

The following transcript is provided for your convenience, but does not represent the official record of this meeting. The transcript is provided by the firm that provides closed captioning services to the City. Because this service is created in real-time as the meeting progresses, it may contain errors and gaps, but is nevertheless very helpful in determining the gist of what occurred during this meeting.

City of San José Public Safety finance and strategic services committee.

>> Councilmember Nguyen: At this time I'd like to call the public safety finance and strategic support committee to order. And our first item is actually 3.1, the consent calendar. Sorry about that. We'll go back to item 2.2, second quarter reports on performance measures for October through December, recommended for deferral until March 19th.

>> Councilmember Constant: I'd like to make the motion to defer to March 19th.

>> Councilmember Chu: Second.

>> Councilmember Nguyen: We have a motion to defer to March 19th. All in favor, opposed, motion carries.

>> Madam Chair, should do the same for 2.1.

>> Councilmember Nguyen: My mistake. 2.1, report on department business technologies, item recommended to be dropped.

>> Councilmember Constant: Motion.

>> Second.

>> Councilmember Nguyen: All those in favor, opposed, that passes. All right, 3.1, consent calendar. Motion and second on consent calendar. Councilmember Constant.

>> Councilmember Constant: I just want to comment. I appreciate the fact that we're moving this to the consent calendar versus how we dealt with it in the past. What I think would be helpful, is if we could get a brief summary that you give us in the presentation, boiled down to the basic numbers, cash flow in, out, significant items, so we could have a one-sheet summary of all of this so we could give ourselves the presentation so to speak but it doesn't have to be fancy PowerPoint, just a bulleted list, just to understand the verbiage and so forth in the report. [ Off microphone ]

>> Councilmember Constant: Thank you.

>> Councilmember Nguyen: I second that. I think that's very critical, very important. And thank you for putting this on the consent calendar. I think just going through the routine, apparently we have confidence that you're doing a great job but this is immigrate. Okay. So I believe you have a motion and second to accept the consent calendar. All those in favor? Opposed? Hearing none, motion carries. We'll move down to item 3.2, second quarter report on performance measures for October through December for strategic support. Are there any staff presentations? Okay. Are there any questions from committee members? I have one. Just a very brief one. On page 3, it talks about, we're looking at the increase of the trends of the numbers of retirements. How is this going to impact, if these trends continue, how is this going to impact the response for calls for service in the San José police department?

>> Madam Chair, Mike sung, administrative officer for human resources. It's going to continue to increase for the amounts of retirement. It does dependent on where the retirements do occur at. As it's projected it's going to increase. About 237 for this year all the way to about 350 in about ten years. Of that, about roughly half of that is going to be sworn retirements and going to peak about ten years from now. So we'll need to invest in recruiting more public safety in the future.

>> Councilmember Nguyen: And are we ready for that type of impact? I suppose we do but can you just talk -- well, do we have anyone from police department here? [ Off microphone ]

>> Councilmember Nguyen: Welcome.

>> Madam Chair Chris Moore deputy chief, police department. The question is are we prepared. Although they're not in my bureau, deputy chief Cavalero has done a survey to determine how many people we anticipate leaving and trying to ramp up our efforts with respect to recruiting in the out years so that we would be prepared for this. The short answer is yes, we're preparing for it. The longer answer is, making sure we have the applicant pool and that we're able to get those people into the pipeline. And working with the budget office to make sure those positions are there, so we can fill them when we have those positions ready to go. The information is only as good as we get at that time. Sometimes people say they're going to retire two years out, sometimes they make it one. But the difficult answer is, we are prepared for it.

>> Councilmember Nguyen: Councilmember Constant.

>> Councilmember Constant: I think it's important to point out, I know we're going to hear it at our next meeting instead of today, but the department is make a lot of changes how they handle the testing analysis, to make it more cost efficient and people out of the area to test for our department and I think that's going to translate into an increased candidate pool. I think we've made a lot of progress. Plus we're doing it less expensively, which is increasingly more important every day as we deal with our budget. My question is, I'm not sure who will be the appropriate person. Are we still employing the hire-ahead

program so we don't drop below our authorized strength too much, making sure the academies are a bit ahead of the vacancies?

