiring the funding, market conditions, so for example can we find you know letters of credit bank and stuff like that. The overall debt portfolio structure when issuing the variable rate debt for any purpose. So let's go back to the issue of the example of the airport. If in piece of the policy had been in place we were in a big construction mode, we wanted to reduce cost during the construction period, we wanted to make sure we reduced long term cost. We probably this policy would have worked for us fine. We would have said commercial paper works, we have a long term objective of taking it out with long-term financing, which is what we have done and brought to you. So we think this basically codifies kind of what we've done as working practice, and I think as you can see in the chart I showed earlier, we really have taken a conscious effort to bring that variable rate exposure down as we

have finished with the decade of investment and now are reducing that. It is prudent to have some variable rate exposure in your portfolio. There is business reasons to do that. If you have like for example the airport West property across the street from the airport the old FMY that is in a variable rate mode. That makes sense for us. We're trying to sell that property. We don't want to get caught up in a situation where we have long term debt where we have essentially prohibited from paying off the debt early. So those situations when we bring them back for you we will obviously use this policy in any consideration to continue variable rate mode. And then just a summary on our credit ratings. As you know we have been down graded by on the general obligation side to double A one double A plus double A plus by Moody's S&P 500 and Fitch. We continue to be higher rated than the State of California and the county of Santa Clara. Those are ratings that we should still be very proud of. Taken together, though, the ratings of all the city various agencies range from double B minus for Redevelopment Agency, to the double A plus for financing authority. So we have quite a range of rating and then on page 81 of the CAFR we have a full listing of all the ratings for all the bond issues outstanding and this year we actually added a table entering into that where you can kind of see the different rating categories and what they mean with respect to high grade medium grade to give you a little context when you read a rating what does that mean to an investor. So we added that to provide a little bit more helpful information to the council and the public as well. So in summary, you know the debt and ledger program continues to be highly active in areas of administration and financial advisory services. We're maintaining a strong and dedicate program that protects the City's financial interests, the credit ratings and the long term management of the debt compliance to minimize any financial or eliminate any financial penalties and we really do watch the regulatory requirements especially new sec regulations and ire, to make sure that we stay in compliance to protect the City's assets. The recommendations we have for you today are to accept the comprehensive annual debt report, and then it is scheduled to be placed on a future council meeting agenda and also approve the revisions to the debt policy and have the appropriate resolution come forward. The December 4th council meeting has been tentatively set aside as a meeting to review and comment on these key concepts because there is a referral from the council the have a more comprehensive discussion about the policy and debt program in general. We're working with the authorization have that on the December 4th agenda and in addition we would hope to be presenting the financial report at that meeting as well. So with that I think it is open to all those questions under 6, 7 A and 7 B.

>> Councilmember Constant: Thanks, Pierluigi.

>> Councilmember Oliverio: You know the report that you're hoping to get out is that delayed is December 4th less likely or --

>> I need to talk to the City Manager's office about that whether we bifurcate it or not. I need to know what she wants to do.

>> Councilmember Oliverio: And was the greater conversation about debt something like a study session in the spring?

>> No I think they plan to do it on that December council meeting. They have tried to keep it a little bit light, my understanding. Maybe it won't be successful and we'll move it to the spring. I think the issue was because the report is out now and the information is kind of like it becomes dated as you kind of move along through the fiscal year we thought sooner rather than later.

>> Councilmember Oliverio: I'm not talking about spring, I'm talking about December 4th or 11th, as you know. And then on page 19, back to that one, I made a comment on pay as you go, so if that text was in place would that have avoided some short term debt that the council had done in the past?

>> There have been -- there is like that fiberoptics one, that we had that we didn't actually issue debt for, it's an internal loan that maybe wouldn't have been done. But like for the programs we have done with the CP issuance we have identified a revenue stream to repay those projects. So I think what this does is just take practice and put it into a policy. So it helps us engage internally in the conversation to say this is council policy, if you want to issue commercial paper for example to do this short term borrowing we need to know how you're going to repay it. So it helps from an administrative perspective take practice into policy.

>> Councilmember Oliverio: This text that you have proposed here is that in our longer term debt issuances?

>> You have to identify, when you issue long term debt you have to identify what the source of revenue is to repay it.

>> Councilmember Oliverio: But my perception would be sort of loosey-goosey, because we did long-term debt for Hayes Mansion and golf and that never really paid off.

>> We have a source of repaying it, the city's General Fund.

>> Councilmember Oliverio: Yeah, isn't that great? It can take \$5 million a year for that to cover that. You're funny, look at that financial humor.

>> There's always humor councilmember wherever you want to find it. So yes. We do have a way of identifying. Is a.

