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City of San José city council meeting.

>> Mayor Reed: (gavel strike) Good afternoon. I want to call the San José city council meeting to order for May 25th, 2010. We will start with the invocation. Councilmember Campos will introduce the invocators.

>> Councilmember Campos: Thank you, mayor. I'm going to ask the youth from Mt. Pleasant High School to come down and set yourself up right here in these chairs so that you can do the invocation.

So please walk down. As I stated, Mt. Pleasant High School's guitar ensemble are here. They will be performing for us The Rainbow Connection. And they will be also be performing this year in the San José mariachi festival. And we are excited to have them here. I had the privilege to hear them in the hall earlier, and they sound wonderful, so I hope you will enjoy this invocation. Let's give them a round of applause. ¶ ¶¶ ¶ [applause]

>> Mayor Reed: Thank you. We're going to do the pledge of allegiance. So if you can all stay in place for a moment, the flag is around here. I'd like to invite the third graders from forest hill elementary to lead us in the pledge. They're from district 1. Please stand everybody. [pledge of allegiance]

>> Mayor Reed: First items of business are the orders of the day. Are there any changes to the printed agenda? None. Motion to approve orders of the day. All in favor? Opposed, none opposed, those are approved. Closed session report City Attorney.

>> City Attorney Doyle: Mr. Mayor, the council met in closed session this morning pursuant to notice. There's no report.

>> Mayor Reed: We'll now take up a ceremonial item. I'd like to invite our Public Works director Katy Allen, our aviation director Bill Sherry and our representatives from PG&E, Alex Kobayashi and Don Hall to join me at the podium. We're happy to welcome PG&E back to our city council meeting because we're going to get some money. It is always a good thing in these days of tough budgets to have a little bit of positive cash flow. This presentation of a check comes under PG&E savings by design program which recognizes the achievements of our staff at the airport and the Public Works department, along with our design and construction partners who have been working on the terminal area improvement project as they've made our airport a green, sustainable building. As part of the current program we installed a 1 megawatt solar array on the roof of the rental car center that will provide about 20% of the power needs for the building. So I want to congratulate Bill and Katy for work well done by their teams and it's making our airport a leader in sustainability. And we love the fact that PG&E writes us a little check every now and then. Alex is here to make the presentation but first I will let Bill Sherry say a few words on behalf of the airport.

>> Bill Sherry: Thank you mayor. And I'd like to thank PG&E for its partnership with us. We're very appreciative of it. And we're very thankful that we had the opportunity to design a very energy efficient building. And we're really bringing in sustainable elements throughout the whole airport. So with that I'd like to hand the microphone over to PG&E.

>> Thank you very much. As the mayor said the savings by design program was created to encourage high efficiency construction in design. And the airport is a great example of a project the program was intended to support. So PG&E would also like to thank the staffs of the airport and the city for their work on the project in bringing this to fruition. So thank you very much. [applause]

>> Mayor Reed: Our next item is the consent calendar. Are there items that councilmembers would like to pull for discussion? I have a request to speak on item 2.6. We have a motion to approve the balance of the consent calendar. All in favor? Opposed, none opposed. Item 2.6 advertising for HP pavilion. David Wall.

>> David Wall: First of all, go to see every one of you here today in apparent good health. Very neutral

on this issue, but I think there should be, where it should be public outreach, slash, interest, quote, no public outreach was required in the submittal of this biannual advertising plan, period close quote. I -- I think any time public moneys are involved there should be some form for public expression. Also, in the advertising plan, I do not know if each individual council district can advertise events within the arena, to notify people of events in a different council district, in an overall plan to stimulate the local economy by district. And I think that this should be looked at before this agreement is entered into in its finality. Thank you very much.

>> Mayor Reed: That concludes the public testimony. Is there a motion?

>> Motion.

>> Mayor Reed: We have a motion to approve item 2.6. All in favor, opposed, none opposed, that's approved. That concludes the consent calendar. Then I'll take up item 8.1, memorandum of understanding to submit a joint response to the county ambulance RFP. I think Deanna Santana will take the lead on this presentation.

>> Deanna Santana: I'll start us up on the presentation here. Good afternoon. Before we get started with today's presentation I would like to introduce our two AMR representatives. With us today is Glen Leland, our senior vice president for growth for AMR national and Tom Wagner regional CEO for AMR Northern California. Trying to get to the next slide here. Thank you. Today's presentation completes our year long effort to respond to the above referral by seek improved emergency medical services and ensure a higher level of cost recovery. Before I hand this presentation off to Darryl I want to quickly review the process that we used to make this recommendation. Over the past year, staff from fire, city manager's office, general services, city attorney's office and finance have worked together to bring to the city council today's recommendation, which is to enter -- which is to negotiate and execute a memorandum of understanding with an ambulance provider in order to submit an integrated response to the county's ambulance RFP by June 16th. This recommendation is based on the outcome of a request for information process where we received information from vendors and selected the most beneficial opportunity for the city. Additionally we have actively participated and have been very collaborative in shaping the development of the RFP and the city's strategy. This includes participating on the county's development working group and removing ourselves within the process when it was appropriate. We also led the Santa Clara County managers association subcommittee on EMS to ensure that issues important to cities were integrated into the county's RFP document and staff participated at various levels on coordinating with fire departments and particularly the county's fire chiefs association. As we begin our presentation I want to reinforce that our public participation here today may appear limited. Our goal is to submit an RFP response with AMR to the county. This means that we must be competitive and not share too much information that other likely vendors may use. If our responses seem broad or lack detail, it is because we would like to maintain confidentiality so other vendors cannot determine our costing models or intellectual property. That would disadvantage the city and AMR from this unique opportunity. However, overall our approach allows for the city to grow into a unique partnership over time and is founded on service delivery improvements, cost containment or avoidance, reduced redundancy, operational efficiency and revenue generating concepts. It is also entirely within the city's current management authority although we have included local 230 president on the development system team and to date have his support. With that I'll pass the presentation over to Darryl who will begin with a brief presentation on EMS.

>> Darryl Von Raesfeld: Good afternoon, mayor and city council. Fire Chief Darryl Von Raesfeld. The first slide just gives a general overview of how EMS services are delivered in Santa Clara County. Santa Clara County is the exclusive operating area for EMS services by state law. Basically in San José back

in 1995 when the last request for proposal was out, the new system was designed that we have here in Santa Clara County, which at the time was fairly unique. It requires two paramedics to be on the scene of an emergency, and to achieve that, the fire department responds within eight minutes 90% of the time to get a paramedic on scene to begin what we call advanced life support services to the patient. Along with getting the paramedic on scene, we respond usually in a fire engine or a fire truck, because we are on all risk. We provide vehicle extrication, confined space, haz-mat, and other responses, along with our other paramedic services. So we get the first paramedic on scene within eight minutes 90% of the time. In partnership, the ambulance provider, American Medical Response, gets a second paramedic on scene within 12 minutes, 90% of the time. That's the design of the system to create some better response for us. They also provide an EMS strike team deployment disaster response similar to us.

Just to give you one example, back in about the year 2003 we had a riot at the main jail, with that we responded, the fire department responded, AMR responded we had about ten ambulances staged there on Hedding Street. As we escorted each one of the patients down with the sheriffs and were transported, so that is some of the strike team response that they have capabilities to respond to us to provide the services. On the next slide please. Just to give you a little bit of the facts of the EMS system here in San José, the City of San José responds to about 63% of the total county EMS call volume. Currently under the current contract we receive about 47% of the county ALS first responder stipend pool. Back in 1995, was at -- when the amount was developed, it was based on resources, not on call volume. So while we have 47% of the resources in the county, we actually respond to 63% of the call volume. For San José, that's about 84% of our emergency responses, 43,000, our EMS responses. For that, the cost for our ALS service to provide it, not including workers comp or other cost, is just about \$5 million, at about \$4.8 million. Of that we receive a reimbursement for first responder response of about \$1.7 million, leaving a gap of a little bit over \$3 million which is our current subsidization rate that we see in San José. With that -- so we're looking at about \$3 million. Some of the points of the current RFP process that is in place, and like I said, the last one was done in 1995 with several extensions. With the current RFP we see no changes in the response time. It still requires the fire department to get there in eight minutes, 90% of the time, and the ambulance provider to get there 12 minutes, 90% of the time. With that the clinical care and the protocols still remain about the same, we still provide the same level of service. And during all of this as we've been working on this, patient care is always the number one priority for both us as we look through this. San José's geographic coverage remains the same. We still anticipate we'll be well over 60% of the call volume for emergency medical responses. Some of the changes that we do see in the new RFP which gives some opportunity for collaboration is, there is a requirement that they will maintain three advanced life support ambulances available at all times. Currently they're able to go below that number. This is significant, there's also a significant penalty structure in place should you not be able to achieve that. We see this as an opportunity for the city and other cities with star cars, a supplemental transport ambulance resource that we have, to be able to put in service more frequently and to help maintain that three ALS ambulance providing. They also -- part of the changes in the RFP is improved working conditions and field supervision. What that means is, they've looked for and they give preference to anyone who can post their ambulances at a work site, such as a fire station or somewhere else, rather than just in a 7Eleven-type parking lot. So there are some benefits for us in the City of San José and other cities to be able to share the resources that we have and gain some revenue by providing them a place for their people to stay. Part of this is to help keep the paramedic work force in place. I think one of the other intangibles that we get out of this is the cooperation in the ability for the paramedics and the firefighters to work on a more regular basis and get to know each other better which will provide a better level of

service. Also in the new contract it gives preference to addition of a third field paramedic supervisor. Currently the ambulance providers are providing two field paramedic supervisors, and we see an opportunity for that to partner with the provider also. Lastly, the first responder fees and the direct contract is a little bit different in this, is that currently the first responder fees we have, we get through AMR in the current contract. We actually contract with AMR to get our stipend and our reimbursement. The new contract actually will have Santa Clara County being the one that issues those revenues to the various cities as they get it. So that's a change in the contract that will be there that we need to be aware of, and we will see a benefit I think from it. With that let me introduce you to Glen Leland, the AMR National Senior Vice President to give you a little history of American Medical Response.

>> Glen Leland: Good afternoon. You may be familiar with American Medical Response, because you've probably seen our red white and blue ambulances driving around Santa Clara County over the past many years. Our company actually started in Santa Clara County back in 1934 at San José Ambulance and later became American Medical Response, so we are quite familiar with Santa Clara County and have grown with the community. We are the largest medical transportation provider in the United States and also here in the Bay Area. We currently are the 911 ambulance provider for all the adjacent counties and Santa Clara County, San Mateo, Alameda, Santa Cruz and others. We have about 4,000 ambulances nationwide and respond to about 3.4 million ambulance requests annually, about 18,500 employees. We are a publicly trade company, traded on the New York Stock Exchange under the ticker code EMS. And because of that we have about 1.4 billion in annual net revenues and about 2.3 billion in market capitalization with lots of cash at this point at \$381 million. Point being that we have the management talent, we have the personnel, and we have the financial resources to continue to serve Santa Clara County and partner with San José.

>> Darryl Von Raesfeld: Thank you, Glen. On the next slide just to talk about some of the benefits between a city and an AMR partnership to touch on some of these. One, it closes and reduces the allied first responder subsidy for the city. We believe we have avenues such as leasing equipment or facilities to them that will help close that gap that you saw, a little over \$3 million gap that we have there, and create a partnership. It also leverages the existing investment and experience of AMR. It combines the management teams, creating the synergy that we haven't had for a while that I think will be very beneficial to us. And I think it takes the contract that we had back in '95 to the next level, to really create a model that will be seen throughout the nation. It also improves the service design of the EMS system, the community benefits, and the patient care. The transparency that will be created between the city and AMR in partnership I think will be very important for us. It will definitely improve the lines of communication that we've had also. It will also be an easy transition for us. As Glen Leland stated, they've been in Santa Clara County for over 70 years and we've been working with them very well over the last 15 years of the current RFP that we have right now and have a great relationship working with AMR, and I think this will help enhance that relationship even more. One of the other benefits on the next slide, we'll talk about some of the county wide benefits that we see here. County wide, public access defibrillator program, similar to our heart safe city, is a program that we've had some conversation about getting in place here in San José and Santa Clara County. The wellness and awareness programs, there are many members city benefits that can be accrued from this, not just from San José, but that other cities that will want to join in the partnership, such as purchasing and lower costs of equipment by buying it on a larger basis. The access to the resources of city and AMR partnership. AMR does their own EMT paramedic training that we can be a part of, I think that will create some great opportunities for the city and for AMR that develop a better paramedic pool here in Santa

Clara County. The ability to have data collection and analysis performed in a partnership, right now we all perform that analysis on our own. To do it together I think is going to create some synergy for us that I think will be very good for us. And the representation on the governance board, that other cities will be able to join in the governance board to see how ALS services are done with the provider here. And with that let me turn it back to deputy City Manager Deanna Santana to talk a little bit about the MOU and some of the time lines we have.

>> Deanna Santana: We did transmit a draft MOU over to AMR late last week. We posted that on the city's Website yesterday. Some key areas about the MOU are already -- have been already stated by Darryl, and I just want to reinforce here, that it is the creation of a unique public-private model. There are potential savings through cost and operational efficiencies. It does achieve improvement in patient care through better teamwork. We are really stressing joint governance and transparency through this MOU as well as sustainability through financial alignment. Darryl's already mentioned that we're looking for opportunities for other county-cities to participate which was definitely reinforced by the Santa Clara City Manager's Association guiding principles. As well as we are addressing issues of change management so that as we endeavor on this partnership, we get through the human side of change and what's needed for this partnership to be successful. We are on a short time line here. The county released the RFP on April 16th. We've used all of our time since, before coming to you very wisely in that we finished our request for information process, we became familiar with the RFP requirements, we selected a vendor from the RFI process and entered into exclusive negotiations to bring to you a draft MOU today. As well as we are preparing to provide an integrated response should the council approve our recommendation in time, which is June 16th. So we'll be very busy over the next two weeks if council approves this recommendation and actually during your recess the Board of Supervisors will consider the recommendation, at which point we'll communicate with the city council via info memo on the outcome. That concludes our presentation. You may have lots of questions. And we're certainly here, we have a team of staff up in the audience to respond.

>> Mayor Reed: Let me just start out by telling you how amazed I am at how much work you've done. This is a really big deal. Really a lot of effort. And I know you've been working on it for a long time so it's good to get to the end of this phase. Although we're a whole year away from making changes. This is a pretty big deal. I know it's taken a long time. I know by the chief and Deanna Santana and all the folks in the back row as well plus people who aren't even here to put this together, it looks like a great opportunity for the City of San José to do this kind of a joint RFP proposal. It's also -- looks like it will save us some money, and that's a really good thing. So congratulations on the work. And I know the work is not done. But I certainly am supportive of the direction we're going, because it looks like a real opportunity for us. Councilmember Campos.

>> Councilmember Campos: Thank you. Deanna, first of all thank you for the work you've been doing and the information you've been able to get the council as you've been going through this process. What, if there are any additional liabilities that we will assume, can you lay them out or --

>> Deanna Santana: As part of the -- as we began to develop the request for information, we set some guiding principles that were important for the city to stay anchored to so that we would be reminded of what we're seeking. One of the first guiding principles is indemnification. And so we have successfully received indemnification from AMR for financial as well as operational indemnification. We would maintain any liability that we already currently have. But we have -- we have indemnification moving forward.

>> Councilmember Campos: And the other question that I have is, would this -- and I don't know if this is for you, chief -- would this impact our current workload response or would it improve it?

>> Darryl Von Raesfeld: I think we'll see some efficiencies in improving it. We'll still respond to about the same number. The geographic area is not going to change. The number of responses we believe will be consistent above 60%, so that's there. But I think with the partnership that might be created, either by having ambulances at some of the fire stations while they can respond out of will create a better work environment for all of us.

>> Councilmember Campos: And then you mentioned the one thing that you talked about was governance, the governance structure. Can you explain that in a little bit more detail of how our role will increase within that structure?

>> Darryl Von Raesfeld: It provides us an opportunity to work a lot closer with the provider than we have in the past. Currently there are issues that might come up that might get communicated to amr that don't get communicated to us in a timely manner at this point. I think by being in a partnership on a governance board with other cities involved with that will provide that opportunity to really look at all those issues and be prepared for them ahead of time so we don't get surprised by some of the things that might come up in the phase of the operation.

