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>> Mayor Reed: Good afternoon. I'll call to San José city council meeting to order for April 14th, 2009. Wishing for August. We will start with the invocation. Councilmember Chu will introduce the invocator.

>> Councilmember Chu: Pastor Paul Gerlock. His Jubilee Church is located in Alviso, the largest nondenominational church in San José. Jubilee church conducts multiple services weekly in English, Spanish and Vietnamese. Pastor Paul Gerlock is here today from the Jubilee Christian center and oversees several areas of the ministry, including marriage, life coaching and celebrate recovery of Christian 12 step program. He is also a certified life coach. Paul has been pastoring, coaching and mentoring men and women from all walks of life for over two decades. He is especially passionate about coaching people on how to integrate their faith with their everyday life situations. Paul's education include two master's degree from Western Seminary in Portland, Oregon. In 1983, and in 1984. And a bachelor's degree from Westmont college in Santa Barbara, California in 1980. He has lived with his wife Joy and their four children since 1986. He is a family man and loves to camp, cycle, hike and garden. Welcome pastor Paul.

>> Thank you, everyone, mayor and council, councilpeople, it's a great honor to represent jubilee Christian center and pray a blessing on us this afternoon. Let's go to prayer. Heavenly father, we thank you so much that you have called us to be citizens of this great city. God, we just want to thank you, first of all for San José today. We want to thank you, that you would bless this city, and you have had your hand of blessing on this city. It's great to live here and see how you've been with us through thick and thin. And God, I just pray your blessing over this city today, that this would be a day that would bring a smile to you as the king of heaven, the lord of lords. And we just thank you, that you are here and that we can depend upon you today, that things aren't just subject to chance, it's not just about fate, but God, what are you up to today? What are you up to in each of our lives and in this meeting? I want to pray a blessing on each councilmember that lord, you would bless them, bless them personally, in all the things they're going through and in their families and their personal lives as well as all the intricate decisions that they are going to have to make today. Father, I just thank you that we can come to you and we can say God, we need your wisdom. We need your help. And you invite us, all who need wisdom to ask of you that you will freely give us wisdom. Father, I pray especially for wisdom for this council at this time. With our economic times, God, we come off of Easter and the power of the resurrection. God I feel they would feel that power of the resurrection. Their being who you have wired them up to be, God, I just pray that your plans and your purposes would take place in this city and father I would pray that they would have your perspective, that you're not stuck, you're not stumped and father, you would give them that wisdom that they need and God, I pray that they would also have your power. That you would be using them to bless this city. Father, I pray that as we each of us put our heads on the pillow tonight, that we would be able to say that we were true to who you've made us, and how you wired us up. We're a blessing to others, and father, I pray that we would also be true to ourselves. And I pray your blessing on this time, and on this gathering, and on this city, and on this council, in the name of Jesus, amen.

>> Mayor Reed: Thank you. Please stands for pledge of allegiance. [pledge of allegiance]

>> Mayor Reed: Under orders of the day, we have one item to be dropped, that is the item 1.1, presentation of a commendation to Wolfe engineering. That will be dropped and renoticed. Any other changes? I think not. Motion to approve the orders of the day. All in favor, opposed, none opposed, that's approved. Closed session report. I'll report that the city council has appointed a new independent police auditor, Chris Constantine. Chris is here. You'll recognize Chris from his years of service in our City Auditor's office and more than a decade on the west union community college board. You want to say something Chris? We really appreciate you being willing to step in and take the job.

>> I apologize for having my back to you. I don't think I can turn this whole thing but thank you for the great honor of being the next independent police auditor. After a grueling process of numerous interviews, both over the telephone, in person and with members of the diverse community I look forward to actually now getting a chance to go out into that community building the bridges, understanding the issues and being a positive change for having a effective police department. Thank you.

>> Mayor Reed: Thank you, Chris. [applause] I think there's nothing else to report out of closed session. Ceremonial items are next. I'd like to start with inviting representatives of the American legion auxilliary to join me at the podium. Today we're issuing a proclamation recognizing the week of April 12th as the week of American legion auxilliary. With nearly 1 million members the auxilliary represents the women, veterans and their families in our city and country. So on behalf of the entire city council and the

entire City of San José we want to present this proclamation to the American legion auxiliary. Come on up here little closer to the microphone.

>> I'd like to introduce the historian and past district president, Carolyn Rux. Thank you very much.

>> Mayor Reed: Thank you for your work in the community and all the work for our veterans. Next I'd like to invite members of the dispatchers association to the podium. We're proclaiming this week as national Public Safety dispatchers week, these folks are the critical communication link between our people of our city when they need help and our City's front line emergency service personnel. Through long hours and stressful conditions our Public Safety dispatchers have continued to provide timely and professional services to those in need. And with this proclamation, we want to recognize the critical role they play in our city and emergency service system, thank men and women who serve as dispatchers for their hard work. Occasionally I listen to some of those tapes in difficult situations and these folks are true professionals. It is amazing, the calm that they can maintain under very difficult circumstances that literally does save lives because of the work they do. So on behalf of the City of San José we're proclaiming this national Public Safety dispatchers week to thank you for the work you do all the time. [applause]

>> Thank you, honorable mayor is city council members and City Manager. On behalf of San José police communications and San José fire communications we are grateful for the proclamation, for the recognition of our personnel and their tireless efforts. To all communications employees, it provides great comfort knowing that you are there, should help be needed. You provide an invaluable service and you make a difference. Thank you for your vigilance and your dedication to Public Safety. [applause]

>> Mayor Reed: I'd like to invite Vice Mayor Chirco and members of national volunteer month to the podium. Here in San José we are fortunate to have many different organizations, some of them are coming down, so we want to encourage everybody to spend some time volunteering during this month of volunteerism. Once you start volunteering you're going to like it, you're going to like the public service and it's something you can keep up for the rest of the year and Vice Mayor Chirco has some details.

>> Councilmember Chirco: Well, it's a real honor to have the volunteer center here today. We're here today to honor, in honor of the national volunteer month, to recognize volunteers throughout San José who have given their time for others. Whether they're working with the homeless, cleaning up litter in our creeks, helping with the neighborhood improvement project or contributing to many worthy causes, volunteers are critical to building a strong community. San José is a strong community. They lift up the most vulnerable and improve quality of life for everyone. I'd like to thank all the volunteers among us and probably in this room can raise their hands, for all the good work they do and the pride they take in our community. A special thank you to all the volunteers here at the city, whether serving on our boards and commissions, helping keep our parks clean and our neighborhoods free of graffiti, or like our council dough sents, Dan and Harriet, welcoming the public to our meetings, they make San José a better place. It is especially appropriate that we have here representatives from the volunteer center of Silicon Valley, Director Tim Quigley and board president Judy Levin, who have joined Nan Moore and Timothy Tom. The volunteer center connects volunteer coordinators, including homeless assistance, disaster preparedness and environmental stewardship. Thank you for all your good work and at this time I'd like to ask the mayor to present to the volunteer center a proclamation from the mayor, myself, vice mayor joyed Chirco and all of the councilmembers who signed this proclamation, would they please stand, everyone you all signed it. We all honor the volunteers of San José. [applause]

>> You probably noticed this young woman doesn't look like Timothy Tom. This is actually, Kim Cummins, who has been an office volunteer five days a week. She volunteers for the volunteer center. Especially now that the spirit of volunteerism is being nurtured by the new Obama White House down to all levels of government, especially the City of San José, I think it's more important than ever that we keep a volunteer match making and mobilization in Silicon Valley to support this very important resurgence of volunteerism. I want to thank you, city council members and to Mayor Reed for recognizing that this is a very important component, that volunteers can do what government can't do, in many cases. Or -- and/or can supplement what government is trying to do Fawn for our communities. And it's just a critical, critical part of keeping our world working as it is. So we're hoping that you won't just use this month to volunteer, I think it's probably true, everyone in this room does volunteer, that it's a year-round habit that everyone gets into. This will be a better world for it. Thank you all very, very much from the board of directors of the volunteer center for this wonderful honor. [applause]

>> Mayor Reed: I'd like to invite Councilmember Oliverio and representatives of the AT&T foundation to join us at the podium. As we commend AT&T foundation for its generous philanthropic support of the city's libraries.