>> Councilmember Constant, I would better refer to David Cavalerri on that. In these times, are these positions going to be available for us to hire? We typically in this last group we were able to hire the number of people in effect that I believe we wanted although we ended up being very close. Even with the increased applicant pool, we still have the effort to recruit these people, otherwise they'll not make it through. We have a rigorous standard and that's to our benefit. We can hire ahead, that makes sense, it takes a good 18 months to get the people through the process and get them street-ready, as you know.

>> Councilmember Constant: Our next meeting is going to be in the mid of the March budget message, if Chief Cavalerri can give us an idea of where we are on the hire-ahead, so we can advocate properly so we don't end up below minimum staffing, we would be appreciative.

>> I'll let the deputy chief know so you can get that information.

>> Councilmember Constant: Thanks chief.

>> Councilmember Nguyen: Councilmember Oliverio.

>> Councilmember Oliverio: Thank you Madam Chair. Is San José unique or is this a national change?

>> It is a national change. Generally higher for public sector rather than private sector. Maybe half of some cities' workforce is ready to retire. We're slightly ahead of the curve but still not the greatest figures out there.

>> Councilmember Nguyen: Other questions? Okay.

>> Councilmember Constant: Motion to approve.

>> Second.

>> Councilmember Nguyen: We have a motion and second to approve the item. All those in favor, opposed, hearing none, motion carries. Thank you. We'll move down to item 3.3, report on infrastructure executive overview priority projects.

>> Chairperson Nguyen, with me is B. J. Somata, deputy chief. First item of importance to note, we have focused a lot of attention of psychologist of our network. Active directory, we had estimates of the community do that, \$69 million range. We did it with city staff in a very short period of time and saved the city some money. So that's a good thing. That relates also to the rewiring of the police campus and the deployment of VOIP through that single network. That's going to have great benefits to the police department in terms of improving their capacity and security of their network over in that environment. We also are focusing a lot of attention on our green strategies. Looking at desktop power management, we've done a lot of work of server virtualization, optimization of the data center, so we're doing everything we can to reduce the carbon footprint of our operation. Next is the Nortel bankruptcy, we are monitoring that Nortel did declare bankruptcy on January 14th. We're monitoring the situation, we're regularly meeting with Nortel and if there's any unusual developments we'll be happy to let the council know as quickly as we can. Finally, our Google Aps project, using Google Aps, we'll be happy to report back to the council and the committee in the future on how that goes. We'll be happy to address any questions that you have.

>> Councilmember Nguyen: Thank you. Any questions from committee members? Councilmember Oliverio.

>> Councilmember Oliverio: Thank you chair. On the question of of wiring, I know some stuff has already been done, I'm thinking going forward when we do new facilities or retrofit old facilities can we take a look at doing it via wireless? Because I think there's a lot less cost versus wiring cable throughout buildings and those wireless systems today are encrypted. For example, hospitals use them and they're very, you know, to be very critical for their data for the HIPAA requirements. Can we look at wireless as an option?

>> I'll take that one. Certainly, B.J. Simetta, deputy director of I.T. It really depends on the density. In a building such as City Hall, so many users, wireless saturation would happen very quickly. To give an analogy, the difference between wired and wireless is, if every user had to go down one wire, that's kind of what the radio spectrum gives us currently. That really creates kind of a bottleneck in high density situation but is absolutely appropriate as we look at small community centers, where people aren't full time using their PC. It's more of in an ad hoc basis on request, as they deal with the community. So that's a good suggestion, we'll look into that, especially as we tackle community centers and kind of lower -- density areas.

>> Councilmember Oliverio: Okay.

>> It's going to be cost effective in a rewiring situation where you have an existing building but if we're building from scratch it's relatively inexpensive to wire the building when the wire are open.