>> Councilmember Oliverio: Thank you.

>> You're welcome.

>> Councilmember Constant: Madam Vice Mayor, anything? The only comment I wanted to make is it's interesting to see San Diego had no general obligation debt. That's very odd.

>> Yes, they have never chosen -- if they have gone to the voters, the voters have said no. But San Diego tends to be a little bit more conservative place than San José.

>> Councilmember Constant: Definitely. All right so I need a global motion.

>> Councilmember Oliverio: Little more. Where is that comment there. On the thing that Pete was just -- Councilmember Constant was just talking about on San Diego, San José one, that is a nonairport number for us. The \$823 million?

>> Lets see. Yes, that's just our lease revenue obligation that's just on the General Fund side. So that would include like City Hall, the parking garage. The employee park garage. The Hayes mansion.

>> Councilmember Oliverio: Right all the other fun ones but not the airport.

>> Not the airport.

>> Councilmember Oliverio: And then 1.3, that's bigger than I thought it would be. So what do you plan on -- I guess what's the city management's plan when it comes the council, are you going to do some slide deck and discussing --

>> Yes, and also maybe to give a little bit more context on the types of debt. In terms of talking about what is general obligation bond, how does that get repaid, versus lease revenue versus airport, especially as you're starting to think about the treatment plant expansion project, what would that -- thinking about the different types of buckets, an understanding, a bit of conversation about variable rate versus fixed rate debt.

>> Councilmember Oliverio: And do you think to have maybe a city's ability to pay, because one city may have one level of debt, another may have another, but you have a greater population or a fantastic tax base to pay for it. Do you think you might have something in there?

>> I mean some of that stuff's included in the Fitch report, but we can look and see how that would be presented, as well.

>> Councilmember Oliverio: And then did you know, is it possible to take a peek at Long Beach, or like another city roughly our size?

>> And kind of the reason we just focused in on California cities is because it's very unique to be in California with respect because of our ability to raise taxes is so limited. And lots of other cities can you know raise taxes across the country can raise taxes and issue G.O. without any voter approval whatsoever. So that's why this informational report is really focused on California cities.

>> Councilmember Oliverio: I expected that based on state law. Did you being look population wise?

>> We can looks at it add it to the comparison table, no problem.

>> Councilmember Oliverio: So you want a global motion accepting all these items to go to the -- be cross referenced for a council discussion.

>> Councilmember Constant: They all go to council right all three?

>> Yes.

>> Councilmember Constant: That is your motion?

>> Councilmember Oliverio: It was.

>> Councilmember Constant: I think I heard a second. Any members of the public here to speak? All in favor? That passes thank you very much. Our next item is workmen's compensation reform report.

>> Alex Gurza: I have a very brief report. As the committee's aware, last month we talked about if administration's recommendation to the full council on a pilot program to partially have a third party administrator

handle workers comp claims. The council did approve that pilot program so we're continuing in the procurement process and we'll be coming back to the committee and the full council for a recommendation to award a full contract. With that that's the end of my report.

>> Councilmember Constant: Thank you very much. Questions? Motion? All in favor? Any opposed? I think that passes. Number 9, the long awaited sorry to keep you waiting so long up there, Team San José quarterly performance and incentive measure report. Welcome Bill and Megan.

>> Bill Sherry: Thank you, Mr. Chair, members of the committee. Bill Sherry, CEO of Team San José, and to my left is Megan Horrigan. Public information officer. In your backup you have our first quarter report, ending September 30th, 2012. And I'll just run through some of the highlights for you. But before you do, a lot of people always ask me what's the status of the construction. And a lot of these results are impacted by the construction. So I thought I'd give you just kind of a high level overview of where we stand. Basically it's on time. And it's within budget. As you know the MLK demo has been completed. The central utility plant comes on and should be completed by January. The renovation is well underway, I'd say we're about three quarters of the way through the renovation and that's scheduled to be complete, be completed by March 1st. The expansion you can see there's 2,000 tons of steel have been erected on San Carlos, that's on schedule to be completed September 2013 and the HVAC and the kitchen work that was added on for an additional \$10 million is also on schedule to be completed September 2013. In your backup, you see, on page 1, that we finished the first quarter meeting, or exceeding, five of the 9 performance measurements. During the quarter we grew revenue by \$807,000. The gross operating profit was budgeted for a loss of \$383,000, and that's a loss only because of the construction, in normal years based upon the way we restructured the financial statements, that will actually start showing a positive. Our actual for the quarter was a negative 181. So that was a positive \$202,000 variance for fund 546. An outstanding and I just don't see how the team does this customer rating came in at 100%. That's difficult to achieve during normal times. But far less than when you're under construction and you've got dust and noise and all kinds of things interrupting events. I think I may have told you before, this is my first convention center that I've done. I've done a lot of airports. And what I've learned in this, the difference between an airport and a convention center is at an airport you try to minimize the negative impacts but regardless, the planes will