>> Councilmember Oliverio: Thank you, Mayor Reed. So up here with us today is Leon beechman from the AT&T foundation, Leslye parks, our president of the library foundation and Mary McLane, as well as Jane Light, our director of libraries. The San José library foundation was founded in 1987 with a goal to raise \$5 million, \$6 million to beautify the libraries. They've gone a long way to do that and bring many good things to the San José public library system. We're here to honor AT&T, and for all those out in the audience you should know that there is a public library foundation that is willing to accept your tax deductible contributions today, and so as much as we are very thankful to the AT&T foundation individual donors can have the pleasure of donating to a great library system. I would ask the mayor to present the commendation to the AT&T foundation and then to say a few words. [applause]

>> First of all, let me say thank you very much on behalf of AT&T foundation. Let me also say, first of all, that as far as the City of San José, you have a great library foundation organization. I have very much enjoyed working with these folks. This was not the first time we've made a contribution to the library foundation and it was because of the great work we have seen them do over time. And volunteers do a great job, they throw great parties, too. Whenever they do a launch of the library. I want to say also, on behalf of the about 2,000 employees that we have working and living in San José, that we appreciate this recognition, San José, AT&T has the largest employee service organization in the United States. And they do all kinds of work. In fact if you go out to the playgrounds and you see those maps on the playgrounds, those are AT&T employees that do that on their own time to put those maps there. So thank you very much. I know the library is change. AT&T is changing. We both are entering the information age. I want to say thank you, particularly to city council, because you have been very supportive, not only as far as AT&T, but I want to say personally, as far as some of the things I've been involved in the community, this council has always been very supportive of the things that we try to do to help. So once again, thank you. [applause]

>> Councilmember Oliverio: SJPLF.org!

>> Mayor Reed: Next item is the consent calendar. Are there any items on the consent calendar council wishes to pull for discussion? We have a motion to approve the consent calendar. All in favor, opposed, none opposed, that's approved. Item 3.1 is a report of the City Manager.

>> City Manager Figone: Mr. Mayor, due to the length of item 3.4 I will have no report today.

>> Mayor Reed: Item 3.2, report of Rules and Open Government Committee for March 18th, 2009. We have a motion to approve. All in favor? Opposed? None opposed, that's approved. Item 3.4 is a report and discussion that I asked to have agendaized last week, under the City Manager's report. And this is a report on sort of the status of our budget projections, and what we need to do over the next couple of years, because we have options that become limited over time that sometimes we need to look at early. So we'll get a discussion from our staff about where we are, what's changed on our projections that we have published. With that I'll turn it over to our City Manager.

>> City Manager Figone: Mr. Mayor, in a moment Jennifer Maguire will present a General Fund forecast that was last updated for you in February. And as you'll see in her brief presentation, the severe economic downturn has negatively impacted the General Fund revenues to a much greater extent than levels previously assumed. These new General Fund projections will require very difficult choices to close the higher shortfall gap that we are now projecting, and there will be significant service reductions. These will be unavoidable. In addition, part of today's presentation will include potential projected increases, in the city's retirement contribution rates beginning in 2010-11. Alex Gurza will present a projected flight of these numbers. What we're beginning to see and the potential impact of pension cost on the city's budget. Just as a note, Russell Crosby is not available today so Alex will respond to basic questions. However, any more substantial council questions will be responded to through a memorandum, we call those MBAs during the budget process and this would include the questions posed by councilmembers Nguyen and Kalra. And I would also recommend that when we bring forward the more technical responses, again, unless there's something we need to clarify today or set the record straight on, I do recommend, mayor, that we devote some time during your budget deliberations to this topic. The cost to the city of pension and retiree health care benefits are a significant part of our personnel cost. For this fiscal year, the city contributed approximately \$120 million into the retirement plans. In partnership with our unions, thus far we have reached an agreement with eight of our ten unions. Retirement benefits actually saved cost to the city and to our employees in the long term. The declining economy however, has made our challenge

even more difficult in many ways, including the funding of pension benefits. The city provides what is known as the defined benefit pension plan. The benefits received by employees are not affected by investment performance, unlike a 401K plan, where the person who has the plan is left to manage the plan in order to meet their pension plan needs at the time they retire. In the city's pension plans, it is the city that funds the unfunded liabilities. Given the scope of the decline of assets, the potential impact on the City's budget, I provided the council with information beginning back in November of 2008, and more recently, on April 3rd, through information memo. The information that we have, as of this point in time, again these are only projections. The projections can and will change before the city's contribution rates are determined for 2010-11 and beyond. However, given the magnitude of the investment losses the City's contribution rates will go up. What is undetermined is precisely by how much. Now, we're not alone in this regard. Among public pension plans, because others across the country are facing the impact of decline in assets, and there have been stories and headlines about these declines across the country, basically indicating that we are in a pension crisis which is being felt across America. There are many complex issues and questions surrounding the cost of retirement benefits, and again, given the complexity of the actuarial issues, and assumptions involved, as indicated earlier, we will be responding in writing to some of the questions that we have received, and may receive again today, through this discussion, during the budget process. In addition, I do recommend that in addition to setting some time during the budget deliberations to discuss this issue, to the degree we need further discussions, we would likely do that through a study session in the fall where we can get into deeper understanding of the actuarial issues that we're facing. However, I do think it's important to begin talking about this issue in the context of the 2009-10 budget because as you will see when we bring to you our proposals, we're really trying to keep the next two years in mind as we look at 2009-10. With that Mr. Mayor, I will now turn it over to Jennifer Maguire our budget director to take you through the first part of our presentation.

>> Jennifer Maguire: Thank you. I have two brief slides to share with you. The first one is our General Fund base budget forecasts update and then I have a second slide that will update the General Fund structural deficit which includes the broader definition with the unmet deferred maintenance and infrastructure needs. And then Alex will have one slide related to some scenarios on the retirement pension system. On this first slide as a reminder, the very first line you see there projected base shortfall, February '09 forecast, that was issued in February and again was our best projections prepared during an unprecedented time of budget uncertainty. Three reminders. Each year's deficit, to the extent that you use one-time solutions that pushes that portion of the one-time into the next fiscal year. And also, no cost of living adjustments are assumed which in the last three years of the forecast which are denoted by the asterisks, starting in 2011-12 to 2014. If we focus on 2009-10, the shortfall we projected just about one and a half months ago totaled 62.5 million, which I know you're familiar with. This shortfall is projected to be almost 27% higher, another \$16.5 million, estimated to bring this to over to 79 million. That is the number we are bringing to you on May 1st. This additional shortfall is primarily the result of worse than expected revenue collections in three economically sensitive revenue sources. That total is about \$18.6 million. We have been able to slightly offset that by some small expenditure budget savings in the base that we have been able to identify. The net change again is a worsening of our situation by 16.4 million. The three primary areas are property tax, we did issue an information memo on April 3rd. We had heard from the assessor's office that due to the decline in value in residential property primarily at that point, that our property tax was actually going to have a decline in 9-10 of 51%. They have not finished with the roll, that is work in progress. They hadn't finished with residential and they still had to do with commercial and that is underway. The decline is at least 6.5%. Our roll was actually positive 2.5% and the assessor had indicated he still thought the roll would be positive. We had thought we had been conservative and dropped our growth rate in property tax to 1% but obviously the news changed rapidly within a couple of week, three-week period. We need to note that the property tax roll has only gone negative four times in the last 75 years. Three times in the great depression and one in 1978 under proposition 13. And also interesting to note of the 90,000 properties in the county that have had their total values reduced so far, 53,000 of those have been -- are located in San José. The second piece of downward adjustment that we've needed to make to our forecast is in our sales tax area. As soon as we got our quarterly results, we sent an information memo on that one, as well. Our sales tax second quarter was for the October through December sales period. We were down in cash, a negative 8.5%. We had adjusted our budget to be down 6.5%. We just recently got some more detailed news related to the information on that quarter, and we really, on an economic basis, were only down 10%. But we had some one time prior quarter adjustments that allowed us on a cash basis to only be down 8.5%. With that

adjustment we find it necessary to roll that shortfall through to 9-10 which worsens our situation by a little more than \$3 million in our sales tax revenue source. We have a 5% decline built in, in 9-10, that is going to have to be carefully watched and we believe we can sustain a fund decline, and still maintain our balance next year. We won't get our next sales tax results until June.

>>> The third is in our transient occupancy tax area. We had budgeted for a 6.7% decline in transient occupancy tax after we had a consultant do an in-depth review as part of reviewing the convention center expansion project. Looking at January and February data it is now likely that that decline will be more in the range of 17 to 18%. So that also necessitated a downward adjustment of 1.1 million. We're now signature again at \$77.6 million and trying to find resolution to that number, which has been extremely difficult. If you look at 2010-2011 as a look forward to another year, we had predicted a \$36.7 million shortfall. That did presume some growth in our revenues, not in property tax because we thought the decline in property tax was going to be hit and felt more in 10-11. But we did have sales tax resuming some growth, almost 10% in 10-11 and in the outyears of our forecast, our economic slowdown would hit us the hardest through 9-10, and we start resuming some modest growth beginning in 1010-11. But even with that we had a negative \$36.9 million projected. If you assume that we would have about \$5 million of one-time solutions carried over to 10-11 we are still trying to resolve that issue now. If you do a potential plan increase for both the police and fire and our federated systems, the shortfall for 10-11 could grow as high as \$93.4 million. Again, those are scenarios and Alex will talk a little bit more about that. But those are scenarios that help account for \$1 billion over a long period of time of decline in our assets in those systems. So over the period you can see that cumulatively, we were approximately \$272.7 million, again a lot of assumptions in the outyears and just to give you the flavor in the projection that could be possible for our General Fund. If you go to our next slide, this is to take the definition of our General Fund structural deficit in a broader sense. If we take that bottom line from the previous slide and layer on the unmet deferred maintenance and infrastructure needs, we're looking at up to \$300 million of gaps in our General Fund. Again, as a reminder, this does not address the one-time needs in our infrastructure area of \$457 million in the General Fund, \$825 million all funds and that's bolded on the bottom there of this slide. And I'm going to turn it over to Alex, and he is going to talk about the pension contribution rates.