>> Councilmember Campos: So it will close the gap of communication and we'll receive information in a timely manner?

>> Darryl Von Raesfeld: Definitely yes.

>> Deanna Santana: We're also look at aligning our budget decision-making process training decisions and operational decisions. So we are in process of developing steering committees that will bring about better efficiencies in those areas.

>> Darryl Von Raesfeld: And if I can add just one more, one of the other areas that Deanna didn't mention there, hiring processes, when we hire paramedics which we will also continue to be doing, concert with them of the hiring processes for us, and for them it will create an opportunity for a system that will be more beneficial to both of us.

>> Councilmember Campos: And then my last question, the financial upside for the city?

>> Deanna Santana: There is a -- there is a financial upside to the city. I -- this is an area where we'll have to be a little bit broad or vague, in that as we -- it's very easy to calculate the costing and our costing model if we start to disclose the financial incentives back to the city. So -- and we are concerned, because the county RFP is very, very sensitive to cost value assignment.

>> Councilmember Campos: Those are all my questions. Thank you.

>> Mayor Reed: Any other questions? I have no cards from the public to speak on this item. Councilmember Liccardo.

>> Councilmember Liccardo: Thank you, mayor. I had a question about the first page of the May 11 memo where it reads that San José creates 63% of the call volume but only receives 47% of the first responder reimbursement pool. Would you help me understand how we got to that point? I assume that was from the '95 agreement?

>> Darryl Von Raesfeld: Exactly right. From the '95 agreement. The way the money that was there to be distributed was distributed based on the resources that you had, not on call volume. So while we had about 50% or 47% of the resources county wide we received 47% of that stipend but we responded on 63% of the calls. So that's one of the things we wanted to see changed in this RFP was for work not so much for the resources. We're a very efficient department and as you can see with 47% of the resources respond on 63% of the calls which ask a tribute to the men and women of the department.

>> Councilmember Liccardo: It certainly is, says allot about what our firefighters are doing on the ground. I can certainly understand why you want to change that so thank you chief.

>> Mayor Reed: I have no other questions or comments. Is there a motion?

>> Councilmember Chirco: I would move approval.

>> Councilmember Pyle: Second.

>> Mayor Reed: We have a motion to approve. All in favor opposed, none opposed, that's approved. Congratulations and good luck as you move forward. Next item is 3.1. Report of the City Manager.

>> City Manager Figone: Mayor I have no report today.

>> Mayor Reed: Well then let's try 3.2, City of San José executive home loan program. Our next item.

>> City Manager Figone: Scott Johnson will be making the presentation. This has already been to committee. I think what we want to highlight for the council are the significant what I would call improvements that have been made to the program given some of the challenges that we've had recently with it, we've tightened up a lot of areas and so Scott is going to highlight for you what he did for the committee.

>> Scott Johnson: Thank you, City Manager. Mr. Mayor, members of the council, Scott Johnson, director of finance. And I'm also joined by Heather from HR and Lisa Taitano from the Finance Department that's been working closely in administering this program. On the first slide we are highlighting the guiding principles, and these guiding principles were developed based on council's discussion on the program in August of 2009. I do want to say that we made a comprehensive presentation, and the City Manager provided a report to the Public Safety, Finance and Strategic Support Committee on April 15th of 2010. In addition, the City Manager issued a supplemental memo on -- dated May 14th of 2010, and that memo clarifies two areas. One is, the definition of a driving commute related to the attributes of the requirement for the program. As well as clarifying the reset of any interest rates in the event that any loans are accelerated, you know, for payment through the city. So these guiding principles, you see there are four main guiding principles. First that the program provides a recruitment tool that does not constitute a benefit entitlement. Second, the city is not overly zealous in efforts to attract executive candidates. Third is that the program provides reasonable housing assistance when San José's housing costs make relocation undesirable for those that are potentially subject to this program. And then finally the program encourages new executives to live in the city and connect with the community that they serve. And on the next slide you know I just wanted to highlight the proposed changes for the program that multidepartmental staff developed these proposed changes based on the input from the council. First, the first change is regarding principal residence and how we define what a principal residence is. The borrower must certify, this is new where the borrower in the program must certify in their loan application that this will be their principal residence. We also have some other criteria, under this category that we are using from the internal revenue service guidelines that the principal residence must be used a majority of the year, and other factors were established to determine a principal residence, such as taking a homeowners exemption on their county property taxes for this principal residence. On the loan amount and term, we've made some recommended changes here. Where the loan to value, the loan to the value is less than or equal to 95% of the purchase price. In other words at a minimum there must be a 5% equity that the participant must put into the purchase of the home. The city loan must be less than or equal to 50% of the purchase price, and the loan must be less than or equal to the first loan or \$250,000, whichever is lower. On the qualifying criteria, we identified a commute distance which I'll clarify in a minute. And this is based on the IRS guidelines. The principal residence related to treasury regulations, and also, a cost differential on median home prices comparing what the cost is for a median home in San José versus the cost of a median home from the location where the participant would be locating from. This next slide clarifies the commute distance concept pursuant to the IRS requirements. And just want to key you in to a couple of

points here. First, the point A is the previous work, which in this case is Stockton. And point B is the previous home, which is in Oakdale. Well, pursuant to the IRS guidelines, if the driving distance from the home, the previous home, from the previous -- to the previous work is more than 50 miles longer, then the distance of the criteria is met. In other words, if the driving distance differential between the home to the previous work, to the previous home, to the new location at the City of San José, that distance must at least exceed 50 miles. Moving on, finally on the proposed changes. On the cost, we are recommending that there are more cost recovery fees will be imposed for the loan origin nation cost, loan servicing and administrative cost as well as any third party cost. Wee also recommending that any loan repayments in the future that they are made through mandatory payroll deductions, as opposed to that being an option. And then finally on the repayment of acceleration, there are a number of provisions that we are making recommendations for changes. One is to modify the existing six-month payment requirement, another is to increase the interest rate to the current market, which the rate floor and the ceiling is established on a case-by-case basis and we would use the internal revenue service guidelines that they establish for the applicable federal rate. We would require full amortization for any acceleration of repayment. There would be a balloon payment requirement as an option and also allowing the borrower to convert the property to a rental property. And then finally in the documentation, the new application form and we are also work on administrative guidelines. So that completes the changes that we're recommending and you have a comprehensive report in your packet with the modifications that are being proposed and our team is available for any questions that you may have.

>> Mayor Reed: Could I have you just maybe talk a little bit about if we don't have this executive home loan program, what pool of potential candidates are we more or less excluding just because of the cost of housing? Because the last few recruitments that I've been involved with one way or the other, about half of the people in the final four or the final eight however we did it were from outside the area. Now I don't know if they were in a high-cost cities or low-cost advertise but they clearly were outside the area, would have to move into San José. So I don't know if you've scoped out the pool limitations if we don't have the ability to compete with this item.

>> Yes, thank you, Mr. Mayor, Heather Ruiz, deputy director for human resources. Essentially the candidates that would not be able to or willing to relocate here are candidates coming from out of the area where it's not within a reasonable commute distance and they're coming from an area where the housing costs are generally significantly lower than the cost of housing here. So even if they have a home and are able to sell their home, which is a difficult thing in this housing market, they don't have enough equity to make it reasonable to change to make that move in the cost of living difference here. So we would be looking at a pretty large disincentive for candidates to be able to consider positions here and/or actually make that move to San José given the cost of housing here, even though it has dipped recently, the cost of housing here in this area is still significantly higher than much of the rest of the country and even most of the rest of the state.

>> Mayor Reed: With the limitations that you're recommending I assume if we do all of the recruiting in Honolulu we're probably okay, because housing there is more expensive than here.

>> Right.

>> Mayor Reed: Even though it's more than 50 miles away, it is still more expensive here, so they wouldn't qualify.

>> Correct, and looking at the current values, based on the recommendation here that the home price be at least 30% lower I think the only areas that we are really excluding are Honolulu, the metropolitan area of New York, White Plains, and a very identified area in Anaheim, Santa Ana, Orange County and in San Francisco. Those are the only areas that would be excluded at this point. So anywhere else in

the country or the state, the home values are more than 30% lower than they are here.

>> Mayor Reed: And what about within the Bay Area? Most of the Bay Area would be excluded under the 50 mile rule.

>> Most would be excluded under the mileage, right.

>> Mayor Reed: Councilmember Pyle.

>> Councilmember Pyle: Thank you. I wondered has there been any consideration to leasing? In other words, if they paid an amount that would cover the payment, et cetera, is there any reason why we couldn't lease? Just for the reasons that you mentioned, if the property that they would have to sell would be one in which they'd take a hit, is there some reason until things settle out that we couldn't just lease it?

>> I think Councilmember Pyle, your question would be, would they come here to lease or would they actually relocate here and begin leasing?

>> Councilmember Pyle: Right. Yes, rather than take a hit on a property that they would have to sell, they would wait, maybe rent it, rent theirs and maybe lease here.

>> I guess that would be a consideration of each individual candidate. But most candidates that we find actually, when they are taking a new job, do want to do that relocation and want to own a home, want to move into a market where they then become a homeowner in this market. So many candidates are looking to, despite the difficulty of selling a home, are looking to sell the home that they are in now and purchase here.

>> Scott Johnson: And councilmember, may I add that the existing program provides for temporary relocation cost, on a case-by-case basis relocation could potentially include renting a property for a limited period of time.

>> Councilmember Pyle: Oh, okay, thank you.

>> Mayor Reed: Councilmember Constant.

>> Councilmember Constant: Thank you, mayor. First I want to say thanks for bringing this report back in the time that you've spent going through it with me since we first put out my memo whenever that was a while back. I think these are much needed changes in the program. I think it's really important that if we're going to continue to have a program like this, that it be structured in a way where we can feel very confident that not only have we only given the loan when absolutely necessary, but that we are protected in multiple different ways and things are documented much more thoroughly so we don't end up with a repeat of what we went through last year. I don't know, we're probably still holding onto that condo, I don't know if we're renting it or whatever the case is, but I hope that is a situation I hope to not get into in the future. I do know this is about the policy, not about the budget. And I support this policy, and in fact, before I go on I'll just make a motion to accept, see if we get a second, okay.

>> Mayor Reed: We do have a motion, so we have a motion on the floor to approve the policy.

>> Councilmember Constant: Because I think these are much-needed reforms. But I also want to say that as we move forward into the budget we really need to be very conscious of how much money we put in the budget for programs like this that aren't directly providing services to our residents. And really, analyze whether or not, what years we want to fund this program, what years we don't. But I think having the structure in place and having a very well thought out plan that really covers all the bases is important. Thank you.

>> Councilmember Campos.

>> Councilmember Campos: Thank you. Can you put up the slide that shows principal residence? So from what I understand, and if you can give me a little bit more detail, if someone that has been hired, in an executive position, decides to take the advantage of this particular loan, they need to live what

percentage of the time in that particular home? Because it's not clear that they have to live -- that has to be their permanent residence. It's vague, so I'm trying to understand this.

>> Scott Johnson: Councilmember, for the majority, the regulations stipulate, for the IRS regulations stipulate that they must live there the majority of the time. Basically I was looking for the number. I think the IRS guidelines are at about 185 per year, per the requirement, per the treasury regulations.

>> Councilmember Campos: So that means they can't rent the home out, say if they buy this home and then they've lived there for three, four years and they decide they want another home but they keep the property, it's -- it's still a loan from the city. They cannot rent it out.

>> Scott Johnson: That's correct, under the existing program they cannot rent it out. Unless the acceleration provisions are put in place. If they leave city employment, we are adding that provision where it could be an option. Because if they're underwater per se and cannot sell the property then that is one of the options that we are recommending to include in the revision.

>> Councilmember Campos: That's not what I'm concerned about.

>> Scott Johnson: Okay.

>> Councilmember Campos: I'm more concerned about if they work for the City of San José and they decide to buy another house. Can they rent that out even if they're paying the mortgage? I mean you know because somebody -- it's not the person renting that pays the mortgage. It's the person that owns the home that writes the check to the loan company.

>> Scott Johnson: Councilmember Campos, I apologize. To clarify, if the participant is still a city employee, per this program, they are prohibited from renting out the property while they're a city employee. It must be used as their principal residence.

>> Councilmember Campos: And do we have checks and balances for that?

>> Scott Johnson: We have now per the new documentation process that we're implementing we have now put in place where we have a checklist and a certification that the person must certify that it will be their principal residence under the guidelines that we detailed in the staff report.

>> Councilmember Campos: So will that be used going forward or are you going to go back to maybe some of the people that currently have loans with the city, on property, to ask them to go through that checklist or are they grandfathered in and we move forward with this new policy?

>> Scott Johnson: That will be used going forward, however we are working with the city attorney's office in regards to how we look at the existing program and the participants, and how there might be potential impacts regarding income tax reporting.

>> Councilmember Campos: All right, those are all my questions, thank you.

>> Mayor Reed: We'll take public testimony at this time. David Wall.

>> David Wall: Even though there is a motion pending, by a retired finest, I have to tread lightly in that regard. The housing market is currently in a glut. There are exceptionally low values to be picked up. This program, to me, first of all we did not see anywhere up here the cost of the program. It's an illusory concept that recruitment, let me quote right out of the background. Quote, the recruitment and hiring of top quality executive management is essential to the efficient operation of the city. Close quote. Well, I've been around here for decades and I have yet to see outside the office of City Attorney and the office of the City Auditor any talent at all. Now, I'm not being mean spirited here. Some people say that I am. But as a taxpayer, I have every right to voice my opinion. And I say to this, you're looking at the housing issue the wrong way around. Pay these executive people less then they will qualify for your affordable housing and there won't be any problem. They get to learn what type of people to be dumped in these housing projects. But above all the recruitment for housing is a perk, should go to San José police officers and firefighters and city employees who have passed their probationary

periods. Those people represent the talent of the organization. Thank you.

>> Mayor Reed: That concludes the public testimony. We have a motion on the floor. Made by Councilmember Constant. All in favor, opposed one opposed Councilmember Campos. That motion is approved. Our next item is 3.3, declaration of surplus construction funds and authorization of fund transfers and disbursements for expired special assessment districts. Something we don't do very often.