come, the people will go through. That's not the case at a convention center. Meeting planners will just up and leave, say thank you, but no thank you, not willing to put my customers and clients through that negative experience with construction. So you have to be very proactive in terms of mitigating the impacts to clients. And for those that are price-sensitive, you know, they may want reductions in cost to them, so it reduces our revenue. Converse, those that are less price-sensitive they may want more amenities and services and ushers and so forth. So that increases your cost. But if you don't do that you really stand the risk of losing the events. So we have done that but that impacts our gross operating profit. So I just ask everyone to keep that in mind. T.O.T, transit occupancy tax is doing extraordinarily well. Exceeded budget by 24.1%. So that increased the transfers to fund 536, 133 K. Team San José generated 44,391 hotel rooms, definite bookings during the period which represented 136% of goal. Attendance was lower than anticipated, and the reason for that is, there's an error in the budget. We're going to be dealing with this for the next couple of months probably until next quarter when we make the corrections. But when gymnastics came through, an error was put in where it took the total attendance, and economic impact of gymnastics and obviously we can only lay claim to that portion that we actually were responsible for. So that's why the budget is higher and that's why we came in a bit lower. But had it not been for that error, we would have made attendance numbers. Performance days and occupied days were slightly lower. Well, performance was slightly lower. 96.8 PERS of goal and occupy was slightly ahead at 104% of goal. Return on investment was lower than expected but again that's impacted by the gymnastics error. Had that not occurred we would have made that number as well. Just a sneak look ahead. We are very confident that we're going to finish our year meeting just about all of our performance measurements. We've had a very strong October. And November is proving to be very strong as well. As I noted previously, we've had to do mitigation, to keep clients. So on the revenues we took a \$41,000 hit and on the expenses we took a \$43,000 hit and all of that is in conjunction with the Office of Economic Development as well as the mayor's office. So they're fully aware of what measures we're taking. As I also pointed out, the hotels are just on fire. With the economy really bouncing back strong and the tech market we're seeing increases in daily, average daily room rates as well as occupancy. Room rates are up 5.6% for the quarter and occupancy is up 6.5%. You may recall that council approved a \$2 million loan from Fund 536 for FF&E, which I can't tell you how critical that is. It's obviously very important to have a new renovated and expanded center but if you don't have the equipment to be able to run that center, your investment's not going to be -- not going to pay off the way you'd like. So we pit the \$2 million loan,

from fund 536, we already had a half a million budgeted from 536 coupled with a \$2 million allocation in the project which totalled \$4.5 million. We have been looking at securing exactly the type of equipment we need and I expect to have the PO issued within weeks. With that that concludes my presentation, I'm happy to answer questions but even happier not to.

>> Councilmember Constant: We would be happy too. Any comments? With that I'll comment that it's great to see positive news. Everything is moving in the right direction which is up, and keep it up. Mr. Wall. Is this for this item? Okay.

>> Got the idea yesterday at rules with the city national bank requesting that they have two automated tellers within the civic center, and the center for performing arts. Family camp needs some form of stable funding long term for capital improvement projects and whatnot and since we see these type of revenues coming up and perhaps some type of percentage, some discussion about these automatic tellers, in the civic center and the center for performing arts, I think it's time to start thinking that all these different venues, whatever small little tidbit that could be siphoned off, to put in an enterprise fund for San José family camp and/or nor a CIP budget for family camp should be entertained. And I would like to thank our aviation director and all the other assorted titles that he carries with him these days for all his efforts. Thank you very much.

>> Councilmember Constant: You can just say all around great guy. We have a motion to approve. Do we have a second? All in favor. I heard that. We're approved. Sorry you had to wait so long. Mr. Wall great to see you warned in, it's all yours, open forum.

>> This is the finest committee run by you Councilmember Constant of all the council committees. Last request, along the Guadalupe river on the Northeast side from Coleman to Hedding are a series of encampments. These encampments are base camps for all sorts of depravity and nefarious activities. You can actually stand on the public sidewalk on the north side of Coleman, on the Northeast side looking down and see some of the encampments right there. And I think it's time for the police to do their generosity under a program called move

along little doggies move along out of here. Also we need to fund our City Attorneys because they're a vanishing lot on the 18th floor.

>> Councilmember Constant: Are you suggesting more attorneys would make the world better?

>> A lot better and if the director of OER would feed these people they'd be happy too.

>> Councilmember Constant: We're adjourned.