>> Alex Gurza: Good afternoon, Alex Gurza. Police and fire retirement plan, as is important, to note, these are projections and not actually determined contribution rates. The question isn't how much are contributions going to rise, but exactly how much they will rise. And so these are earliest projections of what may happen. And in the April information memo that the City Manager sent, attached to that is a report from the police and fire retirement board actuary Seagal Company. Exhibit 1 of that report goes to various scenarios of about what the city's contribution rates could be. So these percentages that you see there, they are contribution rates. So those are percentages of what we call covered payroll for police and fire. And what would -- what they would increase, not only in the five years that you see there, but also depending on the various scenarios that you see. So the first one is what they call the baseline scenario. So that is continuing to use the current assumed interest rate or return on investments of 8%. And also, a methodology what they call the market value of asset corridor. And you see the baseline contribution rate for '09-10 is 22.5. The City's contribution rates won't change in the 2010-11 for pensions. And that's where you can see the impact of the various scenarios. So you can see in the baseline scenario it goes to 44.6% of contribution rate. To give you a sense of scope, for the police and fire plan, every 100 basis points or 1%, so if it would go to 22.5 to 23.5 in the police and fire plan it's approximately 22.5 million. As you see across in the five years it would escalate to 54.2%. I want to highlight that last column that says funding ratio. That is a very commonly used indicator of the health of a pension plan. To say a pension plan is 100% funded simply means through that year. Decline in funding assets in the ratio. Although we don't have similar numbers for federated, federated starting date the funding ratio was 82.8. So we can anticipate that that funding ratio will also drop. What we listed here is two of the four scenarios. Seagal actually provided four scenarios. The scenario 3 and 4 are more pessimistic. They have higher contribution rates than what you see here. Many things will lap between now and when the contribution rates get set. What happens the rest of this fiscal year in terms of the decline in assets, and what assumptions the board ends up adopting in terms of what the rate of return will be in the future and other actuarial methods will actually determine what actually happens to those contribution rates. But we think this gives some sense of the range. And again, it's a large range. If you see anywhere in 2014, 15, or in the most pessimistic case, 70%, they are quite significant in any of those scenarios. And we'll be providing any updated information to the council as soon as that information is available to either of the boards. So with that we'd be happy to answer any questions you have.

>> Mayor Reed: Councilmember Constant.

>> Councilmember Constant: Thank you. If we could go back two slides, to this one, perfect, either one is fine. Do these charts include, not this one, the previous, either one of the previous two, do -- that one, perfect, either of the deficit slide, the structural deficit slide or the base deficit slide, either one of those, do those include or not include any of those potentially new contribution rates so everybody's clear on what we're seeing?

>> Jennifer Maguire: No, they do not. The base, the projected base shortfall on the top line, maybe go back one slide, Margaret, on that projected base shortfall line that did not include any assumptions about contribution rates. That's why we're adding that lower portion on, that says potential increase. We did not have any data to project those, when we were doing the forecast in February.

>> Councilmember Constant: Okay. And then first comment is, I wanted to thank you for the boldness on the unfunded infrastructure maintenance. Because that is something I asked for last time. Thanks. I think it's important we keep reminding people of that. So in your projections over the next five years, we're still two and a half months or so away from the end of our fiscal year. The picture we're seeing today is strike lly different than two and a half months ago. What new hard information are we going to get between now and the day we finally vote on the budget that's going to come in. I know we'll see some sales tax numbers. There are any other numbers that are going to be coming in and when do we see those numbers?

>> Jennifer Maguire: The two will be the final numbers for property tax which we usually receive in May. They gave us some indication, a month earlier which I actually was grateful for so we could incorporate them into our budget balancing efforts. We're make an assumption of 6.5% decline. The roll is down 5%, so between now and June we should have a firm number on that and the sales tax I'd say is the other big one which you don't see until like the thirds week in June. So it's going to be a little late on the timing. But that would be -- those would be the two. We are monitoring over 500 different revenue sources on a monthly basis. And we try to stay on top of it as fast as we possibly can and get the notification out and react very quickly. But I'd say those were the two main ones that are most indicative. On other funds, because we are focusing on the General Fund, I mean the airport is another big area that we are watching very carefully. Bill Sherry is watching that as fast as he can because the airport passengers is also a big sign of the economy so we're tracking with him on the airport as well. The development fee programs we're watching those. We've had to adjust those down, the development fee program shortfalls are not included in here. We did a lot of actions as you know end of January with our development fee programs but we're going to have to be lowering our revenue estimates even further for 9-10. So that is another area that we are watching very, very carefully.

>> Councilmember Constant: So of all that the only one that we're going to have before we vote that's a hard number is the information we get from property tax?

>> Jennifer Maguire: I'd say property tax, yes. Because that one is pretty set. And once we get the property tax numbers we're fairly close and feeling confident that that's what we're going to get for the 9-10 fiscal year. That's why we haven't had the disruption for the 8-9 property tax, you're correct.

>> Councilmember Constant: If we don't see a turn around on the housing market and it continues not even stabilizing but declining, when people request reassessments or when the tax assessor goes out and does those assessments on their own, is that impact immediate or at the next fiscal year? Six months from now we see another round of reassessments go out when will will that hit our pocketbook?

>> Jennifer Maguire: The roll is set in January of each year. So the roll for 9-10 for example is set on January 2009, with adjustments all the way through June. So I imagine that those adjustments, scenario you're discussing would hit us in the 10-11 budget. Which in the forecast we did predict a decline in property tax which felt very uncomfortable to do. But it was what we felt was necessary, and so the number of the \$36.7 million does have a further dropoff in property tax as a conservative. We will obviously update that as we get more information and do a preliminary forecast this fall. It is very important, I do want to point out that the city council has put aside our economic uncertainty reserve which is very good to have in place right now, with this turmoil we're underneath and we do have \$15.3 million set aside to help us with any unexpected drop without having to unravel the budget, depending how fast it goes down, we're being very careful with the reserve.

>> Councilmember Constant: The next question is for Alex, if you have this, if not we can get it from Russell. What is the timing lines for each of the retirement boards and their actuaries? When will they set their assumptions, when will the actuarial values commence and when will we have an answer as to when those contribution rates will be? It's not for this fiscal year but next fiscal year.

>> Alex Gurza: Councilmember Constant, we will get more information for you but the actuaries deal with data as of January 30th, 2009. They usually commence that at around the fall time with early reports going to both boards usually in the fall. We will check with Russell Crosby and communicate to the council more specific time lines.

>> Councilmember Constant: Two and a half months we have between now and June 30th what happens in the markets will greatly affect whether the numbers go up or down.

>> Alex Gurza: Correct. The scenarios I showed you on slides before reflect 30% decline in assets. That is the actual decline as of January 2009. If that further declines that's obviously going to have an impact. If it is slightly better than that that will also have an impact as to what the contribution rates may end up being.

>> Councilmember Constant: And then just to confirm, the assumptions that the actuaries use are determined solely by the two boards, is that correct?

>> Alex Gurza: That's correct. As you know in a pension plan, what the assumed rate of return and life expectation are, those are assumed by the board and in consultation with its actuaries.

>> Councilmember Constant: I would just request that as that time comes to be and the boards are taking those actions that we make sure that the council is kept informed of what those assumptions are, how they relate to the previous actuarial report assumptions, and perhaps also, how those assumptions compare to those made by other funds such as San Bernardino which has been pointed out as an exemplar, CalPers, and perhaps council can have a picture, because with 20 assumptions you can really manipulate the outcome. Not that I think that would happen but we need to make sure on both ends that we're clear not only on -- because of the funding ratio and the the amount of contributions and the funding level, but those are critical.

>> Alex Gurza: Absolutely. We will definitely keep the council informed as well. The administration plans to be much more involved in at least discussions to ensure that everybody has before them information as to what the best practices are. Changes can have dramatic impacts as far as the soundness of a plan.

>> Councilmember Constant: I have one more question --

>> Mayor Reed: City Manager has a comment.

>> City Manager Figone: One thing you will need to add, in terms of the shrinking workforce, that will be another size of the variable that we'll have to figure in.

>> Councilmember Constant: Thank you. One last question as it relates to the slide that indicates the infrastructure shortfall. The one-time needs. Will we be having as part of our regular budget study sessions, a specific session on these unmet infrastructure needs as well as what the ten-year looking-forward needs are so that we won't slip backwards, is that already scheduled?

>> City Manager Figone: I can't say that we have it already scheduled. We should look at that, we can certainly take a look at that.