>> Scott Johnson: Thank you, Mr. Mayor members of the council. I'll go ahead and get started as our team gets situated here. And first I do want to say that this isth has been a very comprehensive, long tedious process and I really want to commend the team that has been working on this. So Danielle Kenealy, to my left, from the city attorney's office. Also we've been working with public works Tim Borden. Peter Detlefs, Steve Peters, Jonathan Palido and Kevin Turner from the finance department, there's been significant work in regards to this effort. And it started -- hold on one sec -- this special project which was proposed by the finance department commenced in September of 2008. It was approved in the budget in fiscal year 2008-9 and also 9-10. It's a prime example of creative solutions and fiscal management that we are really literally turning over every rock to help find solutions to our budget challenges while at the same time we're performing our due diligence and fiscal responsibility to maintain accurate accounting records. This has been a very comprehensive, labor intensive process. We've gone through official records, documents, and accounting and engineering reports, some of which are over 40 years old. And so the team has done a yeoman's job in going back as far as they have and literally looking at old ledger books that it's quite amazing the history that we have here in the city. These are expired improvement district surplus funds that remain unused and unclaimed for an extended period of time. The project encompasses reviewing and analyzed records for 50 districts that were formed between 1970 and 1994. And some of these expired between 1985 and 2005. So the term of these districts go from seven to 25 years. The city has made previous efforts to refund or credit surplus funds of many of these districts. But there are still surpluses that remain. We previously made reductions to the annual assessments that they make otherwise through their property tax bill. We've also previously refunded disbursements, we've issued checks, we've mailed them, some of which have been returned. In addition, council has made surplus declarations over the years from 1980 to 1999. In the case of the construction funds, disbursement efforts were made but residual balances remain. For the bond redemption funds, the funds exceeded required bond reserve levels, and attempts were previously made to apply the surpluses to the annual assessments. And there are also some water main repayment credits that were made to reduce the amount of the surplus reserves. But here again the residual balances remain. So on a go-forward basis once these funds have been closed out we may ask the question, how do we maintain the active districts that remain? Well, I do want to say that the finance department has been working with the government finance office association in documenting our policies and procedures, and that's pursuant to a recent government accounting standards board accounting requirement. So the finance department, the Public Works department and the city attorney's office, we have been working on what we call our improvement district closeout procedures along with the GFOA consultants. And through these efforts on a go-forward basis I think that we will be able to have procedures, responsibilities and roles, clearly identified, so that in the future we don't accumulate these surplus funds. Once the districts of these projects are closed out, we'll have three active bond related districts, and four community facility districts remaining. On the next slide, just want to briefly touch on the district formation overview. These are local agency bonds that are issued by special property assessments or parcel taxes. And they are placed on the property tax roll on parcels that receive the benefit of the improvements. The city administers all district activities including the district

formation, the construction management, the funds disbursement and investment of those funds, the assessment and tax collection, and coordinating with the tax collector's office at the county, and also the debt management related to the debt that was issued for these bonds. On the next slide, I just want to eye light, we have a very comprehensive staff report but we do want to -- and it's very complex. But I do want to highlight a couple of elements. First of all, as of June 30th, 2009, staff has identified approximately \$11.1 million in surplus improvement district funds. We should note that the initial source of most of these surplus district funds was from bond proceeds. Except for those that are based on assessments that property owners made through their property tax bill. Which along with unrestricted reserves and water main deposit repayments, those funds were to be used to make bond debt service payments. In addition these balances include approximately 34% of these balances are for accrued interest earnings on the surplus funds. So staff is recommending that we refund the past assessees a portion of the funds and transferring the remaining funds to other funds, as I will discuss later. The next two slides will address the legal issues regarding the refund of surplus funds and the necessary steps and time line to implement the refund process. As you saw from the previous slide, there are approximately \$6.7 million that staff is recommending that we refund to past assessees and there are refund methodologies that are in accordance with state law provisions. As I mentioned earlier, this entails 50 districts. There are 419 past assessees that are eligible for refunds, and that encompasses 880 parcels throughout the City of San José. The refund notification program, there are some provisions that require us, based on state law, for a three-year claiming period. And that relates to the reserves and the water main deposit funds that are surplus. In addition staff is recommending that we go through a one-year claims period for the assessment funds that are in surplus. These are the property tax assessments that property owners paid over the years, and we think that to do the right thing that we should at least implement our one-year claim period that we have for other refunds and taxes in claiming process that the city has per our existing laws and ordinances. On the next slide, this is the disposition time line related to the surplus assessment district funds and the accumulation and disposition time line. As I mentioned the assessments and the surpluses accumulated from 1970 to 2005. We're asking council authorization to dispose of the expired district funds so we can close those out, go through a claiming procedure, some a three-year process and others, a one-year process, as I indicated earlier. After council approves this, assuming council will approve these actions, staff will work diligently on sending out notices, doing the proper notifications in the newspapers, and being proactive in notifying the property owners that they have funds that are due to them. We have -- I do want to mention that we have already identified those property owners through the work of doing the -- looking through the history, looking at the documents, all the records that we have available to us. I also just want to mention one more thing on that, the previous slide. That I just want to clarify the three-year claim process as I mentioned was for the reserve and the water main deposit funds. And the one-year claim process that we are proposing is for the surplus assessment funds. The staff report also identifies two options that the council could consider. However, we think it is prudent that we move forward on a one year claim process related to the surplus assessment funds. So I did want to want to call that to the council's attention, that there are two alternatively policies that staff identified however we do recommend that we go through a refund process related to the surplus funds. Now, on this next slide we have identified funds that are eligible for immediate transfer, and this slide identifies that as of the latest date that we've calculated the accrued interest through May 31st of 2010, we're estimating that there are approximately \$4.5 million that can be transferred. And you can see here on this slide where those transfers would appropriately take place. First, staff is recommending that we transfer approximately 3.5 million to the General Fund economic uncertainty reserve, that's already been factored into this year's

budget process. Working with the budget office. Also there are prior year ineligible capital expenditure reimbursements that we need to make of approximately \$544,000. A reserve for maintenance projects that the Department of Transportation will work on identifying and bring forward those recommendations to the council of approximately \$287,000. And then also as we continue to administer this program, due to the claim process and the refund process, and the accounting and closeout of these 50 assessment districts, we are requesting that we allocate funding, temporary funding for the administration of this program in the finance department. So in summary, staff is recommending that council authorize the disposition of the funds pursuant to the recommendations in the staff report, approve the budget actions, and then the project follow through, or we would, as I mentioned, transfer the funds, close out the fund accounts and commence the refund disbursement process. And with that staff and the team we are here and available to answer any of your questions that you may have in regards to this process and our recommendations. Thank you.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Thanks mayor. Scott I just wanted to thank you and your team for doing such extraordinary work. I know that scrubbing all these funds must have taken an enormous amount of time and I just want to thank you all. I know the joy of finding change between the cushions in the couch and you just found nearly \$10 million worth of change and that's really cool. Of the \$6 million that's being reimbursed to the property owners, is every dime of that required to be reimbursed under the bond act or prop 218 or is there some discretionary amount of return?

>> Scott Johnson: Councilmember, let me go back to -- let me see if I can do this -- let's see --

>> Councilmember Liccardo: I'm sorry 6.7 million roughly, referring to page 3 of the report.

>> Scott Johnson: On page 4 of this presentation, we have broken it down into fund types. As I said there is an option in regards to the assessment funds. The assessment funds per state law are not required to be refunded. However, because there are research, we've identified those property owners that paid those assessments. That's where we're recommending those funds we go through a one year claim process but they're not required for the state government code. The reserve and the water main deposits are required per state government code to be refunded and going through a three year refunding and claim procedure.

>> Councilmember Liccardo: Okay, thank you, I know you explained it once, I didn't catch it the first time. Thank you.

>> Scott Johnson: Sure.

>> Mayor Reed: Councilmember Kalra.

>> Councilmember Kalra: Thank you, mayor. And I also want to add my thanks to Scott for all the work that you and your team have done in identifying quite a large sum of resources here. And a follow-up to Councilmember Liccardo's question regarding the requirement to go through the process of returning those funds. What are the other alternatives that we would have?

>> Scott Johnson: Councilmember, the other alternatives we have in the staff report would be that we don't initiate a claim process for those refunds to the assessees, and we could transfer the excess assessment funds to the General Fund for unrestricted operating cost. In addition, another policy alternative would be to not initiate a claim process for the refunds for the ones identified. And transfer the excess assessment funds to the General Fund for maintenance of district improvements. You know, staff is recommending going through a limited one-year claiming process where we have identified the payors of those assessments and they are all -- mainly these are -- these are industrial property districts. And some -- you know the staff report we identified the number of refunds and the extent, the size of those refunds and the number of properties that are involved.

>> Councilmember Kalra: And the ones that are required to go through the process are the reserve and water main funds, is that right?

>> Scott Johnson: Yes, that's correct.

>> Councilmember Kalra: So we're talking about really \$4 million and these are some funds that you're opting, you're recommending the option of going through the one year claim process?

>> Scott Johnson: Yes, that's correct.

>> Councilmember Kalra: In regards to transfer to the General Fund, the recommendation is to have \$3.5 million go into an economic uncertainty reserve, but I know that's something that the budget director and through the city manager has made recommendation of. The reasoning in looking at page 4 is given the uncertainty of sales tax revenues that you just -- that's part of the reason of having the economic reserve I know is because of the volatility of sales tax revenues. However, the flip-side of that is \$3.5 million we can save almost a third of the patrol officers that right now are slate for layoff with that money, which is noting in that's uncertain. That's a certainty, unless we're able to get funds to save those positions. I understand that replenishing the economic uncertainty fund to close to the level it was to 09-2010 is certainly an admirable, but it may be prudent in certain circumstances but I think it's also equally prudent to maintain Public Safety and to use that money to save positions that we otherwise would lose. And so I just -- I question -- I just question the use to replenish funds that would go towards an uncertainty of what might happen in the next -- through the next quarter, rather than using them for an absolute certainty of this \$118 million deficit that we're facing. And again, I -- I understand that the recommendation is more aligned with recommendations or policies that have been set forth and direction given to you as to -- as to those recommendations, but I just don't think that's a prudent use of that money given the situation we're in.

>> Scott Johnson: Councilmember, let me respond to that because you know, our budget director has repeatedly now shared with the council the concern in regards to our sales tax revenue. We know that our sales tax revenues are down, and here she is now. So maybe she can speak directly on this issue.

>> Jennifer Maguire: Thank you, Scott. Jennifer Maguire, budget director. Just to give you some history on the economic uncertainty reserve, last June when our sales tax revenues came in under budget, we did have to dip into the economic uncertainty reserve \$5.8 million. Then we had to turn around in October and rebalance our sales tax estimate for the p9-10 fiscal year. We were able to do that by using some of our fund balance and actually cutting programs, if you recall, in our annual report, to be able to rebalance our sales tax estimate and we -- but in doing so we also restored the economic uncertainty reserve, even though as painful that was to cut more programs and undo rebudgets, we restored it back to the \$10 million level. In mid year I had to recommend to you again to use that economic uncertainty reserve for further revenue declines in a variety of areas. It was in our franchise fee areas, our business tax, interest earnings, it wasn't sales tax at that time, it was a variety of other revenue estimates. I am very concerned about our sales tax estimate this fiscal year. This fiscal year we won't get our third quarter until about June 18th. We need for the next two quarters, we only have two quarters in hand this fiscal year, we need 4.5% growth. We haven't seen a growth quarter in many, many, many quarters and if we decline, for an example, 5% that would eat up all of that economic uncertainty reserve for this fiscal year's estimate and next fiscal year's estimate. So just going to take one decline of 5% in the next two quarters which I think is a real possibility. I can't predict the future of sales tax, but it is our go-to prod, and it has prevented us from having to do midyear layoffs, which we have had to do in other funds and keep our organization stabilized. So that hence why the recommendation to replenish the economic uncertainty reserve.

>> Councilmember Kalra: The numbers you referred to in terms of the 9.2% decline in sales tax for the

first half of '09-10, what were the numbers for the first and second quarter of '09 and '10?

>> Jennifer Maguire: Negative 12.8% and negative 5.3%. So these next two quarters, in order to meet estimate, would have to grow 4.5% to have an overall year-over-year decline of 5.3% which is what I have budgeted.

>> Councilmember Kalra: But that is for it to remain flat, 4.5% to --

>> Jennifer Maguire: No, to actually meet our budget estimate of a negative 5.3%, we need to actually have growth in the next two quarters of 4.5%.

>> Councilmember Kalra: No, I understand that. So this growth of 4.5% would need mean that you wouldn't need to dip into the economic uncertainty reserve.

>> Jennifer Maguire: That would be correct.

>> Councilmember Kalra: And given the -- or what -- what have you seen in terms of national as well as state trends in terms of sales tax revenue? I mean clearly from the first to second quarter negative 12, negative five, do we see that improvement? Because we see strong signs even this week of consumer confidence continuing to improve as well as job numbers starting to level off in terms of unemployment and layoffs including in the area.

>> Jennifer Maguire: You know it's really hard to say. Last quarter, I mean if you just look at our business to business sector of our sales tax we were down 18.4%. It is -- our retail is down 3.7%. It is really hard to predict. Next year as part of our proposed budget we have a 2% sales tax growth which in all accounts is probably on the optimistic side for next year. I mean, I really want to hit that number, but we were not being conservative as we would otherwise like to be because of what the high stakes are related to this budget process.

>> Councilmember Kalra: This year, in the mid year budget adjustment there was 4.5 million taken from the reserve?

>> Jennifer Maguire: That's correct.

>> Councilmember Kalra: Last year how much was taken in the reserve going from one fiscal year to the next as well as mid year?

>> Jennifer Maguire: Okay, so last year, we -- the City Manager recommended as part of our proposed budget in developing 9-10 to use \$5 million of the reserve. We felt we could bring it down to a \$10 million level given all the service cuts that we were facing in 9-10. We had to use \$5.8 million of that reserve in June at the last minute when our sales tax revenue fell and as part of you know ensuring that our budget stayed whole.

>> Councilmember Kalra: That brought it down to 5 million?

>> Jennifer Maguire: The \$5 million we used as part of the budget process brought it down to \$10 million, then we further brought it down another \$5.8 million in June as part of the final budgeting action that the council took to ensure our '08-9 budget stayed whole.

>> Councilmember Kalra: And then when was it replenished?

>> Jennifer Maguire: We replenished it as part of the annual report. But let me explain. The way we replenished it was by cutting programs which were like carryover rebudgeted projects. I had to go through every -- and trying not to hit people, because most of our budget was people, we went through and scrubbed and had to have the council make tough decisions about projects and putting projects on hold to replenish it up to \$10 million. Because of the fact that we still had -- we had to fix the aftermath of the next quarter going down in sales tax, because as you recall two quarters in a row we dropped about 29%. So we recommended to you to actually make budget cuts at annual report time in nonpersonnel areas to replenish the economic uncertainty reserve. So it wasn't without a cost to programmatic areas. And those --

>> Councilmember Kalra: It was strictly through those program cuts that the reserve was replenished?

>> Jennifer Maguire: It was through that and I think I used a little bit of fund balance. Because most of the fund balance that we had at that time, which was \$13 million, offset our sales tax shortfall during that time. Because we were down, our sales tax had to be rebalanced by another \$10.7 million. So I just have to say that between the fact that we had to use our economic uncertainty reserve again at mid year, we didn't have -- it was very difficult to find the solutions at mid year. And even that, the end report, because our bag of solutions is very, very small nowadays to find things without having to actually cut people and lay people off, like we've had to do in the development fee programs and other areas. So this is why this has been a very important pot from the administration's perspective.

>> Councilmember Kalra: We used 4.5 million this past year in mid year for adjustments which included some cuts I know, and -- but we're facing enormous amount of cuts come July 1st anyway. Regardless. And you know even if we -- even if the reserve was kept where it is of 5.5 million, you know, we're still facing enormous amount of cuts anyway. And that reserve, there could be an opportunity, we don't know, again, we don't know again, we don't know if it's because of uncertainty, but there could be an opportunity to access fund balance or through the budget, the annual review, to replenish it again. But even if it was going in at 5.5 this past year which was the worst that we'd seen, we needed 4.5 million, in the mid year, understanding that there were some cuts along with it, it wasn't strictly that it made everything whole. But my point is that we are facing the most severe cuts right this minute. And having 5.5 million -- having 10.9 million in there would be great. Having 5.5 would get us through similarly to how we got through this year and the 3.5 can go to saving jobs right now. And I think I'm much more comfortable saving jobs right now come July 1st, than replenishing it to a 9 million level knowing that we might have to use four or 5 million mid year if it was the worst case scenario likes it was this past year. And there could very well be a likelihood we need more than 5.5. But if we needed 4.5 this past year and it was a worst-case scenario year, it's likely that 5.5 may be able to eke us through the year. Maybe not. I'll be hopeful that it is, and would much rather use that 3.5 to save jobs right now.

>> Jennifer Maguire: Just so I can -- to be clear if the sales tax dropped 5% in the next two quarters, we would need a total of \$9 million. We would need \$4.5 million to cover this year's shortfall and I needed -- then the base is lower of what we're going to be getting our 2% growth on, I would need another \$4.5 million.

>> Councilmember Kalra: If it dropped another 5% from last year?

>> Jennifer Maguire: In the next two quarters, if we dropped 5% in the next two quarters compared to the quarters in the prior fiscal year, I would need a total of \$9 million to recommend to you to balance that shortfall.

>> Councilmember Kalra: And what was the drop last year in the current quarter we're in what was the drop last year from the year before?

>> Jennifer Maguire: 29%.

>> Councilmember Kalra: And then it was 29% and the first quarter of the fiscal year the year before was 29% as well?

>> Jennifer Maguire: No, it was 12.8% first quarter this fiscal year.

>> Councilmember Kalra: I'm sorry, the third quarter of the prior fiscal year?

>> Jennifer Maguire: Was 29%. The fourth quarter was 28%.

>> Councilmember Kalra: Okay, it's 29%, 28%, we'd have to go 5% already that 28% and 29% drop from the previous year?

>> Jennifer Maguire: That's correct. We've been -- our drops have not been as severe, but it almost

feels like we're grateful that we're only dropping 12.8% or minus 5.3%, and just as a scenario we had hoped the economy was going -- when we were building this budget a year ago, we were hoping the economy was going to improve a little bit better than it has. And we had hoped for some growth because we were comparing against extremely horrible quarters those prior years. But with the economic information that we have with the high unemployment rate with talking with our many consultants that we do about sales tax I think we have a real risk of our sales tax going down 5%. Would I be absolutely grateful that if we don't I'd actually be very happy if we met our revenue estimates but I just -- we feel it is prudent to be prepared for that and not have to cut services and turn around and cause organizational disruption and turn around, lay people off beginning of August or September when we do the annual report.