>> Councilmember Oliverio: It's much cheaper, right near Cisco systems and Aruba networks. I think the day when we get rid of all the virtual servers, would be a good one. Thank you very much for moving ahead with the sketch of Google Aps. Earlier this year, we spent approximately \$3 million renewing licenses for Microsoft, for the basic e-mail, et cetera. Real companies do not use Microsoft, because you have upgrade hell, you have all these different versions that come out, I think I can say that here, it's terribly difficult to keep up with all the upgrades, it is massively time consuming on the labor side and it also requires virtual private network orVPN to access your e-mail, the servers and coolant to keep them cool. And the admin, person who is responsible for exchange, God forbid they get hit by a bus, we're in trouble. Kind of like risk management kind of thick. The other thing I would mention if the Mercury News is listening, when we do public reports act, the arduous, this is infinitesimally easier. We keep sending copies to each other versus having one in place. With the Microsoft outlook you have a limited amount of storage. I think it's 250 megabits per folder or some maybe measure a little bit more than that. Let's move to google. So google would have no upgrade hell because it's all done for you. Kind of like when you log into your Facebook or your Yahoo mail everything is done for you. You don't have a server at your house and person at your house in I.T. setting it up for you. There is no person in, anybody could be at their home and log in remotely and if they it's much easier to take them off the whole system. In addition there is no servers, no hardware, none of that because it is all in the cloud and it's much easier to admin. Our exchange administrator is a very complicated position versus managing Google on an administrative site is very easy. So multiple people could manage that level of complexity. When it comes to public records search can you do public records search in matter of minutes and not days. Instead of Google we would then keep the memo all four of us are working on, all of us would be on the same page at the same time, I would see the edits that Councilmember Nguyen would make and Councilmember Chu would make. Give me a policy, give me an ordinance, do this, do that. A lot of that inefficiency is lost in silos of data, rather than being on the same page. I think it's an efficiency tool that would benefit us. You have massive amounts of data that you could have. I don't think so we would have to fork over millions of dollars.

>> Councilmember Nguyen: Thank you, Councilmember Oliverio, for that google Aps vs. Microsoft 101.

>> Councilmember Oliverio: And I own no stock in google.

>> Councilmember Constant: And these meetings would go much faster.

>> Councilmember Nguyen: Any further questions from committee members? If not could I get a motion?

>> Motion.

>> Councilmember Nguyen: Motion and second. All those in favor, opposed, passes.

>>> We will move down to 3.7. 2007-2008 annual performance audit of Team San José.

>> Sharon Erickson: Thank you very much. Sharon Erickson. City Auditor. You have the audit of 2007-2008, concludes year 4 of the five-year term of the current management agreement as opposed to the new agreement. The current agreement outlines four key performance measures, gross revenue, net profit loss, economic impact and customer service. We found that Team San José met three of its four performance measures and improved its overall performance. The graph on payable I-I, higher operating revenues and lower losses in the prior years when the city operated the facilities. More specifically, Team San José exceeded its performance measure, overall met its economic impact performance measure and met its customer service results performance measure. However, Team San José did see a net loss of \$2 million. If Team San José fails to meet the performance measures the city has the right to withhold a \$150,000 fixed fee payment from the management fee. The city may either eliminate the fee according to the agreement or require that the budgeted amount be expended for another purpose. The city has elected to award Team San José the full management fee for '07-'08. Because it's unclear who has the authority to waive the fee, we just have one recommendation, as part of this report, we're register that the City Manager request you to ratify their decision to waive the fee for year 4 and potentially year 5 of the management agreement and as you can see, of course, the response in the response attached from the administration, the administration agreed, and is requesting that city council ratify that decision. That concludes my report. We're happy to answerfully questions. Oh, if I could I'd also like to thank, I always forget -- I like to thank everybody. Team San José was extraordinarily cooperative. Economic development was extremely helpful and I'd like to thank Sharon hung who actually did the audit.

>> Councilmember Nguyen: Councilmember Constant.