>> Councilmember Constant: I think it would be important, because we need to look at what has already been deferred. We know what the numbers are approximately right now in the General Fund and all funds. But when we have the line like we have here, the \$5.9 million per year, going towards that, I'd like to see how that -- does it make a dent in it? Does it help make it better? Does it make it worse? What's that in relation to a ten-year plan, much like the retiree health care, saying we've got a plan, where does the maintenance turn into replacement. That is a discussion we ought to have not just in the roadways, water treatment plant but all the areas of responsibility. Thank you.

>> Mayor Reed: Thank you. I'd like to thank everybody who worked on measures J and K, and the voters. Because if we hadn't had those approved we'd be in a lot worse shape than we are. Things can always get worse, but we'll hope they're going to get better. And I want to thank our employee groups and managers and council appointees who have stepped forward and offered to forgo general wage increases for next year and offered to take wage cuts for next year. I think those are important steps. It's pretty clear from these numbers that general wage increases are not going to be enough to avoid significant numbers of layoffs. And thinking about the poll that we did in January, as we started the budget process, you pay remember that our residents were sort of equally divided between solving this budget gap between getting service reductions, which they don't like and additional revenue increases which they don't like. But they were sort of equally divides in their dislike for those. And we also know from the previous poll, in January of the year before, that our voters overwhelmingly preferred that we change the way we provide services, to reduce costs before either cuts, or revenue increases. And so I'm going to talk a little bit here about the possibility of some of the items that we polled on, such as the sales tax,

which we did ask specifically about in our January poll, which could generate a half-cent, could generate \$68 million a year, and so I'm curious about what would be the process for putting a sales tax measure on the ballot, if we wanted to do a November '09 measure, what would it take, Rick?

>> City Attorney Doyle: You need to, because this is an off-year election, if you would do it this year, under proposition 218 which is in the constitution of the state of California, you need to have a unanimous vote declaring a city emergency and a two-thirds emergency to actually place it on the ballot. So it's a two-step process.

>> Mayor Reed: Unanimous, okay, I guess that's possible, sometimes. One of the things that seems to me is, even though we could possibly get something on the ballot, the question is, could it pass? Since we did our poll, things have changed. The economy has gotten worse, the State of California has increased the sales tax 1% over what it was. And whether or not it could -- an additional tax could pass I think is really a difficult question to answer at this point. But I think it's clear that if we're ever going to be able to ask for additional money from our voters, we have to demonstrate that we've done everything we can to change delivery of services, and be economic. The Manager needs to work with all of our bargaining units, to be able to demonstrate to the voters that we've done some things. I think those -- that's an important piece of the political part of figuring out whether or not we could actually get a tax increase of any kind approved by the voters. And we'll have to continue to work on that. I know lots of conversations are going on. There's actually negotiations going on as well as conversations, and they've been willing to talk about a lot of things that we don't like and they don't like but are necessary to deal with to try to find a way out of this ever deepening hole. City Attorney.

>> City Attorney Doyle: I just want to make sure I'm clear. What I was talking about was a general tax which requires a majority vote of the people. The council could place by a majority vote a special tax but that requires 2/3 voter approval. So those are your choices.

>> Mayor Reed: Those are great choices. Councilmember Nguyen.

>> Councilmember Nguyen: Thank you. And Mayor Reed, I wanted to thank you for taking the initiative for bringing this conversation forward. It's not a conversation that we want to engage in but at some point we have to, with the exponential decline in assets, we ask all the critical questions, or we need to. As the City Manager allied to Councilmember Kalra and I released a memo, regarding the city retirement plans. I hope we get these questions answered in a formal memo or some kind of written notice so we can assess these questions and have them answered, throughout the budget discussion. But in addition to these questions I also have a couple more. Councilmember Constant brought up San Bernardino county employees retirement association practices as an example of best practices. This was something identified at the January 13th council meeting. My question is, have we done any follow-up? What I'm looking for is a comparable analysis of some of the best practices in jurisdictions close to San José. I think that as we move forward it is really critical that we look at some of the best practices and how we can compare what we're doing with what they're doing and how we can come up with effective strategies and methodologies that can work for us.

>> Alex Gurza: Councilmember Nguyen, I know perhaps one of these future opportunities that we have, a member of staff can come and share some of that best-practice information with you.

>> Councilmember Nguyen: Great, thank you.

>> Mayor Reed: Councilmember Kalra.

>> Councilmember Kalra: Thank you, mayor, I also want to thank you, mayor, for continuing this discussion, I think we'll need to have more discussion of these issues as they go forward. And I thank you, Alex and Jennifer, for the presentation. From my perspective, to give it an historical context, I think we are in a historical recession, especially when we look at the June 30th, '07 numbers, the 99.7% funding of the police and fire, to the situation now, with the 30% decline in assets, just to give me and all of us a better idea of how much of that is, because how much structural have we been doing wrong and how much of it is the global situation we're in, and how much matters? Do we, looking forwards as well, whether there can be some anticipated in looking at past historical slumps, whether it be the depression, whether it be other historical slumps on how the recovery process occurred in those historical situations, also keeping in mind, this might be a one-time event that we can't necessarily relate to any historical contest. But I think that is kind of the idea behind questions, as to give a broader view of the situation we're in, as well as what's happened in the past. And particularly, as you go forward, and as Councilmember Constant indicated, you know, we get new numbers, and you know, this sometimes feels like it's a day by day thing that we go through now. I heard on Friday that in the past -- as of Friday, in five weeks the stock market went up 22 first, which hadn't happened, in several years, again it went down

more than 100 points today. Talk about a roller coaster in terms of our liabilities and what we might be able to expect. Thank you.

>> Mayor Reed: Councilmember Pyle.

>> Councilmember Pyle: Thank you, mayor. I would too like to join in the anchor us of thanks in having this discussion, it is certainly a sorely needed one. I do want to refer to to the memo that was put out between Councilmember Nguyen and Kalra. I would like to find an answer to those items. Five-year plans and down times don't make a whole lot of sense to me. When you're in the bottom of the pit, you quit shoveling first of all. You do triage, do whatever you need to do. But to plan the next five years on the bad news of today is probably not the best strategy. We should do that because we need to know what we're up against. I'd say five-year plans in good times are probably also not the best things that one can do. It would not be realistic, in the long run, anyway. One thing we need to do is counter all the very bad news with good news that's happening. I'd like to mention a few. Number one, we have a new president, the success of the G-20 conference. There was a tremendous amount of support internationally, coming together of other countries which indirectly will affect our company as well. There is a definite push-back to regulation. The Dow Jones is well over 8,000 plus and will continue to grow, I believe. And the 911 packages are underway. We have not even begun to feel the effects of that. A great deal will be coming directly to the cities department those that we need to urge after. We have serious consideration, but I call it maybe news. Maybe by 2020 we're all going to be in the tank. I think we somehow need to encourage people as well. When we give bad news we need to give the other side of the picture, as well. Thank you.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Thanks, mayor. I've had a chance to review the memo from my colleagues, Councilmember Nguyen and Kalra. I had a question regards the assumption of number 3, is there any reason why the city should fund an unfunded accrued liability in one year? The stratospheric increase in the pension rates, will still be a happy world where we are 66% funded, leaving an enormous unfunded gap. We are not on a one-year plan but something like a 30-year plan, is that right?

>> Councilmember Liccardo, you are absolutely correct. These are not based on eliminating the single year period reduction. A challenge of over \$1 billion. Even to start increasing our contribution rates, that liability won't be paid off for 30 years. So that's similar to these contribution rates. They don't eliminate these issues right away, it's really what amortization rate is considered. It is not a single year resolution of the liability.

>> Councilmember Liccardo: Could we look at the chart that's up there that contains the additional contribution rates? That's it, thank you. So as we look at this and we look at 2010 for instance, a \$52 million additional contribution, and that declines somewhat over time to somewhere in the 38, \$39 million range by the time we get to 2013, that's what we have to be contributing additionally to get to a point where 2013, 2014, where we are 66% funded and still an unfunded liability?

>> Alex Gurza: That's right. The other issue about the five-year period, the pension plan currently has a five-year smoothing period. So that's why it's showing what's in the out years. Because without that moving period, the impact of a loss would be immediate. So it's really to show that it's a phase-in, to show where the impact of the loss can be put in over a period of years. So then it continues on the outyears but every like we've experienced in the past, every reality, what has actually happened adjusts the rates going forwards.

>> Councilmember Liccardo: And these assumptions are based on a 7.5 annual growth of pension assets, is that right, that's compounded?

>> Alex Gurza: The baseline suggestions uses the 8% rate of return, that is, the plan's current assumed rate. The other scenarios as you noted after this year, it uses a 7.5% assumed rate of return.

>> Councilmember Liccardo: And I know I should be asking this question of Russell, not you. But my understanding is 7.5 comports to be the generally accepted practice on what growth is going to be.