>> Councilmember Kalra: We're going to be laying them off July 1st anyway. My point and I absolutely understand that you're not trying to have a self fulfilling prophecy that we're negative five or ten or whatever that you want it to be positive. We all do. But it's your contention then or at least based upon the numbers that if we get negative, a 5% decrease, then we would have to make that up with \$4.5 million; is that right?

>> Jennifer Maguire: That's right, \$4.5 million would be --

>> Councilmember Kalra: Immediately, this next fiscal --

>> Jennifer Maguire: Immediately. That would be in this current fiscal year in June would be \$4.5 million shortfall for this fiscal year sales tax estimate, and that would have a carryover effect to next year's sales tax estimate, about the similar amount of \$4.5 million.

>> Councilmember Kalra: If it was 4 and a half then again, the next two quarters, like last year, the first two quarters were pretty dramatic. And if it was again another four and a half, if it stayed a negative 5% for the first two quarters of next year then we'd have to find another four, 5 million bucks somewhere to make up the difference.

>> Jennifer Maguire: Correct. Depending how these next two quarters amount to, we may need to adjust our overall sales tax estimate of 2% growth. But furthermore, I know we're focusing on sales tax here. We have a lot -- we have almost 500 revenues in the General Fund. Our property tax, the county assessor is not finished with his work on the prop 8 assessments. We feel that we're in constant contact with them that we're fairly well positioned. However, there is risk in our property tax. Risk in many of our economically sensitive revenue estimates. So I just don't -- I know we're talking about sales tax here but we have many other revenues that we have to watch and mid year we had to use this for other revenue estimates like business tax that fell so much lower than we expected. And our interest earnings, we -- our attempt is always to be conservative with our revenue estimates you but again with the stakes being this high I don't think we can afford to be as conservative as we have been in the past.

>> Councilmember Kalra: I understand. I'm referring to sales tax, because that's what was referred to in the report, and that's what's most commonly referred because it certainly plays a big part of our estimates. Thank you.

>> Mayor Reed: Councilmember Oliverio.

>> Councilmember Oliverio: Thank you mayor. Let me be clear and concise. The assessments of \$4 million should be given the opportunity to those property owners because they would be essentially paying for something they didn't get, so I completely agree with staff on that. Secondly on the 3.5 million to the economic uncertainty reserve, I agree there, as well, for all the purpose -- reasons that Jennifer Maguire our budget director stated multiple times. In reality we're just parking the money there for a short amount of time. If this council during the budget wishes to do something different with that economic uncertainty reserve, different than what our budget director's wise guidance would be, then

we can make a decision then. I would make a motion to approve the staff recommendation.

>> Mayor Reed: We have a motion to approve the staff recommendation. Councilmember Liccardo.

>> Councilmember Liccardo: Yes, during that last discussion, I just went online to check out the latest state tax revenue numbers and I guess from April according to L.A. times the numbers lagged projections by about 30%. Which is something that erased that one month erased all the gains from the prior four months. So I think, you know, Councilmember Kalra's point is very well taken. We do have a certainty we know we're going to have layoffs, and we ought to do what we can to save those. But it sounds as though we probably need a little more time to understand just how severe these drops are going to be before we reallocate that money.

>> Mayor Reed: Further discussion? We have a motion to approve, at least until we get to the budget. All in favor, opposed, one opposed, Councilmember Kalra is opposed so that is approved. Our next item is 4.1, Mexican heritage plaza conceptual model and work plan and agreement with the Alum Rock union elementary school district.

>> Peter Jensen: Mr. Mayor, members of the council, Peter Jensen, general services director. I'm joined by Kim Welsh and by two representatives from the Mexican heritage plaza steering committee, Chris Esparza and Connie Martinez. The committee is a group of 13 members, very broad representation of community involvement. Professional and volunteer experience and perspectives that they brought to this task. The direction from the council to the committee was to develop a self-sustaining business and governance model for the plaza and to develop a process to establish an operator capable of implementing that model. Chris and Connie will go through those. Those really are the first two recommendations in the staff memo. The reason staff is recommending the committee's conclusions, in terms of the model, we think it's the best opportunity for the city's investment to be reduced over time. And in terms of phase 2 it gives the committee more time to do further refinement of the financial modeling of leadership and prototyping work that needs to be done for the plaza. And the intent would be to come back to the council in next year's budget review, with more refined numbers in terms of city investment. The third recommendation in the staff memo represents an opportunity with the Alum Rock school district. They have a need to have temporary space for students who are displaced from construction at San Antonio school which is next door to the plaza. Their work at the plaza will set up the plaza more for the model that the committee's going to talk to you about. It does create an issue for our resident arts partners because we convert the office space that they're using now. We've been working hard to work with them on finding new homes for them. And to minimize the disruption that is attendant with the move. But doing that within the fiscal constraints that we face as a city. With that I'll turn it over to Chris and Connie to walk you through the committee's conclusions.

>> Okay, I'm happy to announce with the mayor and council's direction the steering committee has enthusiastically landed on the concept of the school of arts and culture model. After a year's worth of work that convened the public arts organizations, city staff and stakeholders from all sectors and an incredible group of 13 steering committee members, in a transparent and community-driven process, the concept behind the school of arts and culture is an array of classes, affordable classes to be the primary programming offered at the plaza. The committee, to the -- as it moves through its work, had four kind of guiding principles that we just kept as a mantra through our work. Bring the community along every step of the way. Start modestly and be realistic. Learn from the past mistakes and don't repeat them. And recognize that the plaza cannot be all things to all people. The committee was tasked with recommending a model that surmounted the following through critical challenges. To engage the community, and to kind of bring back the community ownership and pride in the plaza. And to maximize the vibrancy at the plaza. As well as to -- future sustainability of the plaza. Those were our two kind of

task force there. Why a children's arts center at Mexican heritage plaza? Several reasons. A huge need exists in the community for arts education. The concept bringing children together of different ethnicities, breaking down barriers in cultures, stereotypes and promote unity amongst the surrounding community. Also classes providing a reason for regular visits to the plaza, for classes which create a real third space for the community. As it relates to the sustainability, you have a slide there in front of you, arts education has the capacity for earned income. Some of the earned income pieces, class fees, rentals, performance tickets. Parents in the community are apt to support arts for their children with not just class fees for their children but also donations, volunteerism, and attendance at performances. We looked at similar models with similar communities, one in East L.A. fir the East L.A. school of music and art but also several others, and these models are working and thriving in other communities that are similar. Also, the concept is desirable from a funding standpoint. Foundations are apt to support programming, promoting children's culture understanding through the arts. Just all indications are, corporation and foundations, our strongest step forward would be, for those organizations, for those corporations and foundations to support scholarships amongst that -- the children of that community. It's now my pleasure to turn the presentation over to my fellow steering committee member, Connie Martinez.

>> Good afternoon, everyone. So I'm going to start with a summary of where we are today and then walk you through some of our next steps. So one year later, that we have a shared vision. We have community buy-in and we actually believe it is real community buy-in. So we're really excited and proud of that. We also have what we are calling our phase 2 planning process outlined with a realistic time line for ramping up. Our goal is to not do this over but to do it right. And at no small effort has gone into this, hundreds of hours by our steering committee, ant what we believe is in place is a dedicated group of leaders to take us to the next level of planning. So what does that look like? We have three areas of focus. The first is, now that we have chosen this direction, we actually need to do the detailed financial model. That process is yet to come. We need to have that informed by practitioners and arts experts who can help us create a real business plan. And equally important is the fundraising component and the development of leadership. If we had the funds and the leadership and the detailed plan in place we would be recommending moving forward automatically. But we don't, and we need to also take some type to actually prototype some of the programs and learn from that prototyping while we're in the process of fundraising and modeling. And all of these different areas inform each other. So that's what our task is. What do we have to work with? There is the community of resources that I've -- we've outlined on this slide. The dedicated leaders that are already in place. Those that are continuing with this effort from the steering committee. We have a seed fundraising goal of \$1 million that the committee is committed to raising. We have the hopes for the continued partnership with the Hispanic foundation as our fiscal agent which has been the fiscal agent through the first phase of planning. And lastly as the head of the 1stAct, we are loaning Tamera Alvarado as project manager to this next phase of development. So we feel really good that we have a portfolio of resources to work with through this next phase. And you combine that with what we're calling the mission compatible opportunities that have already been referenced, Alum Rock school district, it is really a fortuitous thing that this kind of opportunity came along at a time that actually helps them but also brings us closer to our ultimate vision. And lastly, the new idea that has surfaced from Councilmember Campos, about using old Hillview library to support some of the resident arts program folks. We care deeply about them, and I think that we feel confident, encouraged by the conversations that have been taking place, that they will be supported through this transition. So, what is the City's role? Short-term we want you to approve the phase 2 efforts that we've outlined and that during this ramp up time that we are getting the work done

that you continue to operate and maintain the plaza. Long term we will be looking to the city to forge a long term partnership with the managing entity of the school. And we anticipate that city operations and management support will continue to be needed, but the details of that really require the next level of planning. What I think we have to say, and Chris and I stand here and represent the entire committee, is that we do not believe the number is zero. And that as long as the city owns this facility, short of selling it and/or commercializing it, there will be some public investment and partnership that needs to be in play. But I think what we have to share with you today is our joint dreams and hopes that we will be able to leverage our \$35 million city asset. And we do believe it is an asset in that our mutual goal is to reduce and contain costs over time in partnership with the new entity, and that this new idea moves the plaza towards sustainability. But most important of all it delivers community value and vibrancy. And short of that it is actually not worth doing. So that is, I believe, our mutual goals. So what are we committed to delivering? As we work through this process, and bring the resources to bear from the community, we will create a detailed business plan to share with you. That will be informed by real market research, practitioners who we've already started to cultivate to work with us and this prototyping of programs to inform that business plan. We will have seed-funded, raised the money for seed funding of \$1 million. And during this time we will be working to find the organizational partnership and grooming the leadership to take on the management of the school. We are not naive about what it's going to take to pull this off. And I think that I want -- we want the council to rest assured that this committee is committed to doing the hard work. And lastly, we plan to come back and give you our annual progress report as we ramp up and hope to have a viable and vibrant operation going within the next few years. With that, I think we'll open it up to questions.

>> Mayor Reed: Thank you. I'd like to note that I do support the recommendations and have said so in the memorandum that I and Councilmember Campos and Kalra authored that is out here. But I do have a couple of questions. My first question is, when the Alum Rock school district moves into the building here in the short run, or that proposal, what's in it for us? Are they going to pay part of the cost of operating the facility during that time period? It looks like we're going to continue to pick up all of the costs.

>> What we intend is, what's in it for us is that they do improvements that would probably need to be made for the school model. In terms of the agreement, not negotiated yet but what we intend to do and we mentioned in the memo is to charge some level of rent, and then to also recover some of the O&M costs that are associated with the additional wear and tear of the campus because the students are there.

>> Mayor Reed: Well, in addition, we're not using it as much. They are using the facility, so they ought to at least help us pay the O&M costs.

>> Right, that is anticipated.

>> Mayor Reed: That is anticipated. Okay, I want to thank the steering committee, for all the work that's been done. It's good to see the vision of, this is a Latino arts and cultural center still is out there still possible, although we don't know exactly how it's going to be done. Because that was the eviction that we started with after many, many, many hours of discussion at the community and I see the steering committee is continuing to move on that, and that's good. I think this opportunity with Alum Rock school district is a good one and it certainly would save us some money on tenant improvements if they come in and do some improvements. And I think it's important to remember, though, that I think whatever the model is out there, that we have this community component that we must preserve. This can't just be a place where it's like a private school and a community just gets to drive by it. I don't think that's the vision. And I understand that the steering committee is very interested in keeping the

community engaged and being able to benefit from the facility. I think that's important. I just wanted to finally just echo what's been said in the staff report is that we're not making budget decisions for future years, for future councils, we'll be making a budget decision here in a couple of weeks for the next fiscal year but that's about as far out as we're about to get and I think that's a critical part of the sustainability, is how much money the city has to put into it. But I want to thank the people that have done this, our facilitators and our leadership, as well as the steering committee members who have committed many, many hours to getting this lever of work done. With that, I would recognize Councilmember Campos.

>> Councilmember Campos: Thank you, mayor. First of all, I -- Peter, thank you for the presentation and Chris and -- for the presentation and mayor, I wanted to just publicly say that it has been a long journey. But our office have worked really well with Peter's staff and getting this to where it is today. So I wanted to thank your staff for working very close with my office. And I want to thank the steering committee for all the work that they've done and Chris and Connie for the work that you've done. I know this was real work from the beginning to say that we are goods to embrace this project and look at it from the perspective that we can make something very grand out of it, and that it can be embraced by the whole community, and that it can be embraced hopefully by the whole council as we move forward. So thank you for all the work that you've done. There are a few questions that I want to ask, Peter, before I put a motion on the floor. And one of them has to do with the discussion that we're having with the Alum Rock school district. If I recall, to superintendent Monsol, I've worked with you over the past year on various projects in Alum Rock. And if there's one thing that I'm a true believer of, is that if you partner with people on something that is going to benefit the whole community, you always have a win-win on both sides. That comes from the Hillview library that we partnered with fisher, the youth center at pala and we can go on and on and on with partnerships. So this is just one more partnership that will benefit the community as well as the future vision for the Mexican heritage plaza. So Peter, one of the things that I wanted to ask, as they build out the new infrastructure for the classrooms, and you're currently in negotiations or working on a lease agreement with the Alum Rock school district right now. Has there been discussion around the ability for the art school to be able to use the facilities, maybe on weekends, or in the evening, if it comes online sooner than I would hope that it would come on sooner than a year from now but if they're able to move forward on that, is that going to be part of the discussions with the school district?

>> Peter Jensen: Yes. We've had some preliminary discussions about that but we still have some issues to work out. There are liability issues that are of concern on both sides and those kinds of things. But we'd certainly like to be able to work out something with the district where we're able to do some of the prototyping in those classrooms so that we can prepare for the art school model at the same time that Alum Rock is using the facility. So evenings, weekends are things that we'd like to be able to work out.

>> Councilmember Campos: Great. And I know that in my memo you read that, the memo that myself, Kalra and the mayor put out, that as we move forward, and we know that Alum Rock school district is building a new school so they'll be moving out after a year, that the vision continues that this -- that the classroom stay around all arts and culture. That's so important. I think that if there's one thing that people should walk away from today is that it stays art and cultural, youth. The other thing that I wanted to ask you, Peter, is around the resident artist partners, and I'm not sure what the feasibility is at this point, but I've had some conversations with Albert about the C&C money, and it's outlined in my memo. So I'm hoping that as you move forward, in talking with the RAPS they can come to some agreement so that they can be housed at the old Hillview library. And I don't know Albert if you have any update to that now.

>> Peter Jensen: And while Albert is coming up, I can tell you we have had some preliminary discussions with the resident arts partners, and there is definitely interest in that as a solution.

>> Albert Balagso: Albert Balagso director of Parks, Recreation, and Neighborhood Services. Councilmember Campos, short- long term solution for Hillview. As we anticipate getting into a longer conversation after the budget is approved as we work into the summer and then we'll work out some of those solutions.

>> Councilmember Campos: Thank you. And I'm sure that the half a million that I have set aside should be able to help them in creating a space that would be appropriate for them at the Hillview site. I know that they probably have needs. The last time I was in there it wasn't very functional for this century.

>> Albert Balagso: That's correct. We did do a preliminary assessment as part of reuse and we do know there's about \$250,000 in repairs to be made which leaves us the balance to make tenant improvements.

>> Councilmember Campos: Thank you, Albert, I appreciate it. Then my last question around the RAPS is, I know in the letter we received, I'm sure you had the opportunity to see that Peter as well, they were talking about how do they communicate and get the message to their clientele, as well as donors about where they are going to be moving and hopefully be housed in the future. And I'm hope that as you have discussions with them, if you haven't had this discussion, that my office can be helpful in providing maybe some seed money on how to communicate, whether it's through postage that they need some assistance or other things. But I'm going to leave that. It's open-ended, in my -- in the memo. But I know we didn't put a dollar amount to it but I'm hoping that we can provide resources internally to assist in -- so that they can communicate with their customers, as well as their donors, I don't know if you want to add anything to that Peter.