>> Councilmember Constant: Thanks again for another audit. They're always thorough and what I like is they're very easy to read so us nonauditors can understand. While Team San José did not meet the one target it's clear by the trend lines that they continue to improve year after year. And it brings us back to that argument over whether our targets were appropriate in the first place. But fortunately we're moving into the new agreement which has changed how we're going to be looking at the targets, and I think that that is going to be very helpful for everybody involved from all sides of the equation. That's all I have to say, thank you.

>> Councilmember Nguyen: Just a quick question about the surveys. Since there's such a low number of surveys returned, I was wondering what system or what methodology does Team San José employ in terms of collecting the surveys?

>> City Auditor's office. I believe after events take place, they just send over a link to the electronic survey, so the event organizer is the one that fills it out.

>> Councilmember Nguyen: I mean, the result, the outcome is good, you know, they're satisfied with 91% all the way to 98, which is great. But just given the insufficient number of surveys, you know, it's just really hard to conclude whether, you know, the majority of the people who actually attended are happy or satisfied with what they've seen or what they've witnessed. Other questions?

>> Councilmember Constant: No, but you bring you a good point, perhaps in our meetings with Team San José, maybe there could be some sort of incentive for people to actually return them. Perhaps if say, that or I was thinking if, as part of maybe a booking fee, if you complete your survey within an allotted time, you get \$50 back or \$100 back or an iPod shuffle because they're cheaper or something like that as a way to incentivize some behavior so we get more accurate results.

>> Sharon Erickson: We'll pass that on to staff.

>> Councilmember Nguyen: Is there anyone here who wishes to speak on this items? Can I get a motion?

>> Councilmember Constant: Motion to accept.

>> Second.

>> Councilmember Nguyen: Motion and second to accept the report. All those in favor, opposed, motion passes. Do you want to cross reference this report?

>> Sharon Erickson: I want to point out there is an item A and B, on your agenda, you do cross-reference and recommend approval.

>> Councilmember Constant: My motion was for the item here and the cross-reference.

>> Councilmember Nguyen: Motion passes, thank you.

>> Councilmember Constant: Missed it.

>> Councilmember Nguyen: You missed the boat, Dan, but that's okay, everything's good. We'll move down to 3.4, report on second quarter revenue collection, strategic plan.

>> Madam Chair members of the committee, my name is David McPherson, deputy manager in charge of revenue collection. We're not going to do a presentation today, we're just here to answer some questions, if you have any. We haven't had too much in the past so we thought we'd make your day easier today. With that we'd ask that you accept the report, if you have any questions.

>> Councilmember Nguyen: Any questions, committee members?

>> Councilmember Constant: Just a comment. I'm just happy that the green bar exceeds the purple bar by a factor of almost four. And I was expecting by now that that multiplier trend would slow down but it hasn't. So we're just happy to see that.

>> And I mentioned last quarter one of the things that's unique at least in the business tax realm of things, established businesses and a decrease in employee count what you find is a lot of people that are laid off or unemployed become consultants and therefore we have licensing coming in for new registrations as a result of that.

>> Councilmember Constant: Very good.

>> Councilmember Nguyen: Are there questions?

>> Councilmember Constant: Motion to accept.

>> Second.

>> Councilmember Nguyen: We have a motion and second to accept. All those in favor, opposed, hearing none motion carries. Move down to 3.5, report on second quarter debt report.

>> Good afternoon chair, members of the committee, Julia Cooper, deputy director of finance for treasury. I have two items on today's agenda, the debt report and the investment report. Like Mr.

MacPherson, I have no presentation to make, but if you have any questions I'll do the presentation as well. We will be making the report per the investment policy. We just ask that you accept the debt report.

>> Councilmember Nguyen: Are there any questions from committee members? Get a motion?

>> Motion.

>> Second.

>> Councilmember Nguyen: All those in favor, opposed, hearing none, motion carries. We'll move down to item 3.6, report on second quarter investment report.