>> Alex Gurza: That is part of the work I think needs to be brought back to counsel. I don't think there is much more information, other information that we will be bringing back to you through Russell.

>> Councilmember Liccardo: The reason I focus on that is I know there's a sentiment underlying this memorandum that all will be well when the Dow Jones index snaps back like a rubber band. We have assumptions that there will be essentially growth, the challenge of assuming the rosier scenario is this, when we look for what has really been unprecedented rebound in the mark, 25% since mid March, if you look at a Dow Jones industrial index, that is 25% of 7,000. That is not 25% of 13,000. And so knowing that that number matters, where you start, I think that's important. Because even if you look at

extraordinary growth in the market as we've experienced, after the last recession, into the peak in 2007, that was from trough to height, an unprecedented growth in the market. I don't think anyone is going to predict that that is going to happen. In the entire decade of the 1990s, the Dow Jones grew not 5% per year, it was for the entire year. The numbers don't look like the 1990s or 2006, 2007. We have to be more somebody in our approach where these numbers are going to be. I think these are important questions to answer. I don't think they should be raised. I don't think that a good year in the market will let this look a little bit better.

>> Alex Gurza: Councilmember Liccardo, it is the diversification of the assets. 100% is not invested in the stock market. That is one of the indicators, probably look at the other investments as well? Just the stock market with its leeks and bounds..

>> Councilmember Liccardo: This means that they also provide much smaller returns. The stock market is obviously much higher risk as well. But if we're looking for a big bounce-back we're not likely to get it, the key is just, thank you.

>> Mayor Reed: Councilmember Oliverio.

>> Councilmember Oliverio: Thank you, Mayor Reed. How do I say this? I don't think San José residents should have to rely on the quality of their services based on the stock market. What we have is just that. If the market is down we have to cover the lose so everybody who lives in San José expecting neighborhood services should lose. They should expect on their own, when people buy mutual funds, that investment is on itself, not looking at someone else. I think based on population to the city 99% of San José residents can't ask someone, someone else to make up a retirement loss on investments. We don't have that here. It would have to be up to the voters of the City of San José, to change this situation. Happy ears, the reference to both in corporate business, where everybody has an outlook for high income, and it doesn't turn out, and otherwise, the market will be just fine. We'll make out. That would be good but I think pragmatic view is the best, high expectation of return could lead to a high level of loss or dissatisfaction. So I'm more concerned on, we have a baby booming population in this country that's retiring from the workforce. That same demographic hit San José. We are going to have a large pool of retirements in the stir, perhaps in connection with a lot of sick leave and vacation checks. I want to talk about how when we hire these new employees into the city, on a different benefit program, how that will affect our budget in the longer term. Because I don't think we can afford to continue as we've seen all across the country, with other cities having these same plight, to continue in the same manner and we have this opportunity. We're not here to take away anything from anyone that's here today. But we have to start with new employees. So I'll let you comment.

>> Alex Gurza: Councilmember Oliverio, the issue of the pension benefit and retiree health care, they are considered vested so if the city were to want to change the benefit it would only be able to be for new employees. How that affects the City's budget really depends on what that new benefit is, that new benefit package. And clearly, there are many options. And that would have different impacts to the cost, to the long term cost. There would be something that we would have to evaluate the various options and then do cost analysis about how much less that would be in the long term, versus the current pension and retiree health care package.

>> Councilmember Oliverio: Anything from the budget director?

>> Jennifer Maguire: I absolutely agree. It absolutely would have a positive impact, obviously with the different benefits structure, it would pan out over years, but you know, starting sooner than later would definitely have an effect on the long term health on our General Fund and our other funds in the city.

>> Councilmember Oliverio: Okay. I don't want to kick the can forward. My preference is if there has to be hazard decisions, let's get to it. Any level of government, whether it's government or private sector organizations, usually the pain is just that. And if you can avoid it, you do. I just really hope that we can get all the information gathered, and we can you know, at the ends continue to provide what we're supposed to do for the residents of San José. Thank you for always, your good forecasting Jennifer and always, keep a reserve. Thanks.

>> Mayor Reed: Councilmember Constant.

>> Councilmember Constant: Thanks. I just wanted to clarify two things from Sam's discussion. Oone, these assumed rate of returns are net. We assume that if the stock market goes up 5% our plan goes up 5%. The transactional expenses or administrative expenses or any expenses of the fund are closely watched. The other thing, Sam, you mentioned about these five years down the line where the funding ratio is because we're on this 30-year plan. I want to remind you this is only police and fire that started out at almost 100% funded that we'll see these numbers. It was mentioned briefly that federated started off at

82% funded. And we're not even sure where that funding ratio is. So we could be looking at things that are 20% less than this. So overall it's a bigger than that.

>> Councilmember Liccardo: May I briefly respond? I think Councilmember Constant makes a good point, the first one goes to the fact that even with great stock market returns, we need to look at this even with less optimism, that we might if we were simply to believe that all of our investment instruments are going to return 20% next year, it doesn't get us out of the hole.

>> Mayor Reed: Follow up question on that, the net you're talking about, the alternative 2 assumes a 7.5% increase in asset value. That is net. What else comes off the top? Where does SRBR fit in? Is that before or after the 7.5%?

>> Alex Gurza: Mayor Reed, we would probably want to consult with our retirement board and get back to you with that calculation.

>> Mayor Reed: Councilmember Kalra.

>> Councilmember Kalra: Thank you, mayor. I just wanted to make it clear that if there was -- anyone inferred from the questions that there was an underlying sentiment that things are going to be rosier and we don't have to worry about the intention, that wasn't my intention or Councilmember Nguyen's intention. I don't have happy ears, everybody else up here, these questions are posed again, I'd like to hope for the best, I'm prepared for the worst as Councilmember Pyle indicated even looking at the five-year projections we understand we have to have them. We have to make sure we provide as quality services as possible with as efficiently as you possibly can. And as I mentioned, in my earlier comments, regardless of whether we can point to one particular reason why it is what it is, what the numbers are the way they are, they are the way they are and we have to deal with it, no matter what. And that is something we all have to deal with in a sober manner and make sure that we deal with it in a way that is responsible. These questions are posed just for further background, for further information, for a fuller discussion, not in any way to minimize the situation that we're all in. And I say we, I mean us, the council but I also mean all of us as a city as well in terms of being able to provide the services. And I can assure Councilmember Liccardo, I do understand how percentages work, thank you.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: Thank you, mayor. I want to thank staff, and I think it's really important as other councilmembers have said, we keep having this brought before us so we can have discussion. I also appreciate the questions that have been brought forward by Councilmember Nguyen and Kalra, I think it's important to have the context which all this is occurring as well as looking at the specifics. I just want to add in terms of hopeful finds, as Councilmember Pyle indicated, I think there is hopeful finds on our board, in terms of new staffing that we have, in terms of looking at diversification of our plan that I think is very positive, we have reformed the travel expense policy, everyone is very adamant that that happens, going forward we are mindful of those expenses. I think we're looking at modifying the investment rate so it's more realistic, and 7.5 seems very high. I think we're looking at much lower, which does also support the idea that the situation is very, very serious. So I just want to say that I think the board itself is working with the staff, bring in subject matter experts and taking this very seriously.

>> Mayor Reed: I had a question about the math and the percentages to make sure I understand it right. If after two years we lose 30% of the value, we're actually 45% behind. Because we assume they are going to increase by 7.5% per year. So you got to make up what you lost, and you also have to make up what you didn't gain. And that's why these numbers get pretty big pretty quickly.

>> Alex Gurza: That's correct, Mayor Reed, everything is from what you assume you learned, and the math from there.

>> Mayor Reed: We're make these projections, every two years we adjust to reality, that's the way the actuaries do it, they do these numbers every two years?

>> Alex Gurza: Currently it's done every two years. My understanding they're looking at possibly having them done more frequently, with annual evaluations, so you don't have so long a delay. But currently it is biennial, every two years.

>> Mayor Reed: When they do their final evaluations, if I get that right, we'll know that at the beginning of the fiscal year of this next fiscal year, so we'll know that in '09 so we can make adjustments for July 1st of 10?

>> Alex Gurza: It depends on when each board makes the final decisions on evaluation. It's a two-stage process to have the evaluation, adopt the assumption and then the actuaries go back and adopt the contribution rates. So it would definitely be in late '09 or perhaps early 2010 for the contributions that would take effect in July of 2010.

>> Mayor Reed: Will there be preliminary work that's earlier in the year so that by the time Jennifer's trying to do the projections in October, we have a better feel for where they're likely to be going?

>> Jennifer Maguire: I have talked to Russell Crosby about that because it is really important as we start to do early planning for 10-11 given the magnitude of the numbers, he is trying very hard to run the numbers, and we are working closely together to ensure that happens as best we can.

>> Mayor Reed: That's good because the earlier we know, is better it is for us, part of the reason we're having this conversation today so we can look ahead to some decisions we have to make. I have some requests from the public to speak. I think I'll take that now, Bob Brownstein and Ross Signorino, come on down.