>> Peter Jensen: I would say that I think we have ways in partnership with your office to work through that, again, respecting the fiscal constraints that we're under. But we think that we can provide sufficient help.

>> Councilmember Campos: Let me ask just one question. Internally, I know that the redevelopment haste a PR area that they have assisted, in -- with graphics or ways, is that a resource that we could use or would you need to check that out and get back to us?

>> Kim Walesh: Yes, Kim Walesh chief strategist. We could look into that at the office of economic and cultural affairs, the office might be able to help during the transition.

>> Councilmember Campos: Then just one thing for you Lee. I'm not sure and you would know this a little bit better than me. The constituent outreach funds that each council district is given, if you could let us know if we could use some of that funding as seed money to help them get the word out, that would be great. And then I guess the last thing is that I'm excited about the fact that we're here today. I know that there's much more work and I think that if we continual to focus on the bigger vision of where we want to go, I know we'll get there. I mean our City of San José didn't become the great city because we accepted the word no, and that we can't accomplish it. We've accepted challenges. We've been able to move forward. And I'm hopeful what will happen in the next year to two years to five years to ten years, and that one day, we'll all be able to visit the Mexican heritage plaza where you have all these kids running around and sharing with us the things that they've been able to learn through this art and cultural school. And that's what we have to stay focused on. So with that, I'd like to move staff's recommendation along with my memo that the mayor and Ash Kalra have signed on, and thank you. And then the last time I'd like to thank Alis-a for her commitment at the Mexican heritage plaza and all the work that you've done it's been a long journey but we're all here and thank you for your

support. So with that mayor I'm hoping that my colleagues will support the motion.

>> Mayor Reed: Thank you, we go have a motion. I think Councilmember Kalra got the second, if I got that right. Councilmember Liccardo.

>> Councilmember Liccardo: Thanks mayor. Peter, one question, when the conversations and the negotiations you're having with Alum Rock, has there been any discussion about whether or not there would be any moving expenses paid to help the resident art partners?

>> We've talked a little bit about their mearption because this is bond money so really their spending can't be used for that purpose because we really got to be focused on the construction project.

>> Councilmember Liccardo: Okay.

>> Peter Jensen: But as I said we think there are ways that we can deal with that at little to no cost for the city.

>> Councilmember Liccardo: Thank you. And I appreciate that there are different options right now that you're evaluating. Is the old OCA space or what might soon be the former OCA space still on the table?

>> Peter Jensen: Yes, it is, yeah. So we're looking both at Hoover that Albert meninged and OCA. And probably we wind up with a combination of those two as spots for the partners to lain.

>> Councilmember Liccardo: Okay. And we'd certainly love to see them there in the arts corridor. I think it would be a great addition. In any event I just wanted to thank Connie and Chris for all your hard work and leadership. I know Afimeres and I know Danny Garza, I hope I haven't missed anyone I want to thank everyone. I know there's been an enormous amount of work and commitment. this has been a Gordian knot to untie and I know it doesn't come he but it's certainly a great sign of progress. I think the idea of putting Tamera Alvarado having her directly involved is a great move. We'll certainly move things forward. So I look forward to what's going to be coming.

>> Mayor Reed: Councilmember Kalra.

>> Councilmember Kalra: Thank you, mayor. I want to thank Councilmember Campos for her work in working with the city staff as well as our partners in the arts and culture community and school district and I know it's taking a lot of effort to kind of put this all together and I know that you've had a strong commitment to the Mexican heritage plaza and making sure that it continues to be an asset for the community including the community that surrounds it so I really appreciate that. I certainly want to extend my thanks to Peter and to Kim for the work you've done and as well as to Alisa Echiverria, I think you've done a particularly good job in doing the outreach and I had the good fortune of going to one of the community meetings that kind of unveiled this project and kind of the vision and I thought it was fantastic. I want to thank Chris and Connie for being kind of the moderators of the discussion as well as the rest of the steering committee. And the one thing that really struck me was that it was a very, very thoughtful deliberation that got to this point and I think that I feel very good about the direction. You never know what's going to happen but I think given the thoughtfulness as well as the potent membership of that steering committee, I think that I really am hopeful that even with the genuinely important goal of starting modestly and being realistic, I think even with that in mind that some of our expectations can be surpassed particularly when we think about fundraising with the foundation the corporations was made during the community meeting which I absolutely agree with that you're much more likely to get foundations and corporations even individual donors to contribute to children more than just a general less defined vision, that's something I'd like to see the rest of the community to gravitate to this concept and knowing both in scholarships as well as in particular programs that will be directed towards children or other specific communities, I think that it's very generous for 1stAct to be loaning Tamera Alvarado to this process and I think that she'll be a tremendous asset and I'm just really excited as the mayor said the fact that this needs to be a -- you know the community component must

be preserved and I think that the steering committee has done that, this vision does that and I'm confident going through this process that will continue to be an underlying goal as we go through with the school of the arts and I'm excited about the possibilities. Thank you.

>> Mayor Reed: Councilmember Pyle.

>> Councilmember Pyle: Thank you mayor. I just remember very well when the arts were cut out of the schools. I thought it was a tragedy. And it is. And I'm so excited about the fact that you're going to be opening up minds again to all of the joys of being in arts. For some, it's a whole new life. If they could fail in anything else but if they're good in the arts they can feel good about themselves. I think you're right on track with the corporate sponsorships. They're very generous especially if you touch them with some connection to children. And many thanks to all of you. That was kind of a Herculean task that you took on and thank you for doing such a good job.

>> Mayor Reed: Councilmember Oliverio.

>> Councilmember Oliverio: Thank you, mayor. For Peter Jensen, when we built the Hillview library and now we have the old Hillview library, what was the master plan or intent of using with that space?

>> Peter Jensen: Albert may be able to answer better than I.

>> Mayor Reed: I'm certain of that fact. Albert has been around a long time he knows exactly what we're trying to do.

>> Albert Balagso: The building was surplus along with the Berryessa library. And eventually, we added it to the reuse list of finding alternative uses for it.

>> Councilmember Oliverio: So we've always intended to having some type of public use at the facility?

>> Albert Balagso: That's correct. It was part of the RFI that we did for the last series of reuse facilities that we conducted about a year ago. We had originally been working with Alum Rock and east side union high school district as a potential providers but in further conversations, with superintendent Monza, we decided this was not the route we wanted to take at this point in time, as we had other participation we had going option.

>> Councilmember Oliverio: And the ongoing cost for purpose for the Hillview library that will be contained in the extra study that we're going to do?

>> Albert Balagso: Well in reuse the budget for the ongoing utilities and maintenance are still incorporated into the budget. They have not been eliminated.

>> Councilmember Oliverio: Right so the city will have some type of ongoing cost at the new facility?

>> Albert Balagso: Correct.

>> Councilmember Oliverio: Okay, understood. And then I do want to thank all the folks that participated from the community to make this happen. The mayor for being you know citywide leadership and obviously Councilmember Campos, but you know I think there are still some big hurdles and challenges here. Corporate sponsorships is for lots of things and there's a big wish list so I really look forward to what the community can do with the guidance of everyone together. I think it's our intent for it to be successful. I did vote for bankruptcy about a year ago because I thought the plaza should clear their debt and start anew but they've been able to do that through hard work and diligence, there's a lot of hard work and diligence to come but I thank everyone that's been a participant in this.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: Thank you. I want to add my thanks and kudos to all that's been said and I just want to say I mean I've been a long time, lifetime resident in San José and I remember when this facility was a dream of the community. And so I'm so glad that the dream is going to be kept alive with all the sponsors. I think this is such a good goal but I think that is really going to help us really achieve

it so I'm very supportive.

>> Mayor Reed: One of final thank you. I want to thank or staff for working with Alum Rock school district. We look for lots of opportunities to collaborate with our schools, and I think this is a collaboration that will be good for us. That's another good thing. At this time I will take public testimony. I have a few people that wish to speak. Please come down when your name is called so you will be close to the microphone. Jerry Mungai Jess Morales.

>> Thank you, mayor. What I have to say, this whole project is like a drop of oil in the gulf of Mexico today but nevertheless I wish to say it. There's something wrong with this picture when we can spend over \$30 million to build this plaza and which is in addition to the willed the biblioteka marijuana. We are given mechanism cavern heritage with enormous Latino based ball it folklorico, but yet we can't seem to find money to pay for fireworks to integrate gule 4th. Spanish arrived has been an American city for over 160 years a Spanish city for 44 years, and a Mexican city for only 27 years, from 1821 to 1848, so on a time possession basis, we are celebrating a culture of a people that had the shortest time of control over the San José area but history aside this new plan calls for additional city subsidies. Who's going to pick up the tab if these actual subsidies don't meet the forecast? The plaza is an example of a solution in search of a problem. It's time to cut our losses and focus on spending programs to support all residents. To me it's unconscionable to force all taxpayers to support one cultural group at the expense of others especially during years of fiscal constraints. Perhaps the castellano family covering all operating lows so that the city can focus on the common good. If that's not possible just give the place away to some interested foundation and be done with it. Thank you for your.

>> Mayor Reed: David wall, Jess Morales Ross Signorino.

>> David Wall: Even though I'm on record that this is a great program and it is, however the history of the Mexican heritage plaza is rife with incompetence, and so forth. Let's turn to page 1 of the memorandum of the two city employees off to my left. Quote city's annual bunt process. Period close quote. This is the creation of an entitlement program. And let us turn to page 4, we add up all the commitments for the tech museum, San José rep, that's roughly \$3.3 million. Let us turn to page 6. The operating cost for 2009-2010 for the Mexican heritage plaza was \$676,000. For 2010-2011, 2012 and 2013, the commitment will be \$651,000. Then, if the budget deficit is real, and you give conflicting indicators that it is real, and yet it is not real, this program is destined for failure from a financial standpoint. If anything that comes from this issue it should be a ballot issue. Let the taxpayers decide whether or not they're going to have properly staffed police departments and fire departments libraries parks at all, versus this Mexican heritage plaza program. Which I believe is a good idea. It's just that it was so horribly managed from its inception, that now the good ideas here, and there's no money except to rob Peter to pay Paul in a time when you have no money. You actually have less than no money. Thank you.

>> Mayor Reed: Jess Morillas and then Ross Signorino.

>> Good afternoon, Jess Morillas, executive director of Teatro Vision. You know I just wanted to let the council know how proud I am to have witness to and participate in the Mexican heritage plaza's year long steering committee process. It is exciting to see the new vision, becoming a reality and moving closer and closer to becoming that reality and the proposed new partnership between the city and the alum school district is a great lotion this to happen. Teatro and the other residence arts partners. We were given a 30 day notice to vacate our offices, this notice could not have come at a worst time but with the help of councilmembers and other resources we are able to continue to work through the process and we will not, you know, be an impediment to this opportunity and look forward to continually

working with the city and making this both Teatro and the other arts partners be cultural resources to the City of San José. I also want to specially recognize and thank our District 5 council office and Councilmember Campos for proposing the new use of the old Hillview library to support arts and culture and education in our communities and we look forward to working together with you.

>> Mayor Reed: Ross Signorino.

>> Ross Signorino: Thank you, Mr. Mayor, members of the council. This Mexican heritage plaza we're talking about right now and we've been talking about it for a long time, it was a financial disaster from the very moment they started this thing. Cost overruns, tremendous cost overruns, in the millions we're talking about. And here we're all set with great euphoria, going on with what we're going to do with the Mexican heritage plaza right now, we're getting hooked up with some school, what the conditions are going to be. We don't know all the conditions, whether you can get out of it, whether we have to support them and support the Mexican plaza at the same time. Is there a clause in there say, mutual agreement if we don't like it we can walk away from it, if they don't like it they can walk away from it. I don't hear those terminates. I think we're going to be stuck like we've been in the past and that's the history. What's going on with the taxpayers money that we're going to get stuck with paying for whole thing. I see no other way because your record shows that and there's going to be all kind of talk back and forth between what you can do and what you can't do. And here I have Councilwoman Campos who uses the word seed money. Where is this seed money? Where does it come from? Do all of of you have seed money in your office that you can dispose of at your discretion, the taxpayer's money? I say that's wrong. This is not an area where it's absolutely necessary to do things like this. And we're doing it nonetheless. Somehow or another we don't seem to learn our lesson of cost overruns and the debt that we're in because of the things that we tried to do, build golf courses and other things that we tried to do in this city, like we had the grand prix, losing millions there. Thank you.

>> Mayor Reed: Marcella Davidson.

>> Thank you, mayor. Marcella Davidson, CEO of Mexican heritage corporation. First of all, I want to thank the work of the steering committee. They did an unbelievably grace under fire. I want to address one ever two points. One is I want to provide validation of the idea of a sustainability of a children's community school of music and art. I know there's support out there. The reason I know is just today we announced Mexican heritage significant funding for a children's music summer program to the tune of almost \$800,000 that's being funded through the president's ARRA recovery funds. So I know that the support for this type program is there, it's their in philanthropy, it's there in federal government and it's there with individuals. I think the work that Connie has been doing in that regard will bear fruit. So I also want to speak to the efficacy of music education. I think if you just look at the statistics by the Department of Education and the national music educators foundation and you look at the track record of the community school of art and others you will see that music education tracks our kids into academic excellence so I see the vision that's tracked here is dead on, I thank the steering committee.

>> Mayor Reed: That concludes the public testimony. Councilmember Liccardo.

>> Councilmember Liccardo: Yes, I just wanted to thank both Marcella and Jess, their organizations were served with a 30 day notice to evacuate. And rather than fighting and you know I mean a lot of folks particularly going through the turmoil that any arts organization is going through in this day and age would be screaming up in arms and both you and your organizations have been working very collaboratively with the city and everybody else to continue on. So I just want to express my appreciation for this and my congratulations to Marcella for her success in landing the \$800,000 grant.

>> Mayor Reed: I believe that completes the discussion on this item, we have the motion from Councilmember Campos all in favor, opposed that's approved, congratulations look forward to future

success on the vision. Our next item will be 5.1, citywide aquatics program status report.

>> Albert Balagso: Organic Mayor and council, Albert Balagso, director of Parks, Recreation, and Neighborhood Services and with me is Julie Edmonds Motta, director of accept on the status of the summer aquatics program that we have been putting together. Julie is going to provide a brief verbal update and then we'll be available for any questions that you may have.

>> Thank you. It's my pleasure to provide a brief update on the citywide aquatics program and our process to solicit alternative service providers for the pools that will no longer have service. On April 6th you'll recall that mayor and council approved a reduction to the citywide aquatics program thereby eliminating the 2010 summer program to two sites, Camden and Mayfair pools and achieving a General Fund savings of \$600,000 in the process. This recommendation was required because of the initial recommendation, the initial budget shortfall of \$96 million being escalated to \$116 million in a short period of time. So at that time city council also authorized the City Manager to negotiate and execute agreements with alternative services providers. And attempting to provide service providers at the city owned pools and at Almaden lake. The memorandum notes the success of location of an alternative service provider which we refer to as partner B as the California sports center who will be partnering with us to operate both rotary Ryland and fair swim centers. We're delighted to be partnering with Cal sports. They are a quality organization who runs municipal aquatics programs in other locations. They know what the missions of municipal aquatics programs are all about and we're very excited to be working with them at those two election rotary Ryland pool we started the outreach process and collaborative marketing of these new sites. In addition, the memo also notes that we've, in contract negotiations with partner A those negotiations have been completed and the terms of the agreement have been finalized. However, the partner still has several contract obligations that they need to meet in order for us to execute a contract. And that would be at the Biebrach location. We would anticipate that those negotiations to be concluded no later than June 2nd. Also noted in the memo, were the discussions with the county of Santa Clara, over a potential grant. We were hopeful that we would be able to restore more services through that. However we needed to establish a deadline of May 14th in order to save certain sites as Councilmember Pyle knows quite well. And we were unable to finalize those negotiations before that date. The conversations continue and if we are able to get a grant, those grant funds would be utilized to provide scholarships both at city pools and at partner pools. So as a net result, we would see city pools, four city pools open this summer, two operated by the city, two operated for sure with a vendor with a potential of a fifth pool being available at Biebrach. We would see one remain closed that being Alviso. I think Councilmember Pyle would like to make that announcement herself. With that that's a general update. We're available for questions.