>> You should have a copy of the report in front of you. As required per the city council adopted investment policy we have a semi annual oral presentation on the investment report so we do that in February and then again in August for December and June reports. We managed the city staff cash requirements through the funds in a manner that meets the objectives, safety liquidity and yield and we also update the investment policy on at least an annual basis. It was last done in June of 2008 and we're working on an update to bring to you in June of this year. Additionally the monthly and quarterly reports are circulated via e-mail to the mayor and city council and posted on the Website for all of the public to review. One of the things in terms of the summary of the portfolio performance and compliance, we've taken a little bit on the cover memo to the staff report, we're now putting just some quick bullet points you should know in terms of a highlight. It is a little bit overwhelming in terms of a report. Some of the information that we thought was important was the size of the portfolio, as of the end of December it was just over a billion dollars, our interest yield 3.5%, our weighted average, 352 days, fiscal net earnings were just over \$22 million and there were no sale of securities therefore, no losses or gains. Things that you should know, as General Fund interest earnings are below budget, as part of the mid year actions that you took a couple weeks ago, you did approve an adjustment downward to take into account the decline in interest earnings. We also have sufficient investment maturities and projected revenue to meet cash flow expenditures over the next few months, which is important, we want to be able to pay our bills. As you're aware Scott Johnson sent an e-mail the end of December and there was a technical change to the policy in December. We had purchased too much UBS commercial paper. The policy is set at 5%, for a couple of days we were at 7.7% and then 7.65%. We sent an e-mail of the policy and notified you of that change and we came back into compliance on January 5th. We never thought we were at risk, highly rated commercial paper. We provided a review of how that happened and made a review to the City Manager. We put changes in place so that wouldn't happen again. For that I'll turn it over to Annette Jackson.

>> Councilmember Constant: Could you pull the mic a little bit closer?

>> Can't hear me? We did have an independent accountant's report for the fiscal year '07-'08 completed and they found no exceptions. The next pie chart shows us the investment portfolio broken down by each investment type. And the larger pie shows the composition, and then the smaller pie takes the U.S. government agency piece and breaks that down by each individual agency. This quarter, we did add approximately \$30 million in medium term and corporate notes. Under the temporary loan guarantee program which offers full faith and credit of the U.S. government backing, we researched these issuances and talked with other peer cities and counties before investing city funds in these investments. Staff's proactive approach allowed for the investments to be purchased at a 3.1% yield for a three-year GE, and a 1.95 yield for a 2.5 year PNC. And at the time of the purchase, the three-year treasury note was yielding 1.02. These issues meet or exceed the city's investment policy criteria for medium term notes and carry a full faith backing. Next we'll talk about current economic and financial environment. So this -- this chart shows us portfolio performance against the two benchmarks. We benchmarked against local agency investment fund and the two-year agency. And this graph shows that even though market yields had declined significantly during the quarter, the laddering of maturities and investment staff being proactive and taking advantage of the new government backed securities has allowed the city's portfolio yield to be somewhat stable during December of 2008. The next slide shows us the historic fed funds target rates from 1990 to today, or actually, through December 31st of '08. This is just to show you what kind of happened in the last quarter there of the calendar year. On October Nates an unscheduled meeting, the committee raised rates from 2.5 to 1.5%. On October 29th, they lowered it again from 1.5 to 1, and on December 16th, they lowered the fed funds target range from a range of 0 to .25%. You can see a significant decline. In a statement released from the federal open market committee meeting of December 16th, they stated that the federal reserve anticipates weak economic conditions will warrant exceptionally low federal funds levels for some time. Okay. The next slide is, the U.S. treasury yield curve comparison. And it is for the City's allowable investment horizon just zero through five years. Basically

you can see what's happened in the last year from December of 2007, is the red line, and now we're at December of 2008, the blue line. So we've gone significantly lower. We do concur, the investment staff concurs with the market participants that the current interest rate environment is expected to continue for the next 12 to 18 months, and the '09-10 budget estimates for interest earnings take into account the expectations of continued very low interest rate environment. I'll hand it back to Julia.