>> Bob Brownstein: Mayor Reed and members of the council, the leaders of the city have a difficult challenge in trying to figure out how to deal with the budget in these turbulent times when no one knows exactly what the future will hold. But we do have to make some assumptions about what that future with iting like. And I would suggest that in thinking about the budget, the leaders of the city be consistent in terms of their other thoughts about what the future will be like. We have, in this city, economic development strategies, housing strategies, we're rebuilding a convention center at great cost. We want to bring a baseball team into San José, we are doing all of those things in the firm conviction that we are in a recession. That is an economic downturn that will end. We are not en route to being the next Detroit, one day San José will be again a prosperous and financially strong city. And if we make that simple assumption, and just that assumption, then we need to bear in mind some of the characteristics of recoveries. In recoveries, what went down fast goes up fast. Now, we may not be able to figure out exactly what the rate is, but there is good historical evidence to suggest that, and the very mechanisms that make you go down fast, like the proposition 8 forces that forced down property taxes, allowed those property taxes to go back up, not at 2% a year, not when property is sold but as soon as the economy recovers. As soon as we make those assumptions we're not America pie in the sky assumptions, we're simply being rational and consistent. In addition, the data we are shown in the short run shows those numbers are inaccurate. The Seagal report says they are assuming the rest of this fiscal year will be flat, no increase, no improvement, zero. Since February 28th, in that short period of time, not the true, not the actual pension plans, but the stock market, went up a full 12% in seven weeks. So we know this exaggerates the problem significantly and it may exaggerate the problem more as we get additional information. So what should we do as we struggle with this problem? I would suggest a couple of things. One, we should avoid panic. People rarely make good decisions when they're in a panic. Secondly, we should try limit the fact that these shortfalls negatively impact the people of San José, possibly using one-time resources in a prudent way, and third, we should absolutely try and find as many win-win solutions as possible. Try and bring constituencies together, and try a number of issues that can affect this significantly and actually prevent us from coming to solutions in ways we could otherwise find. Thank you very much.

>> Mayor Reed: Ross Signorino.

>> Ross Signorino: Thank you, Mr. Mayor, members of the council. I want to thank everyone here for the history lesson that you're given. A lot of what you've talked about we already know. The point is, right now, what can be done in the future? The mayor suggested now perhaps want to raise a half a cent sales tax. All well and good. But how with coming with a plan, a fail-safe plan. I call it a disaster, I'm sure I'm exaggerating, how we'll work out of it, I don't know. But nonetheless, what you have to do is come up with a plan, a safe-fail plan. From now on, when you want a half a cent increase in sales tax, what are we going to do to try to avoid the situation we're in right now? Regardless how the country goes, regardless of how the stock market goes, regardless of the accidental things that we don't have anything to do with, but we suffer from them. Nonetheless you have to come up with something, how you write contracts, how you treat your employees and so on. And pension plans, how you're going to to write those up, you're just going to have a healthy way we come to a situation, we might not be able to afford that right now, later on we may not be able to. And you have to tell them that. Now I didn't hear anything from the mayor just recently when he talked about a half-cent sale tax, didn't have a sunset on it. How long are we going to wait for that some \$60 million a year to clean up this situation we're in? We have to have some sort of a sunset. Tell the people, this is what we're going to do to try to avoid in the future what we're going to do. And that is something, before you ask for a sales tax, come up with a plan. Work on that, work on that real hard. And that's what you have to come up with and assure the people that they've got an administration that is thinking about the future and want to put in, again, a fail-safe plan. Thank you.

>> Mayor Reed: That concludes the public testimony open this item. Councilmember Constant.

>> Councilmember Constant: We all felt we were going to have a nice, short meeting today and I keep adding to it. There is one thing I would like the administration to explore, and that is, recently we changed how we give our contribution rates by giving them all up front, to take advantage of the higher assumed rate of return of our pension funds, compared to the investment class that we as a municipality can do versus what they can do. I'd like to look at that and answer some -- hopefully, I know they're not simple questions, but basic questions. Did us, doing that, help the General Fund but compound the problem, or hurt the pension funds? And given where we've gone, and where we see we might go in the short term, versus what might happen in the long term, if we can go ahead and assume again we're going to get 7%, how that plays out? Because I think we need to make sure we're not doing one at the expense of the other or vice versa. So if we could just address that as part of this as we go forward, I want to make sure we make a conscious decision of that. Not to fuel the discussion anymore, but I will, it is actually more than what we return, what we've lost, as the mayor indicated, those compound each other. But you have to factor in the funding ratio as well. So in the fact of the federated plan which I'm a trustee on, if you're starting at 80% funding ratio, you're expecting an 8.24 return and you have a negative 28% return, those all accumulate on top of each other because you have to make up for the 20% you started up short, the 28% you lost and the 8.24% you didn't make. Those are all compounded. The math becomes much greater. When we see funds -- it didn't affect police and fire because they're at the 98% range. Now that we're looking at those in the 60 to 75% range, and the federated, in the -- I don't want to be a hazard a guess range, those are the exponential rates that we have to keep in mind for the future.

>> Mayor Reed: Those are the questions. There are a few follow-on things that, you have questions for councilmembers that we'll get back on, we need to schedule sometime in May for an update probably as we get more data and have more idea of what we have to do, and then perhaps, a study session out in the August time frame, after we get some hard numbers, and we get a feel for where the retirement boards are going. So we'll have to work that out. This is a continuing conversation. Hopefully we don't have bad news for a while, and thank you, staff for staying up to date on your forecast. You have been doing a good job, we just need a little bit more money. Wish the governor well, wish the president well, the stimulus package is going to work, in a year and a half we'll be out of this. There's positive. We've got to turn the corner, perhaps theoretically we've reached the bottom. But it's going to take a while before we see it. I'm looking forward to that situation. That concludes 3.4. The next item, the 4.3. Councilmember Herrera.

>> Councilmember Herrera: Thank you, Mr. Mayor, I'd like to make a motion to direct that the administration prepare a letter to the Department of Social Services issuing a waiver in approval of a residential care facility and recommend that the council approve a group home at 3083 Remington way. Thank you.

>> Mayor Reed: I have a motion to approve the direction to the administration as outlined by Councilmember Herrera. Councilmember Herrera.

>> Councilmember Herrera: Thank you. Community care facilities are vital to the quality of life, while they serve a service, to maintaining a safe and sustainable community, as outlined in my memo, based on special local needs and conditions, the director may approve a separation, distance of less than 300 feet with the approval of the city or county in which the proposed facility will be located. And with that I recommend that the California Department of Social Services approve the services of a community care license of a residential care facility at 3083 Remington way, serves as a special local need as supported by the county of Santa Clara social service agency.

>> Mayor Reed: I have no cards from the public on this. Motion is as outlined by Councilmember Herrera. All in favor, opposed, none opposed, that's approved. Item 4.4, hearing on Tully road underground utility district. We have a motion to approve. All in favor? Opposed? None opposed, that's approved. 4.5 is a hearing on a vacation of a 20-foot street alley on Eastgate Avenue and Beverly Boulevard, or between those two. We have a motion to approve. Okay. Discussion on that, I have one request from the public to speak. That would be Sal Caruso.

>> Good afternoon, honorable mayor and councilmembers. Thank you for your motion to approve. I have nothing to say other than I thank Nora Campos very much for all of her support in this district for the project. It's been a couple of years coming and in a very small way, it will contribute to the positive economic growth of our city by allowing this project to go forward, create new construction jobs and ultimately benefit and beautify this neighborhood. Thank you very much.

>> Mayor Reed: We have a motion to approve. All in favor, opposed, that's approved. Item 6.2, airport ground transportation and fee adjustments. Motion by Councilmember Pyle to approve. We have a

supplemental memo, so I want to make sure that we've got the original recommendation and supplemental memo with the revised recommendation. So the motion would go to the supplemental recommendations. I think that picks up everything. Hear from the airport staff on that.