>> Mayor Reed: Councilmember Pyle.

>> Councilmember Pyle: Thank you. I'm very pleased to say that of the \$70,000 that we needed to operate the Almaden lake, keep it open in all regards, we have raised \$67,250. So I am going to take a rest now and not raise any more money but I'm just so proud of the community outpouring of donations. It was very, very heartwarming especially at a time when there's a lot of struggles out there. But the consensus seemed to indicate to me that they are very, very desirous of keeping kids busy, swimming, having a good time during the summertime so I'm very happy about that. Thank you.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Thank you, mayor. Julie forgive me if I was distracted for a moment. I heard something this morning that there might be something signed with Biebrach, was I mistaken?

>> No I was -- yes, to summarize, the contract all the terms of the negotiation of the contract are finalized. We have an agreed upon contract and we're at the point of signature, yes, we are.

>> Councilmember Liccardo: Great.

>> But in order to execute the contract there are certain obligations that the vendor needs to fulfill.

>> Councilmember Liccardo: Right. Insurance.

>> We're hoping to -- yes. We're hoping to execute those insurances by next week.

>> Councilmember Liccardo: That would include instruction and recreational swim?

>> Correct. Those requirements need to be met in order for us to provide service there this summer.

>> Councilmember Liccardo: Right, got it, thank you to you and to Albert and I know that Norberto was out there at a community meeting as well at Ryland. Just want to say thank you. I know this has been even scrambling with very little time to try to pull a lot of folks together to be able to make this happen. So thank you for all your efforts and I see Dan wax back there too. I know he had his hands in it. I want to say thanks. I know this is very difficult circumstance to make this happen. I also see Tina Morrill here this is a great success. If for whatever reason, things don't come through, for Biebrach and specifically with regard to Alviso, is there some flexibility with staff, in terms of the timing, that is if we have a late-comer provider who tells us, you know, at the end of June, hey, we're willing to provide services starting August 1st, do we have the ability to allow somebody to come in to say okay, let's keep the pool for a month or two at least?

>> Yes, that is a little bit challenging. We've been exploring that possibility. The difficulty is, because we only have two pools open, Camden is pretty much almost at maximum capacity at this point. Currently Mayfair is at 60% capacity. So our ability to redeploy staff is fairly limited from those two pools. Of course we have the hiring process, the finger printing process so if we were to provide the service so to say we would have to bring on new staff.

>> Councilmember Liccardo: I'm sorry, I probably didn't -- I probably misspoke. I was referring to another provider come in that is another nonprofit that wants to run Alviso. I heard there were hurdles or challenges for them to come in late taking over a summer program. I want to see to what extent are those hurdles superable ?

>> To give you an extent, the accelerated RFI that was issued on April 13th we started contract negotiations on April 23rd and we were just able to finish with one vendor last week and we're hoping to get another vendor. So really it takes us even on an accelerated process a period of time to get folks on board. So it would be somewhat challenging. Now do one of our current vendors have capacity to expand, we could certainly explore that but California sports authority has come to the table and said they'd want to partner with us in a more expansive manner in the future but they really want to be successful this year and so far this is their capacity. Could they perhaps build additional capacity, perhaps but right now they are not able to do so.

>> Councilmember Liccardo: Thank you.

>> Mayor Reed: Councilmember Nguyen.

>> Councilmember Nguyen: Thank you, mayor. I just wanted to thank staff for your swift and prompt action on this matter. Obviously it is truly truly important. But I also wanted to thank the community members, Tina Morrill, thank you very much for your leadership and also, this really is truly a community effort. You know we have a councilmember who actually stepped up to the plate, Councilmember Pyle, which posed a challenge because a lot of the constituents in my district asked me the same thing, if the fair swim center closed down would I do the same thing and I said well it's safe so I don't have to take on that challenge. But also to you know to city staff, this is just -- it is just so wonderful to, you know, to ensure that we keep our kids splashing this summer. This you know, this is definitely one of those elements that the city provides, I think that it's just so crucial for our residents. And you know for the first time I'm just so excited that you know California sports center is stepping up to the plate to help

out. We -- I've spent -- my staff spent time talking with Dave Peterson and we're trying to coordinate how we can get bilingual staff out there to cater to some of the residents who speak -- who are mono lingual. So we are working on that effort. So thank you for all the hard work. I just have one quick question. Even with the California sports center taking over, or operating two of the swim centers, what is the staffing, city staffing arrangement for some of those pools, do we have part time staff that actually like sort of oversee what's going on? What is the relationship like between city staff and the partners?

>> Great question. It's very much a facility rental arrangement. And that is California sports center will be in charge of the facility. The city staff will still maintain the pools in terms of the equipment and the maintenance of keeping the pools balanced, the PH balance and chemicals in the pools balanced but will be very much like a vendor relationship where we're working collaboratively with them but they have total responsibility for the site.

>> Councilmember Nguyen: Great, thank you very much.

>> Mayor Reed: Councilmember Kalra.

>> Councilmember Kalra: Thank you, mayor. And I just wanted to thank staff for how quickly you moved to make sure these services could be provided, especially in some of the real high-need areas. Also as Councilmember Nguyen indicated, I want to thank California sports center and Dave Peterson. I know they very quickly, very early on indicated an interest in helping the city provide the they already were familiar with. I have a question regarding the two east side union sites, Santa Teresa and Silver Creek. It looks like as far as the discussions are fallen through or just never panned out with the east side union?

>> Council, we did make all six aware of the opportunity along with the associated cost of leasing the pools and then we passed along those folks that were interested, we had one interested party but it doesn't look like they're going to have capacity to do that this summer.

>> Councilmember Kalra: I know it wasn't a city owned pool, so we were ourselves kind of leasing the property as it is, the pool as it is, so it doesn't make sense for us to have multiple levels of bureaucracy. It's unfortunate that they couldn't get someone because the schools need the revenue as well and hopefully we can help facilitate that in the future to make sure that we can keep those pools available for the community and, at the same time, you know have them used and I'm sure the school district would rather have them used than not, than just standing idle. So thank you for that. And I want to commend and congratulate Councilmember Pyle, just the other day drove by Alum Rock park. I knew you had pretty much hit your target, I knew you had gotten close and you were well past half. It was good seeing the families out there and knowing they were still going to be there, just congratulations, you and your staff put a lot of work into it and again a very, very short time window. And so I thank you for that.

>> Mayor Reed: Councilmember Chu.

>> Councilmember Chu: Thank you, mayor. I wanted to thank supervisor George Shirakawa, working hard with my staff and our office to trying to get some city job grant to keep the Alviso pool open. I will continue working with him and also the DCP as well as some churches in Alviso to see if we can at least keep that Alviso swimming pool open during the summertime on weekends. And definitely would like to involve the city staff as well. I'm going to congratulate the Biebrach to finally find an operator, and I'm hoping that Councilmember Liccardo, oh, he's not here, would continue supporting the budget document 24 that we jointly authored to keep both the Alviso and the Biebrach pool open. Thank you.

>> Albert Balagso: Councilmember Chu, if I could just clarify. Should funding become available, through the county, this is what Julie had mentioned earlier that we would like the look at potential scholarship opportunities which would also mean transporting kids to aquatics facilities. At this point in

time, we're kind of beyond the point of no return of trying to open a new pool in which that would make it problematic for Alviso, as Julie mentioned earlier it's the ramp up time to get the facility ready and get staffing or even a vendor in place. So we don't believe that at this point in time, even should funding become available, that we would be able to open that in time for the end of the summer.

>> Councilmember Chu: The end of the summer, you know, we are kind of having late summer. So I don't know what -- what you -- how long -- what is your ramp up time to get a pool open?

>> Albert Balagso: It takes about three to four weeks for the county to get approval on the pool itself to get it ready for opening. It takes a series of weeks to get staff on board in order to staff that facility itself. As Julie had mentioned earlier, we have staff at capacity, at both the city pools that we're going to be operating this summer. So in order to get kids on board, to be lifeguards, they've already gone through that process. I don't have another pool to draw from, and most young people looking for lifeguard jobs would have been in employment already in another facility, like raging waters or great America or other city pools.

>> Councilmember Chu: So if we find an operator that's willing to take over that pool, it's already too late?

>> Albert Balagso: It's -- as Julie mentioned it took us five weeks to get one operator under agreement. And the remaining operator to the point where we've got a completed agreement.

>> Councilmember Chu: Okay, all right. So is -- you're saying that it is too late, even if I can get a church group that are willing to rent the pool for their church activity and also, open up for public over the weekend?

>> Albert Balagso: Well, we would be looking at more so, if scholarship funding became available. And we have done this in the past, is transport kids. Take them to other pool venues or we could get them engaged in aquatics programming.

>> Councilmember Chu: Great, okay, thanks.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: Thank you. And Albert, this is great that you guys responded so fast and got most -- a lot of these pools opened and operators. And in terms of the scholarships, so that would then, you two are not in an area where there's a pool such as the two areas where the two Eastside pools are not going to be occupied at this point, they would be eligible to scholarships to pools? Just trying to understand how that would work.

>> Yes, there's multiple ways to access scholarships. One would be through the city program at the city sites either Mayfair and Camden we still have a city scholarship program. In addition Cal sports has their own scholarship program so if folks were interested in either the rotary Ryland pool or the fair swim center they would have another access. And the third process would be the partnership with the county another fund for scholarships. Just to let you know folks in our summer camps also go to the pools to swim as a part of the summer camp program.

>> Councilmember Herrera: Yes, I'm very concerned about the silver keek and Santa Teresa not having ooms swimming is really important for these young people in the summer. I'm not sure why if operator didn't work out in terms of the agreement with east side union but I intend to continue to pursue that. And I'm wondering, out of this county money that might be coming, is there any room there to supplement if we were close to getting a private operator to take over one of those pools, would there be any money to utilize for that?

>> Just to give you an idea, the current time line on potentially securing grant funds would be going through the Board of Supervisors no later than probably mid June. And so we'd be a little late in the process. But it would still be possible to utilize for scholarships. But in terms of then securing a ramp-up

for a site that would be very challenging.

>> Councilmember Herrera: What I'm wondering if the operator, I don't know why the operator hasn't decided to do the pool but if it was a matter of gap in terms of the leasing fund so that the operator could move forward could any of the money that's coming from the county or these other sources be used to close that gap? I understand you're using it for scholarships. Could you use it to close the gap for the renting of the pool by a private operator?

>> Albert Balagso: It was not necessarily the monetary amount in order to get the pool. It was the capacity of this particular operator to operate multiple pools. And they are already operating facilities, and they could not add another pool, which were the schools.

>> Councilmember Herrera: Okay. I'm going to continue to look at other operators. I was not told why it couldn't go through, that is helpful Albert. I just think we should -- I comment Councilmember Pyle for her effort, I think that's wonderful keeping Almaden open working through there's obviously limitations but I do think we need to push as hard as we can to keep these pools open.

>> Mayor Reed: Councilmember Kalra.

>> Councilmember Kalra: Thank you, mayor. If I could add a little bit with regard to Eastside pools, one of the issues was obviously with our pools that we own we have the ability to be a lot modifier flexible and I do think that the time was too short for Eastside union for them to change their rates. That was my understanding that was one of the problems that it wasn't going to be price competitive for someone to come in and do it unless we're more flexible on the rates. Hopefully the time then it was just too short of a time in order for them to do that. Again that's just my understanding of what happened. And I think there's a great opportunity for us you know collectively and individually in our districts, in advance of next year sitting down with private partners as well as the school district to say okay what can we do to make sure this doesn't happen again to keep these pools open in our school districts as well I think it was it wasn't our pools it was -- they weren't able to again go to the third party that owns the pool and make the arrangement oops I agree I would love to have too pool open again this year.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Just to build on Councilmember Kalra's point. I'm hoping you can explain for us, as I came across this problem, I recognized that pools were a tier 2 cut in last year's budget process when we knew we had a bad budget. We were looking at a budget deficit in excess of \$90 million for this year, at that time, that was a year ago. What was frustrating for me was seeing for the first time this come to council in April as opposed to all of us talking about it in September. And so I'm wondering what held it up?

>> Albert Balagso: Councilmember Liccardo, you're correct it was a tier 2 cut. Back in September, the budget deficit was projected to be at \$96 million. As it increased to approximately \$116 million, \$118 million, certain elements of tier 2 were brought forward in order to address that gap that we were now facing. The challenge that we have with aquatics is that the cut that tier 2 we were proposing would have been for the following outyear, summer. Because of the ramp-up period that we do have, it forced us to accelerate that into this year. And you know consequently, as Julie had mentioned with the ramp-up period we start in at the end of February, early March to get the pool up in mid June. So we were up against the wall to try to find a solution or not. And then fortunately we were able to bring on board with council's approval of the unique services purchase, California sports center. It was not our intent to bring it up this quickly.

>> Councilmember Liccardo: Right.

>> Albert Balagso: But the degradation of the budget itself caused that to happen.

>> Councilmember Liccardo: Okay so in the world in which the deficit was 96 million you didn't expect

to close it in fiscal year 10.

>> Albert Balagso: That's correct.

>> Councilmember Liccardo: I got it, thank you.

>> Mayor Reed: I would like to take public testimony at this time. Tina Morrill and Ross Signorino.

>> Good afternoon, my name is Tina Morrill. I'm here representing the friends of Ryland pool and I want to say thank you guys very much. We are really really happy this pool is open. I'm especially thankful to Norberto Duenās and Julie Edmonds Merrill. You guys really worked hard, mayor, you often say the speed of business. They really hustled. One of the things that came out of the meeting yesterday couple of comments from the friends of Ryland pool. One ever them was, wow this vendor really wants to do business with us, they're excited. This is really, I forget what the quote was, this is a really good partnership that the city has with this vendor and us. And so what I think is really cool about this is it's creating a lot of goodwill. Sometimes there is a certain level of cynicism that happens with community members and the city. And I really feel like this is a positive and that can't be measured but it's great so I want to say thank you very much. We're really really excited to have them. And excited to have the kids in the pool. Thanks.

>> Mayor Reed: Ross Signorino.

>> Ross Signorino: Thank you, Mr. Mayor members of the council. This morning as I was shaving along, my mirror was a little dirty, there was a couple of dirty spots but nonetheless, I was listening to KLIV, 1590 on your dial. The announcer was saying, which I was believed to hear that Councilwoman Pyle got volunteers to raise the money on their own to keep this swimming area open. I thought that was incredible. Mr. Mayor, I want to make a request from you, if you don't mind. Being that she is a Councilwoman. I wonder if you would allow her, or at least I allow me to have this request, that she would elaborate a little bit on that. I would appreciate it very much, the success of that operation. Thank you.

>> Mayor Reed: That concludes the public testimony. Any additional comments or questions, I don't know if we have a motion or not on this. I think this is just a report, to approve the report. The motion to approve the report. Any additional comments? All in favor? Opposed none opposed that's approved thank you very much. We'll take up item 6.1, airport competitiveness strategic plan. Well, this isn't actually the strategic plan. The beginning of the strategic plan but that's the topic matter.

>> Bill Sherry: Thank you mayor. Bill Sherry, aviation director for the City of San José. The item that you have before you today is an outcome from our March study session on the airport's financial position. And also, a result of the mayor's March budget message which was approved by council. The budget message deregulated staff to prepare a work assessment plan to develop a five-year strategic plan to keep the airport competitive. That work assessment plan went to Rules earlier this month, and was approved and moved forward for your consideration today. I don't have a presentation, because we've thoroughly discussed all the issues. But my staff and I are here to answer questions the council may have. What is important to note though is what action you're taking today. And what action you are not taking today. You are not approving any specific proposal that we have discussed. Those will be approved either in the FY 10-11 budget or in the FY 11-12 budget. What you are approving are the strategic principles that we've laid out in the work assessment program. The major items for us to look at, as we move forward through the course of the next year, and to bring back areas of efficiency savings that we can realize. So that's what you're approving today, is just the strategic principles and giving us the green light to move forward to study those items. Other than that, Mr. Mayor, I stand ready to answer any questions that you may have.

>> Mayor Reed: We have a motion to approve. I have a couple of questions. First, in your

supplemental memorandum, there's an attachment B which shows the airplane's cost per enplanment. A lot of airports, San Francisco international airport being one of our closest competitors and probably the most important competitor, shows the cost going from \$15 in '07 to \$13.74 in '09, representing an 8% decrease. Is that been driven by their growth in passenger count or have they done other things to reduce their costs? I know they had -- they were in trouble a few years ago, southwest left San Francisco and only went back when they reduced their cost. So this is part of their overall long term cost reductions or just traffic?