>> In terms of our investment strategy we're continuing to match the maturities to cash flow and filling our liquidity needs within that six to 18 months. There's no yield advantage for us really to be any further out than that. It will allow the portfolio to respond more quickly when interest rates begin to increase and so what you'll see in the coming months is a decrease in the average days to maturity. As you see the monthly and quarterly reports coming forward. Because as money comes in and investments mature we'll be investing on a shorter time horizon. We continue to do a lot of due diligence with respect to permitted investment interests that offer safety and value. As Kathy mentioned, there were new securities that were corporate notes backed by the full faith and credit of the U.S. government. That gave us opportunity to buy securities at a relatively high interest rate, a little bit under 3, or a liberal over 2 high yielding, we do, we continue to look for those opportunities and continue to take them as they happen. We maintain steadfast focused on our core mandate of safety liquidity and lastly yield. Some other things we're working on, the women's far go bank recommendation is scheduled to come to council in the very end of March, we have been in the relatively long negotiation with the contract but it will bring forward some efficiencies for the organization and potentially maybe some cost savings after we get the new arrangement up and running. With that we'll accept any questions and then ask you to accept the report.

>> Councilmember Nguyen: Thank you. Thank you very much for the presentation. Are there questions? Councilmember Constant.

>> Councilmember Constant: Just a comment. I think page 6 kind of sums up two very important points in my mind. One is, that we have a very good investment strategy but more importantly you guys are doing a great job of administering that strategy. And I know a lot of people who have investments that aren't seeing anything like this type of graph, including our own retirements and people's individual accounts. And I just think it's great that you guys are so diligent in keeping us focused on that strategy. Because it's paying off. Right now when we need it most, it's paying off. And our mid year adjustment is relatively small compared to what it could have been if we hadn't been so diligent. So thank you for that. And I had another comment, but I can't remember it. So couldn't have been too important.

>> Councilmember Oliverio: I was going to see if you could remember.

>> Councilmember Nguyen: Councilmember Oliverio.

>> Councilmember Oliverio: Thank you, chair. If the interest rates remain low for five years, what are some of the consequences of that?

>> Well, low earnings with respect to you know, money that's available then for budgetary purposes. The budget estimate that we've -- interest earnings that we've given the budget office for fiscal year 9-10 is a little over 2%, we're keeping into effect the fact that we're keeping our investments shorter. It will be budgeted into the budget factor. We give the budget office the five year forecast that pretty much assumes that flat 2% range over the next five years. It's built into all the budget office's forecasting so we hope to minimize any surprise factor associated with the budget impact.

>> Councilmember Oliverio: Do you have a date in the future where you go hmm, if it's still this way in December of '09 that I'm going to feel a certain way or something like that? Is there a certain market barometer?

>> No, these folks stare at the Bloomberg screens all day long. We intent to do a lot more investment vehicles which is what I and Kathy are doing.

>> Councilmember Oliverio: I echo Councilmember Constant's viewpoint of staying with the council policy and liquidity and all that. Thank you.

>> Councilmember Constant: My other comment was pretty basic, that's why I forgot about it. I appreciate the e-mails that we get so that we're not having to catch up just when we have it here, but those, the e-mails that we can see where we are and especially those exception e-mails. I think it's very helpful for us to have that information in bits and pieces, as well as getting it in the big chunk here.

>> Okay. We hope next to have one of those exception e-mails, the monthly ones we do send those out and hope that they're before you so thank you.

>> Councilmember Constant: Thank you.

>> Councilmember Nguyen: Can I get a motion?

>> Councilmember Oliverio: Motion to accept.

>> Councilmember Constant: Second.

>> Councilmember Nguyen: We have a motion and second to accept the report. All those in favor? Opposed, the matter passes, open forum? Anyone to speak on anything that's not on the agenda?

>> Councilmember Constant: Dave nothing to say?

>> Councilmember Nguyen: Okay, meeting is adjourned. Thank you everyone.