>> Mr. Mayor, councilmembers, Bob Lockhart. I just want to clarify where we're on the supplemental memo, that supplemental memo does apply to item A on the original memo and item B is still in place. Let me go through this presentation real quickly here. Just ground transportation program was established back in 1983. And it was to manage control and direct the activities of the commercial operators at the airport. We specified pickup and dropoff locations as well as assisted with the customer service program by make sure that the companies were following the rules and regulations we provided to them. The funding is provided for this program through trip fees and administrative fees which we are addressing through this recommendation today. There are over 650 commercial companies that work at the airport and are permitted through us. I've listed on the slide the different companies and types of industries that are involved, include the limousine industry, the hotel-motel industry, scheduled and charter buses, parcel couriers, carrying the lost luggage and other things away from the airport and the prearranged taxis and door to door shuttles. Our current cost program is about \$1.6 million, little over \$1.6 million per year. We do have an \$800,000 deficit. We're about half funded with this program through this time. We have not had any current increases in this program since the inception in 1993. We intentionally tried to hold off increasing the fees to try to encourage business at the airport. We are well aware that we need to be at cost recovery on all our programs and that's why we've taken these steps to recommend this program today. What we are recommending is an increase in our trip fees, our trip fees that each time a customer currently picks up or an operator that picks up a customer in the airport they're charged a trip fee, from 75 cents to \$1.50 in the industry. What we're recommending is \$1.50 both ways, into the airport and out of the airport. We had our choice of charging a \$3 fee, but we felt it was necessary to charge all of the operators working at the airport, whether they're all using the airport, either coming in or going out. We wanted to make sure that we properly assess these fees to all the operators that are coming through. We also felt it was necessary to assess a higher fee to the companies that have larger vehicles, that take up more space on the curbs, take up more time at the curb, as they load and unload. Very similar to other airports around the nation we're charging here a recommended fee of \$5 per trip. You notice we've also recommended some discounted fees to encourage people to get cleaner fuel vehicles or alternatively fueled vehicles. Instead of \$5 per trip it would be \$4 per trip on the larger size passenger vehicles. Dwell fees in place, they bring in about \$1,000 a month to the airport. But what we're finding is that it has not, because of the use of the facilities and the volume we have currently within our process at the airport, there's not as much of a need for the dwell fees. The dwell fees are put in place to help encourage operators to continually move instead of sitting still in a location. Trying to open it up so other operators can come in and use the facility. We decided and we are proposing these fees not to charge any dwell fees at this time however we are requesting that the director of aviation has the ability to assess these fees should the business come back at a strong point and we start having capacity issues at our curbs. The percentage of gross fees are not changing for our off airport park or rental care operators. As far as administrative fees we currently charge \$200 per year for all of our operators except the limousine operators. They have had a strong lobby in the past. The other two airports in the area have started charging them and we've checked with the PUC and we are recommending moving to the \$200 per year fee for all operators. AVI program, we really would like to have a nonrefundable \$25 fee, it encourages them to make sure they keep their tags and we use them appropriately and we don't have to worry about the financial background and following up with deposits, as they break windshields and replace tags. We also wish to implement a \$50 missed appointment fee. We have people that decide not to show up at times. We encourage them to show up and be sure they be there when they're asked to. As we get staffing issues going forwards we want to make sure we use our time wisely. The other item which is item B on the proposal relates to the on demand door to door shuttle business at the airport. The door to door shuttles on the on-demand program are managed by taxi San José. When we set up the program in 2005, we did not have a large number of companies, did not have a large number of vehicles. Since then it has grown dramatically. I believe it is 53% increase since 2005 and we've got 73 vehicles permitted yet they only have less than 55 trips per day. We don't have a system to cap that, we are asking the director of aviation the authority to stop the taking of applications, to try to limit the number of vehicles that are around the airport at any one specific time. This does not limit on demand -- or it does not limit door to door shuttle companies from operating at the airport. They can continue to operate in a prearranged system or continue to pick up and drop off in different ways. This is just the on demand walk up business

at the airport. Our recommendation is to approve the rate resolution we've proposed for the fees and to establish an ordinance granting the director of aviation control over those door to door shuttles. I'm available for questions if you have one.

>> Mayor Reed: I think we have a question. Councilmember Chu.

>> Councilmember Chu: Thank you, mayor. I just wanted to take this opportunity to thank staff and also taxi San José and many of the taxi drivers and operators. This is also in the form disclosure, I have met with many of the taxi drivers and operators before this issue went to the airport commissioner. I do -- I will agree that proposing the fee for those trips to and from the airport is much -- is more equitable way of increasing the -- our current fee structure. But my question is, how do we track those trips that take, outside the airport to the airport, how can we track them?

>> Our plan is to first of all any company that's permitted with us has AVI or automatic vehicle identification tags on them. We can track them incoming or outgoing. In reality, any time they come into one reader at that time airport that's when we charge them fees.

>> Councilmember Chu: How about those that are not registered?

>> Those that are not, we are watching for any vehicle that's dropping off and picking up that does not have one of our tags on it. At that point we'll notify them, very honestly it will probably be a warning the first time but we'll ask them to get a permit through city and through that process we'll get the AVI tags and able to charge the fee.

>> Councilmember Chu: Thank you very much. Again I'll support a motion.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: I just wanted to thank you and all the airport and Department of Transportation staff. You've been working so hard on this. I know this is a challenging issue, particularly in fees and when you're talking about this. Thank you for bringing a good proposal forward.

>> Thank you.

>> Mayor Reed: We have a motion to approve, that was the two memos, original memo and the supplemental memo, with the revised terms. Further discussion on it, no? All in favor? Opposed? None opposed, that's approved. Thank you. Next item is 6.5, that's route 101-Tully improvements, and part of that area. Councilmember Herrera.

>> Councilmember Herrera: Thank you, mayor. On a day of very serious budget discussion and sometimes not good news, this is a good-news item. I would like to make a motion to approve item 6.5, route 101-Tully road improvements, to direct staff to continue pursuing funding for the second portion of the project to Yerba Buena-101 interchange. Thank you.

>> Mayor Reed: Motion to approve. Councilmember Herrera.

>> Councilmember Herrera: Thank you, Mayor. I would like to thank the staff for bringing this to council and for keeping the 101-Tully road interchange a priority. It is a very important route and it is also one of the main gateways to district 8 and also district 7. I also want to acknowledge the support of councilmembers Nguyen and Campos and my predecessor, supervisor Dave Cortese for work in moving this project forward. Bringing transportation improvements to the Eastside of San José is one of my biggest priorities and I support these improvements to 101. I look forward to working with my colleagues, from all my colleagues to bring traffic relief to this part of the city. Originally this project was conceived as a \$100 million project. Since this project has been broken into two parts the need to fund the remaining project is something I feel strongly about. This project will bring traffic relief to this area and result in a positive economic impact over a broader region. This project's really important for the quality of life for residents in District 8 since so many people in the district have to endure miserable commutes, and fixing Tully is the first step in starting the problem. I can tell you there's going to be a lot of happy folks over in district 8. I just wanted to mention some of the positive aspects to it. Providing quality construction jobs, thousands of jobs, it's going to employ a lot of, thousands of contractors, engineers and a lot of these high paid union jobs. By relieving traffic congestion, getting it easier to get into this part of San José it's going to be easier for employees to get to work thereby improving productivity and also going to improve access for people who want to shop and spend money at Eastridge and Evergreen and East San José.

>> Mayor Reed: There are a few other people who have an interest in making sure this happens, and we're all sitting here with you on this, I think. Councilmember Herrera, congratulations on an important step that we're taking here. Councilmember Nguyen.

>> Councilmember Nguyen: Thank you. I just wanted to chime in with the thank yous. I wanted to thank especially Jim Helmer and his team for working on this project for a very, very long time. And also, VTA representatives for the collaborations and of course, a big thank you, again, to former Vice Mayor Dave

Cortese for his diligent efforts and now Councilmember Herrera for continuing his effort. I think everything that Councilmember Herrera said pretty much applied to residents in district 7. And I think that Councilmember Campos can agree with me also that this particular project will definitely have a really positive impact on our respective council districts. Thank you.

>> Mayor Reed: Well, let's see if Councilmember Campos agrees with you or not. She's next.

>> Councilmember Campos: Thank you. First of all, Councilmember Herrera, I want to congratulate you. Because the reality is that when a councilmembers councilmember leaves an office, if the current councilmember coming in doesn't pick it up and follow through, some projects fall through the act. You're to be commended to make sure this goes forward. Secondly, I want to thank my colleague Madison Nguyen because we spent about a year listening to the community, and she may have spent a little more time than I did. But this was one of their big priorities in district 8, 7 and 5 because we get a lot of the traffic that comes through my district to get to Evergreen as well as district 7. So congratulations and it's an exciting time for the residents of the City of San José. Thank you.

>> Mayor Reed: Councilmember Pyle.

>> Councilmember Pyle: Thank you. I was on the community college board for eight years and four years here, that comes to a dozen, right? I can remember this being in progress for that long. It's been a long, hard wait. Thanks for making it happen.

>> Mayor Reed: Just note that there are some other people that need to be thanked in this, because this is a collaboration, on a lot of funding sources that our staff has worked long and hard to put together, including \$30 million, thanks to the voters who approved proposition 1B, an election cycle or so ago, infrastructure bond, we got some money allocated out of the California transportation commission, and I can remember one of the first trips I made as mayor was to go down to speak to the CTC with the help of VTA who is also putting in \$12 million. \$10 million from the City of San José, federal government, \$7 million. We have to thank our federal delegation for helping us get federal funding. \$3 million from developers, CalTrans maintenance funds, \$1 million, and this is just the northern part of this project. There's more to come as we look for funding sources as Councilmember Herrera has put in her motion that we continue to pursue the funding sources. But it's great to see us put this together and begin to see some progress on 101. Councilmember Herrera, your job has just begun, now you have to work on the next phase. You get one and you have another one. Anyone else have comments? I have a request from the public to speak, Ross Signorino.