>> Bill Sherry: I think it's part of their overall cost reductions. San Francisco did a fine job of finding cost reductions, also restructuring their debt, and they are an anomaly in the industry today, because they're one of the very few airports that have positive growth. So all of those factors, I think, led to lowering the CPE but it is expected to rise in the years to come because they're taking on more debt.

>> Mayor Reed: But they have made made some kind of commitment to the airlines what level it is not to exceed or something like that?

>> Bill Sherry: We understand they have and the commitment is to try to keep their CPE at or below 18.50.

>> Mayor Reed: Okay, Councilmember Constant.

>> Councilmember Constant: Thank you, mayor. I just want to underscore the importance of these actions, I know we had the budget study cigs about this and we talked about it again at the Rules Committee meeting but the future of our airport really is at stake here and we have a lot of challenges facing the city. I know one thing for sure and that is we cannot allow our airport to fail. We have invested over \$1 billion in it. We have the grand opening I think a month from today, the 24th or 25th of June. And these measures are measures we have to take and we have to take quickly. And I know that our airport staff has done a lot of research in this area and put a lot of effort into bringing us what's in their best professional opinions of what we must do. And I know when we had our study session there was a lot of hesitation on some of the areas. But it is simply something that we have to do. And it is vitally important not only to the airport but to us as a city and quite frankly to the entire region that this airport services. So I just encourage everybody to wholeheartedly vote for this and to stick behind this plan as we move forward. Thank you.

>> Mayor Reed: Councilmember Liccardo.

>> Councilmember Liccardo: Thanks mayor. I echo Councilmember Constant's views here. I think we're at a tipping point here and as we see cost rise there, we could start to hear a real strong sucking sound coming from all the airlines that are fleeing the airport, as the costs drive them out. And I think we need to take immediate action. Because the opening of this new terminal which is spectacular looking and wonderful, could be followed by a real collapse if we don't take immediate action. I know there are many taxi drivers who are here who are very concerned about one of the proposals on page 6, specifically on simplifying taxi administration, IBM and I just want to ask you a question, if anybody else from staff would like to respond that would be fine too. I recognize this is been a considerable burden open staff. I know because every three or four months we have a new meeting in front of the transportation and environment committee over a different request to change the model. And it's coming from one stakeholder or another. And everyone agrees that the model's imperfect no matter how good we make it and so that requires then more investment of time and staff. The question I have is this: If someone were to -- if a Genie would grant your wish that we wouldn't change the model anymore that it would stay exactly as it is, would we have the staff to be able to administer as it is today?

>> Bill Sherry: Yes. To answer your question, councilmember, it's all about setting priorities. And taking the scarce resources that we have and allocating them out. I think from -- if you look at it from our

perspective, in order to provide taxi services, ground transportation services for strictly looking at it from the airport perspective, a concession model is the most effective, efficient means. And that's a concept that is pretty well adopted throughout the nation. Our model is more open. And it provides many, many benefits to the community at large. But it puts the burden, the financial burden of administering that program on the airport, who doesn't receive much of a benefit from it. So it's really how we administer the program, and where those resources come from. I think there are options. Obviously, one end of the spectrum is to do away with the model entirely. The other end of the spectrum is to keep the model but to try to find some efficiencies in it. And that's really what we're looking to study, is what are our options and bring it back so we can have dialogue at the council.

>> Councilmember Liccardo: So this isn't a binary choice of go from the current model or back out staff involvement I imagine one thing we can do is stop coming back and trying to change it.

>> Bill Sherry: That would be one good one.

>> Councilmember Liccardo: Okay so I'll take that point and I hope others are listening as well and we'll move on. Thank you.

>> Bill Sherry: Okay.

>> Mayor Reed: On that topic, one more thing. Cost recovery under the current model some that seems to me as an option that ought to be explored, even if you keep the current model we're still running negative I believe, just in recovering the hard cost of our administration. I certainly would put that on the table to be considered. But I think the important point, considering the number of people who want to speak connected to the taxi question is we're not making any decisions here today about taxis or anything else for that matter.

>> Bill Sherry: That is correct.

>> Mayor Reed: Okay, we're just beginning the process of figuring out how to go about making those decisions. Councilmember Kalra.

>> Councilmember Kalra: Thank you, mayor. First of all in regards to the supplemental report, it indicates that additional and I just want to make sure that I'm clear on it, some of the additional recommendations from the Rules Committee, included reducing the CPU target as well as at least consideration of the unallocated T.A.I.P. bond funding in order to achieve some of those CPE goals and the modest growth in the forecast, that's all included in the supplemental. So in terms of those, I know that in the original memo, Bill, that you had put forward those were not in there. And so I didn't get an opportunity to watch the Rules Committee discussion on the specific issue. But is that something that you can work with as well in terms of putting this project together? Because I was also when I first read your memo by itself I was also going to discuss at least having the option of the T.A.I.P. bond money, at least having the issue on the table rather than just closing it out. So I don't know if you have any thoughts on that.

>> Bill Sherry: Yes, councilmember. In between the issuance of the first memo and then appearing at Rules, we did some additional surveying throughout the nation of large, medium and small hub airports which is one of the attachments or is the attachments to the supplemental. And what that really did for us is, it shined a light on the fact that maybe our goals we were setting for CPE were still too high saying that we just want to be below San Francisco wasn't enough. We would have still been the most expensive medium hub airport in the U.S. which would have been a very undesirable position to be in. So because of that we concluded that we cannot, not consider the surplus funds from the program. So that is very much still on the table. And we will study to find out how we can tap those funds, and what the legal barriers are in tapping those funds. In certain terms of the growth, we do have growth anticipated in our projections. I think it's in the order of magnitude of about two and a half to

3%. So if we achieve that growth or more, we're to the good. But if we do not achieve that growth, then the problem worsens.

>> Councilmember Kalra: Okay, and yeah, I'm not suggesting that you know we just open those funds up and make up the CPE difference that way. But I think that it's good to have that there, especially we don't know both the positive impact of having a new airport as well as what, if any, improvement we're going to see in the numbers based upon the economic turn around. It doesn't necessarily -- economic turn around doesn't necessarily equate to better numbers at our airport. Maybe the Bay Area improve. So we want to capture as much of that improvement as possible in terms of increase in air traffic. Good, I'm glad that that's in there and I'm also glad that the explanation is in there in comparison to other airports to make the point that we need to stay aggressive in our goals to make sure that we can really continue to attract flights. And I want to commend you for the flights that we have attracted. I think we've seen even though we've lost some we've seen new ones come in over the past months, that is really a hopeful sign and that's prior to the full opening of the terminal so that's good to see. In regards to the taxi issue, the taxi administration, the mayor just discussed kind of getting to cost recovery on that. And I'm just curious as to why we're going back down, why are we going back down the road of concessions when there's been so much time and energy into now having -- seems like I've been here year and a half and prior to that there has been tweaks and adjustments and more efficiency and getting GPS and all these different things that these taxicab companies and drivers are complying with and now to go back down that road seems like it's going to take a lot more energy and a lot more angst than actually the benefit we might get out of it and our time may be better spent focusing more on efficiencies in the current model of administration as well as cost recovery rather than again, opening up a can of worms that I, you know, that we don't necessarily know what the end result is going to be. So you know, you list it, I bring it up because it's listed as a specific administrative efficiency recommendations. I don't know what your thoughts are on that or whether it's even worth it to go down that road, particularly in looking at comparison of what the other airports do.

>> Bill Sherry: Yes, councilmember. It is not a recommendation for us to revert back to a concession operation. It is a recommendation for us to study to try to find efficiencies, in the operation, and bring them to council so that we can talk and discuss and have dialogue on how we best can operate in the most cost-effective way. Ultimately it's the council's decision of what model but regardless of what model it is, I think we want to operate it as cost-effectively as upon.

>> Councilmember Kalra: Yeah, and I agree with that and I think that given the margins in the taxicab industry as well, and the struggles that they've faced that sort of paralleled struggles that they faced with the airline industry and the airport, that it's going to be incredibly important to dialogue with them to see where they can find efficiencies as well. Working together hopefully we can identify some efficiency, hopeful that something that will be contemplated as well.

>> Bill Sherry: And councilmember, we've already started that process. I have to congratulate and commend and thank taxi San José. They have already stepped forward with a very detailed proposal to try to identify where some of those efficiencies are. And we're in the process of having dialogue with them, to vent those out. So that process has already started.

>> Councilmember Kalra: Okay, yeah. So I think that is something that will be important, to make sure we're maximizing the system we have to try to get as much as possible for cost recovery but make sure that we're also sensitive to the challenges that the taxicab drivers as well as the owners of the companies are having at the same time as we are. Sort of growing efficiencies, as well, thank you.

>> Mayor Reed: Right now I'll take public testimony. We have a lot of people who would like to speak. Remind you we're not making a decision with regard to taxis. But you're welcome to talk. Frank

Sweeney, Dan Fenton, David Wall are the first three superior courts.

>> Good afternoon, Mayor Reed and members of the council, I'm Frank Sweeney chairman of the San José airport commission. I'm speaking for myself at this point because the airport commission at our last meeting was unable to make a recommendation on the majority of this strategic plan. However, I support it fully. The airport commission did vote to recommend the items that are included in the 2010-2011 budget proposals. The remainder of the items unfortunately we were a little short of bodies. We have two vacancies because of recent resignations. One member was out of the country on business and so we were down to four commissioners. It takes a vote of four to adopt anything and we fell short. And so I just urge you to support the staff's report and the Rules Committee report, in my 45 years here, associated with the airport in one way or another as a passenger, as an observer and on the commission, I've never seen the financial straits so dire so I urge you to take immediate action. Thank you.

>> Mayor Reed: Dan Fenton, David wall, Michael Filarsic.

>> Dan Fenton: Thank you, Mr. Mayor and councilmembers. I really would like to make two points, one as CEO of Team San José I'd like to make one point. I like all the things Bill Sherry is making commendable. We work hand in hand with them on trying to attract new flights not airport. The most recent one was the Volaris effort that we did together and I can tell you firsthand that every dollar that we can help the airlines with is going to be critical in terms of how we attract new carriers to San José. So I want to say that. Secondly, there is one part of the proposal that we certainly want to speak to and that is the concept around changing the taxi model. We have as Bill Sherry mentioned we want to be part of the solution, we have presented some ideas so really on behalf of all the stakeholders that make up taxi San José there is a lot of effort to be part of the solution and really be helpful as it relates to how we make this work. Taxi San José has been in existence for five years, we're proud of the work it has done and we're proud of our partnership with the airport. future progress of the airport thank you.

>> Mayor Reed: David Wall Michael fillarsic, cabadi caba.

>> David Wall: First I'd like to give thanks to our director of the airport. He's run an outstanding program guide the encumbrances of overtime cost from City Hall, political issues such as prevailing wage, living wage and the art tax. But the success of the airport does not really hinge on anything that he can do. There are things out of his control. It's not going to be his fault or City Manager's fault or any of your faults. It is what is going on in the world. Currently the price of oil is at \$68 a barely. Jet fuel is going to go up. You have all sorts of conflicts arising in currency markets which interferes with the Libor rates in which the airlines borrow money for a variety of reasons. Then you have the catastrophic events of three of our state's economies that have been declared federal disaster areas. You have also the problem in China with the Shanghai index dropping 20% and also their real estate issues are on the verge of a bubble collapse. The bond markets are also looking at a potential bubble. Not to mention potential outbreak of warfare in the far East, and all these things are additive, cumulative and in no fault whatsoever the administration, should the airport in your 24 team be able to service its debt of \$60.1 million. So he's done a really good job. But there's forces that he can't control.

>> Mayor Reed: Michael fillarsic, cabidi cab arvetion, Amed Ray.

>> I'm with taxi San José. Taxi San José understands and supports the effort that if airport mass been making with that taxi San José in conjunction with the drivers has been working with the airport to reduce cost and as well as administrative duty responsibility by taking on some of those duties ourselves. The drivers themselves have been very supportive of the airport to increase in their fees to help fund those administrative cost that they requested last year. Right now it is our hope that there are

additional costs involved with this model that those costs are quantified so we can look insist in hemming this cost. If there are administrative funds that are reduction those administrative duties as well. Thank you.

>> Mayor Reed: Cabedi caba. Ahm rvetiond Farey, farwua.

>> Thank you, Mayor. Attend to fix it in the right way. But in relating to this budget, the proposal to change the taxi model is hurting and disappointing. Our airport management fees were increased from 240 to 253. We generate about 1.5 million every year to the airport. That's the good service we provide and huge money we pay is undermined. In addition the director should have considered the hardworking drivers input the customer satisfaction, why and how the old taxi system would send you to the present one. Advantage of the new model, it's creating peaceful environment to the airport. Good service to the public. For the past five years there were no customer complaints. Increased irprt taxi companies go the opportunity to operate in the airport and to grow. It boosted a morale of drivers, and satisfaction to give good service. It helped good drivers move from one company to the whole to created a sense of freedom liberty and to the small business owners. The old closed concession system its only advantage is for the one company. Its disadvantage are a lot. Creates greater dissatisfaction, dissatisfied drivers cannot give good commerce service it leads to higher gate fees and affects drivers lives. Establish one company monopoly, economic arrest and this will again take much time of the city council. How we can help? If the city allows us to manage our business the taxi driver association is ready to take all what is burden to the airport staff. This also enables the drivers to reduce their airport management fees or result any additional cost to the drivers. The San José taxi management is ready to take the taxi from the airport if the power is delegated to it. All the drivers as a second joint --

>> Mayor Reed: Sorry your time is up. Your time is up.

>> Thank you.

>> Mayor Reed: Ahmad farah, Kapal Bajwa, Atela.

>> Thank you mayor I'm speaking on behalf of the taxi drivers. As soon as this new system has been implemented, the customer service of the airport has been improved, the airport of the income has also had risen. And the revenue created by the drivers has gone up. So to go back to the old system, it's just only bringing back the negative side of the -- what we have experienced before. So I would like to respectfully oppose the proposal of going back to the old system, are which only gives us the opportunity for only one company, and that company is the drivers income and the rights of the drivers px thank you so much.

>> Mayor Reed: Capel Bajwa, Bajwat. Please come down as I call your name.

>> Honorable mayor, city staff, thank you for giving me time . About the proposal given by Mr. Bill Sherry, we have a big concern here. This is not the right time to change the old system, because city has spent a lot of money lot of efforts and time and we also lobbied for many ills to come to this at least regards something good and that's working very well. And it's not correct also because it was collecting \$1.5 million from the drivers in the new system. And the involvement of airport staff is very, very limb. So that's why attending to the old system will not bring any news at this point, thank you very much.

>> Mayor Reed: Atell, Sayu Masarat, aSigne.

>> Thank you Mr. Mayor, it works well to the drivers, it works well to the cab companies, it's the competition to the cab companies and is a free choice to the drivers. Secondly, we are not part of the problem, for the airport, deficit, but we are part of the solution. We, the 1.5 million and we are the problem for taxi drivers, with burden of recession, with six fares or five fares every day, so we request to the city council, the system is the best system we have, thank you.

>> Mayor Reed: Sayu Masrat, Kendi Sategni, Masrel Baines.

>> Mr. Mayor, we more than anybody, you know how long it takes to get here. Sometimes I see like Cesar, we cross there is no way to go back if there is any problem there is always challenge. We have taxi San José, we have very strong driver association, there will be a solution. And sometimes I wonder, Mr. Mayor, you know, how much time you put into this effort. And I don't think so, you need us to surround so we know the challenge. There is less money in the system. But there is a solution to, I'm glad today Mr. Bill Sherry says, taxi San José has some recommendation. He is going to look at it open mindedly and will be part of the solution. Thank you for your time.

>> Mayor Reed: Kendi satigna, Baines, comelatu Sune.

>> Thank you, mayor, city council member.