>> Ross Signorino: Thank you, Mr. Mayor, members of the council. Councilmember Herrera, this is a very important project. I've been in that area and I don't think it was during the time when it was a, what do you call, it was quite mild this time. But it was hard getting through. But not only was it hard to get through, just as a commute, I wasn't in a hurry to go anywhere, it was dangerous, hazardous, trying to get off Tully road, 101 north getting into that particular lane. It's hazardous. I wish you all the luck on this particularly project. It's a good project. I'm glad if we can clear it up and make it safe for people to commute in that area, I think it's very good. Thank you.

>> Mayor Reed: I think that's the end of the discussion on this. We have a motion. All in favor, opposed, none opposed, that's approved. Look forward to seeing the construction underway out there. Items 7.1 is our next item, that's a status report on the cooperative effort by the City of San José and the Santa Clara Valley water district. This is something we started about five years ago, to ensure that we were lined up on the things that we have in common, then we spend a lot of time work together. And we've seen a lot of great results on the collaborative effort. We will have a meeting very soon with the water district boards and I'm sure John Stufflebean will tell us that in his presentation.

>> John Stufflebean: April 23rd, and that concludes my presentation.

>> Mayor Reed: Staff has learned how to make short presentations.

>> John Stufflebean: The board approved that this morning.

>> Mayor Reed: You wanted to make some sort of presentation?

>> John Stufflebean: No, actually we're here to answer questions.

>> Mayor Reed: We will have that meeting where there will be discussions in a joint session of the council and the water district. Is there a location?

>> John Stufflebean: It's at the water district offices.

>> Mayor Reed: I had one question, I always have to ask about the trails. To us ordinary folks they look so simple. But having been here for eight years now, I know they are the most complicated thing, the only thing more complicated than building a trail is trying to put the financing together for an affordable housing project. So trails are right up there with difficult things. Could you just talk a little bit about the trails, it is

one of their goals, it's one of our goals, and what are the impediments of the trails that maybe we need to look beyond the water district-city relationship on some of these as we try get to our 100 miles of trails under our green vision?

>> John Stufflebean: I don't see our trails expert here. He would be the one I would defer to. Maybe he didn't feel you would get to the item quite so early.

>> Mayor Reed: The water district board is interested in that as well and we've got performance measures that they have sent for themselves for their funding. Okay, I will ask that then. Councilmember Liccardo.

>> Councilmember Liccardo: Thank, Mayor. John, I just had a couple of questions. One was, with regards to Coyote creek, page 6 I any makes some reference to some of the work that's being done on the mid Coyote project. And the watershed flood protection work there. I just wanted to give you a heads-up, we're getting a lot of feedback now from the community about concerns that the water district is moving very quickly without making sure that everybody's really notified well along that corridor, about what some of the options are. And some of those options include large takes of private property. And I know those are tough conversations, but they become even tougher, I think, when some folks don't hear. So I know we're communicating with the water district and certainly staff can really emphasize to the water district that there's going to need to be a lot of outreach before they push forward with some of the more controversial options here. I'm sorry, that was more of a comment than a question. I think I also wanted to thank you for the great coordination of the trash cleanups along the creeks. I know that's a never ending battle and it will continue as long as we are here. I like to see many agencies coordinating, both nonprofits and governmental agencies. There are a lot of chiefs there, but somehow they make it happen. I was out at the ballpark with the community meeting and everybody was griping about the Los Gatos creek, mostly in Pierluigi's distribute, I'll blame him. But next time have you a conversation with the district can you nudge them to get over there and start there, that would be much appreciated. The ream question I had had to do with the big talk about potentially rationing and reducing usage. I know we continue to be in conservation mode. My understanding is March 22nd we expected the district to be pulling the trigger and there was some deferral, correct?

>> John Stufflebean: I'll let Monsour answer that.

>> Monsour Nasser. We will be going to T and E with a conservation program for City of San José, on May 15th.

>> Councilmember Liccardo: I obviously wasn't paying close enough attention. I was under the impression that the rationing was somehow deferred, that was not the case?

>> No, it wasn't.

>> Councilmember Liccardo: Okay, thank you very much.

>> Mayor Reed: I have one request from the public to speak on this item. Ross Signorino.

>> Ross Signorino: Thank you, Mr. Mayor, members of the council. In regards to -- I was wanting to see, I was reading here, water outlook, conservation and recycle. East Bay has come up quite a bit with their water supply and I think they're going to take off any conservation for the summer. They think they're all right. From what I understand, possibly they might raise the rates, because people are using less water. Again conserving too much and they may have to raise the rate to make up in that loss of revenue. I might bring up what I once said before, in regards to water conservation. And governor Jerry Brown at the time, had a good suggestion, that when people go to restaurants, the waiters or waitresses automatically bring you out a glass of water even though you don't ask for it. One of the policies I think can you implement here in order to save water is, water can be given to a customer in a restaurant if they ask for it. Because governor Brown at the time said not only does that glass of quarter which goes on -- people do not consume it, don't drink from it, they just let it sit there, he said it also takes three glasses of water to wash that particular glass. So I think that might be a good way, if things get really hard, as far as the water goes, I think we could really think of that program, and ask people in restaurants to cooperate in that fashion. Thank you.

>> Mayor Reed: Thank you, that completes the public testimony. Councilmember Pyle.

>> Councilmember Pyle: Thank you. I just did find an answer that I got from Yves Zsutty. Many cities don't have a trail program or well documented parks and rec inventory. Our urban trails are well defined and we don't count surrounding borough trails, as is the case for Denver and Chicago. San José's existing network of 51 miles, and plans for 100 miles by 2022, follow a consistent vision of a network made up of 12 feet wide trails that are off street. On April 8th, we got some wonderful news that San José continues to be ranked highly in an annual survey by prevention magazine as a top walk city. And the first

couple of news items in the news page, he has here: So San José has the -- has more hiking and biking trails than any other city reviewed. So it's nice to have a third party confirm that San José leads in trail development. That's it, all I can tell you.

>> Mayor Reed: Thank you, appreciate that. Anything else on this item? I think not. We have a motion to approve. All in favor, opposed, none opposed, that's approved. That concludes the agenda, with the exception of the open forum. And since Bobbie Lopez isn't here to talk about trails, he must be here to talk on open forum. I don't have any cards, but let's just see. Let's see, open forum, Brad Imamura and Ross Signorino.

>> Thank you, Mayor Reed and Vice Mayor Chirco and the rest of the councilmembers. Thank you for this opportunity, for those of you who may or may not know I just recently retired from the City of San José after 24 years of service. And I just wanted to take this opportunity to publicly thank councilmember Madison Nguyen, councilmember Ash Kalra and Councilmember Chu for attending my retirement lunch last Friday. It was very special for them to be able to take the time out of their busy schedule to come and it was very special for me, and I appreciated the kind words that Councilmember Chu had said during that luncheon. And also, wanted to take this opportunity to thank City Manager Debra Figone for having had the opportunity to work under her leadership, and to work for the people of San José, and for the rest of the councilmembers, if there is some way that can you get back to your constituents to let them know that I certainly felt that it was a privilege to work for the City of San José, for the citizens these past 24 years, and I, for one, appreciate all the work that you all do for me, and the rest of the citizens in San José. And again, I appreciate the moment to express my gratitude. And also, to you, also, Rick, for your friendship over the years. I've known you for quite a number of years, and appreciate that. Thank you all very much.

>> Mayor Reed: Thank you p.m. Thank you for your service. 24 years, Brad, is a long time. Ross Signorino.

>> Ross Signorino: Thank you, Mr. Mayor, members of the council. Due to the time restraint, I have, at least, when I come up here and speak, I was listening to Bob Brownstein. I want to comment on a couple, one at least or a couple of things he said, however it turns out. He said during these difficult economic times, we're thinking of expanding the convention center, I think he mentioned some other things. And then he mentioned the A's baseball team. And I felt that he left the impression that this was going to be a burden on the taxpayers. And from what I understand, up to this point, the mayor has confirmed this, at least two or three times, at least two times that I know of, on radio, that this was not going to cost the taxpayers anything. I'm talking about the A's baseball team, which I think is good. And that includes not using any redevelopment agency money, because that is taxpayers' money. I think I come up here to say that, to clarify that he did not clarify, but I want to clarify it, that up to this point, I understand that no taxpayer money is going to be used to bring the A's here to San José. And of course that includes the earthquakes, as well, soccer team at the old FM -- the plant, you know where it is over there, on -- near the airport. But nonetheless, this is something that we should stick to it continuously, not the burden of taxpayers. Thank you.

>> Mayor Reed: That concludes the open forum. I would remind the council we have a 5:30 representation for boards and commissioners, all of them, around we're giving out certificates to those that have retired or moved on whatever we call it when we leave the boards and commissions. So we'll see you at 5:30 in the rotunda, I believe, right, the City Clerk says yes, rotunda, I've got it right. We're adjourned.