>> The system what we got here Asrat what you say, we spent a lot of times, lot of energy and we spent a lot of money. And the committee, you guys not new. You know how much time we spend on it. And just grinding water, so water, the more we blend it, it's going to get dirty. And evab rate. You put air in a balloon. If it's above the city it's blown. This is a country, this is a nationwide disaster. The budget is all over, it's not in San José. I see it with my eye. Five days ago, from the scratch to the finish, more than \$35,000 material has been scratched from the airport to my eye that drivers, that's the community money. That's the public money. That's the responsibility. Hundreds of thousands of dollars it's been earning, think about the public. I don't think Mr. Sherry doesn't know what hardship means. We spent 18 hours every single day. To take a consideration about the by the way it's not the cost of money, it's the cost of life. We lost seven drivers the last three years. Airport drivers, nobody past oches why, the straight, the time, what about my friend, he die --

>> Mayor Reed: Sorry your time is up. Your last next speaker is Seran Paul Baines, followed by Calumchu, Bena.

>> Mr. Mayor and councilmembers, I just thank you that you are keeping the same system. Because all the drivers working in San José they want the system should remain as it is. And we don't want any new system to those people who are talking about the new system, they are talking about the creation of unrest among the drivers. And unrest means unrest for the city and the drivers and us, so thankful to you that you are keeping the same system as it is.

>> Mayor Reed: Kalumched Desunee, Mohammed Ali.

>> Dear mayor and councilmembers i'm here just to tell you, the existing system is very important system for drivers. We need the existing drivers not to change this existing system. Thank you for hearing me.

>> Mayor Reed: de wit Bide, Mohammed Ali, Carenu .

>> Thank you, mayor and councilmembers. The reern I am here, the reason we are here all of us, we need the airport already said it but I don't know to repeat it again but I just want to tell you we are happy about this new system. Thack.

>> Mayor Reed: Mohammed Lee, Takadu Caremu. Chamali --

>> Thank you, mayor, thank you councilmen and ladies and thank you, I am here today to tell you what is happening at this airport. Got opportunity to speak, in front of you guys, in 1996, '97, '98, you know how this place was, the taxi driver was every day was here in the City of San José to make a change. We looking for a change. We asking for a change. Monopoly, only two cab company. Today after 2005 this model and city spend all this money, to steer, they come out with this model, it's working, it's working. It's not perfect but it's working. We want to keep that way our family and everybody thank you guys, we invest our taxis, compared to 1996, it was dirty cars all the cars, now we have brand-new cars, clean cars, green, everything, please keep this one. Let's go forward. Bill Sherry, want to work with you. We want to come to your office, let's work together. Thank you.

>> Mayor Reed: Takadu Caremo, jamali andulaharim.

>> Mr. Mayor, I'm here, proposed by Mr. Director, as opposed to going back to the old system, I believe working with our association and taxi San José that be more -- that's going to be more solutions and back to old system helping one company instead of 300 drivers and 1800 family members. When Bill Sherry about this new system or back into the old one has to consider our family and ourselves too thank you.

>> Mayor Reed: Jamali andulaharim, Abdul Malik Chakir anhami. Last chance.

>> Honorable mayor, city council members, my name is Abdul Harik. I post office Mr. Bill Sherry's proax giving concessions to one company. This program was adopted by extensive study and all our drivers are happy with it. Another thing is if the airport really want to reduce their burden they can do so by giving their burden to taxi San José and taxi San José is ready to accept it. Thank you very much.

>> Good afternoon, Mr. Mayor, good afternoon, councilmembers. My name is Shakir Boni, you guys know my face. I go to T&E, I go to other committees. I'm here to say one or two words only. As you say Mr. Mayor a lot of times at this chamber and the other places, the model of taxi San José, the new one is working perfect. We're not going back. It's jury last work for the last session. I don't know, whether Bill what he is getting from his suggestion, he work with 200 papers under the last column of his deficit reduction suggestion. But as the driver association another 600 drivers who work in their community right now I'm here to say the system and the model of this taxi San José is working. We are really your leadership the way you guys design for the last five years. Those people are supporting, they are all taxpayers, they are people who like to you guys. So away I'm saying here is, one point, that's my last word. We are happy. If it's not brick, let's fix -- we don't need to fix it. If it's running good it's not broken. The companies that have been -- the drivers ever happy, the D.O.T. is doing their job and they doing good job so please, I'm requesting you guys that. Thank you.

>> Mayor Reed: That concludes the public testimony. Councilmember Liccardo.

>> Councilmember Liccardo: I just wanted to thank the many members of the taxi driving community who came out to speak. Obviously this is something we'll be taking up in the next couple of months. Going to Shakir's point, it warms my heart many people say the process we have is working. We haven't heard that in a long long time. The challenge is, the broken part is we have got an airport that's really on its last legs financially if we don't enact some very very serious changes. The challenge is there's a shortfall between the amount of money it costs to run the current system and the amount of money that's generated. One of two things has to happen. Either Team San José has to shrink and the amount of staff and times needs to shrink so there would be essentially less administration or there's got to be more fees and somehow or other we have to find a solution that has got to keep this moving without running a deficit from the airport which as I mention needs lots of help right now so I appreciate you all coming.

>> Mayor Reed: Councilmember Kalra.

>> Councilmember Kalra: Thank you, mayor. Bill, looking again at the bottom of page 6, talk about simplifying the taxi administration, I know you've indicated that look, we're just looking at differently ways to improve efficiency and improve costs. But I can understand why these taxi drivers are here and reading it, it likes screams clearly that the implication is it's too expensive to operate, administer the open system, and administrative time orequred to elicit taxi services. So it definitely gives the impression that that's what you would like to have analyzed. Rather than that, I think as the mayor stated earlier, focusing on cost effectiveness and efficiency within the current system I think is more important. I mean look, we all understand that there's less money to administer, and we're not getting cost recovery in the way it's being operated right now. We have taxi San José, and the taxi drivers that are here all of whom

are small businesses themselves individually as well as companies. That are saying they're willing to work to find ways to make it more efficient. The system's working now. I think we're on the verge of unveiling a new airport and we have peace with the companies and the taxi drivers and if there's an issue regarding cost then that's something that I think again that we should just focus on that component of it rather than the -- at least it appears to be that the primary focus is looking at open versus closed as opposed to the primary focus being of where we can kind of bring the two together, of the cost not matching the money coming in through fees and other types of revenue sources. So given that, with the way the -- given the way the memo's written I would at least like to suggestion to the maker of the motion, the seconder, that that at least be included in the -- as the primary focus of the discussion, rather than the current verbiage which really seems to focus more on open versus closed but rather we focus on cost efficiencies and how we can make it more cost effective within the current system. And if, you know, Bill if you have data or evidence or also want to analyze other systems and how they can be more effective that's one thing. But I think our primary focus should be to focus on what's working at least administratively now and cost effective, maker of the motion, make the current system we have more cost-effective rather than looking backward to a system that clearly caused a lot of strife and a lot of tension between the taxi drivers and the city. [applause]

>> Councilmember Liccardo: I think the staff use ago not tick, which has been moved all we see are alternatives for significantly reducing airport' cost per enplaned passenger. I think that clearly encompasses what you're describing, Councilmember Kalra.

>> Councilmember Kalra: Well, again, along with the recommendation it focuses in terms of the taxi administration on closed versus open. All I'm asking is that as part of the motion that in terms of that particular component of cost savings that we focus more on the cost savings within the current operation model rather than looking back into another model that caused a lot of issues.

>> Councilmember Liccardo: Well, I think that there's -- I mean I hear what you're saying. The text of the memo is not part of the motion. Part of motion is reducing cost. I think Bill's been very clear. I think we understand what where we're going, we're trying to reduce cost. Bill do you want to --

>> Bill Sherry: Yes, thank you, councilmember. I think the focus for this and what the council is acting on are the strategic principles.

>> Councilmember Liccardo: Right.

>> Bill Sherry: If you go back to the strategic principles it talks about cost competitiveness and trying to be looking at all the service deliveries and how best to make this airport cost effective. If I can give you any assurance councilmember, it is not just open or close. That's not open or close. What we're saying is of all the options we have how can we get this to be a cost effective service delivery for the customer and for the users. So I hear what has been said today and I understand that there's a strong desire to keep the existing operation. The question is, is can we achieve cost recovery and even better than that? So we need the time to look into those issues.

>> Councilmember Kalra: Then I hope even within I mean the strategic principles I know are much more general and don't go into the detail specifics. However, I hope with the discussion that you really focus, that you focus your time on really the actual cost savings within the system we have rather than putting inordinate time into looking at other models. So I hope the message has been Quaid at least from my perspective that more time effective or cost effective in terms of time and your staff's time is to look at that rather than look backwards at a system that you know, at an old system let's look at the system we have that's taken a very long time, a lot of work on your part and your staff's time to get to, let's put the focus on that part, let's hope that that is what you will consider in terms of having to achieve some of the strategic principles.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: Thank you. I just want to support what Councilmember Kalra is saying about at least focusing on what we currently have. I got involved in some discussions regarding taxis briefly and was told soundly, we don't want to change it. We finally got a system that works. So I became convinced of that. So I would just obviously? The principles that are here don't list any specific remedy today or any solution. I think that should be, again, that point should be made to all the taxi drivers that are here today, that we aren't making a decision about any specific remedy I think the point is well taken that we should look at what's working in this system. There has been a lot of investment by the city, taxi drivers, taxi San José stepped up so I'm all for trying to see if we can make that work and definitely support everything you're trying to do Bill with making our airport competitive. We have to, we've got a \$1.5 billion investment in it. This airport has to be -- it's a separate profit center. It has to make it on its own. But I think we need to work with the good things we have and I think one of those is working with our taxi drivers. Thank you. [applause]

>> Mayor Reed: I don't think there's anybody up here spent more time dealing with taxi issues that many I have and it was more invested in the currently model that I have because it was a vast improvement of what we have before but nobody will be hurt more than the drivers if we start losing airlines. If we can't keep our costs down, we will lose flights and the taxi drivers will eat it more than anybody. So they have a huge stake in working with us to help us deal with these cost issues. And then one last question, Bill. On that topic. You said if we were at \$15, we would be the highest priced medium hub in the country. I have been looking at your report. I think we'd be the highest priced airport in the country at \$15.

>> Bill Sherry: Yes, Mr. Mayor. Understand that these are one to two years old. So all of these airports will be going up. And what we're talking about is forecasted rates. Ceem it apples and apples, these rates will go up. Regardless even if we achieve every effort we're after we will still epees be a high cost airport.

>> Mayor Reed: That isn't good to get more flights to handle more passengers.

>> Bill Sherry: We want to be in an acceptable range. We understand we're going to be high but in the acceptable range.

>> Mayor Reed: Okay, I think we concluded our discussion. We have a motion on the floor. All in favor, opposed, none opposed, motion is approved. Now you can do the hard work. Thank you all for your cooperation and patience. That concludes item 6.1. We'll move on to 6.2 as long as we're talking about the airport. Award of contract for the taxi way W reconstruction project at the airport. Is the next item. Got a second. Got a motion and a second, okay. Motion to approve. All in favor? Opposed, none opposed that's approved. Item 8.2 is a 2010 assistance to firefighters grant application approval.

>> Councilmember Constant: Motion to approve.

>> Mayor Reed: We have a motion to approve. All in favor. Opposed, none opposed, that's approved. Item 3.4, we have an appointment to consider to fill an unanticipated vacancy on the police and fire retirement board. I assume we have the one person who is applying for this here. And what we will do is, the way we usually do interviews, this is a little more formal than usual, usually we are in the committee room. We will give you a couple of minutes to tell us why you think you should be appointed. Then we'll ask you questions. You're welcome to stand or sit, whatever your choice.

>> Thank you, mayor. City council members. My name is Sean Caldor. I stand before you because I'm seek your appointment to the position of fire department administration for vatted by the recent retirement of battalion chief Keith Keesling. I offer you my education and experience which I've outlined in the information packets and has been included in your agenda. This includes a business degree,

bachelor's of administration business, 14th year of corporate experience with nine years of qualitative and quantitative analysis of business and markets serving wallets and other clients as well as strategic planning for a \$1.knife billion division of AT&T. I'm simply available to answer any questions you may have.

>> Mayor Reed: Thank you. I think we have a few questions here. My first question is, you know, you're used to the different role that you play once you put on that uniform. Have you ever put on the trustee hat, and had to be a fiduciary in the past?

>> Not for public funds or pension fund. But in the corporate world, where the -- there's certain regulations as you report to the SE.C. and those the legalities. Associated with that cps we had to deal with that on a daily basis going through mergers an acquisitions as our company was acquired and as we acquired other companies.

>> Mayor Reed: You understand that being a member of the fire department and a trustee for the Police and Fire retirement board.

>> Us to preserve to meet that designated fund use .

>> Mayor Reed: This they told you you might have to get insurance for your personal liability?

>> Errors and emissions, yes.

>> Mayor Reed: Sometimes that comes as a surprise to board members. I note to councilmembers. Councilmember Kalra.

>> Councilmember Kalra: Thank you, mayor and Mr. Calderer, are you aware of the time commitment and have you -- I don't know if you've ever -- have you gone to the meetings or had a chance to?

>> I've gone with them for the past chief Keesling has been very good, both in the committee meetings and the research and the information packets that go into that.

>> Councilmember Kalra: I'm glad that do you have some expertise that could be very helpful to you and I wish you look luck a lot of difficult decisions an choices are going to have to be made. I sit on the federated board with Councilmember Constant and I know that Councilmember Liccardo and Herrera sit on Police and Fire retirement board. And although looks like at some point in the near future you know we may not be serving in at a capacity anymore I think it's good to see that there's someone like you does have some legitimate experience i'm confidential trustee hat on that can you do the same.

>> Thank you very much, councilmember.

>> Mayor Reed: Any other questions? Thank you for your interest in this. We appreciate it. Are it's a tough job.

>> Thank you.

>> Mayor Reed: We know that. We have a motion to approve. All in favor? Opposed? None opposed, that's approved. Congratulations and thank you for your interest, and your service. We now have joint financing authority item to tape, and then we'll have the redevelopment agency portion of the agenda. So this is the -- a joint-joint meeting, I guess. City of San José and our financing authority joint meeting. City Manager. I think Councilmember Pyle is going to abstain.

>> City Manager Figone: Thank you, Mr. Mayor. Members of the council. I wanted to open this up. Typically your financing authority decisions are very technical, very important but don't often need a significant presentation. I think this one today is very important, staff has been working with the banks since February, regarding extensions to letters of credit, that support variable rate debt. Which expire over the course of the next several months. An informational memo was released to the council discussing the city's AAA credit ratings and the credit analysis process that the rating agencies use. undertake a very similar process. In addition to that memo which you've already received an information memo will be released to the city council this week describing the City's relationship with financial

institutions and the importance of the services they provide to the city. So Julia Cooper will provide a brief overview of the recommendations before council, and the status of the renewal process for the letters of credit.

>> Good afternoon, mayor, members of the city council, Julia Cooper, assistant director of finance. Just here on this slide, just as a little bit of background information, the lease revenue portfolio for the city as of March 31st was about \$554 million of fixed rate and \$254 million of variable rate debt. In thinking about the benefits of variable rate debt there are long term budgetary savings due to the lower average interest cost over the term of the bonds and it allows flexibility for the council to do a change in the use of property to prepay debt at any point in time which is a feature that is not available with fixed rate bonds. And then kind of like a little refresher, what is a letter of credit? It provides liquidity support, and so weekly the bond holders can elect to either keep or sell their bonds so that what happens the letter of credit provides that mechanism for investors of the bonds back to the bank and the bonds are not resold to an investor and without the liquidity support they would be looking to the city to essentially come up with that cash on a weekly basis. And so this is kind of a graph to kind of graphically illustrate why variable rate bonds are so attractive. It is a ten year average of the fixed rate bonds are shown by a flat line, a A plus G.O. bonds and the variable rate bonds are the SIFMA which is a benchmark fees we pay on average. You can see the difference between those lines over time is fairly significant. So on a \$100 million worth of bonds that savings is about 2 to 3% which translates to \$2 million to \$3 million a year in savings to the city. In the case of the package we're bringing you today which is \$177 million the annual savings is between 3 and \$5 million. So during short periods of time where there's market dislocation as you can see variable rates may be higher but over a long term, the variable rates will be higher thus creating savings to the city. The letter of credit renewals today you may recall two years ago in June we brought forward a restructuring of a package of variable rate debt because of the collapse in the bond insurance. And at that time the bonds were insured with bond insurance and just replaced them directly with direct letters of pay credit shown in that table, total \$177 million, and those letter of credits expire between June of this year and August of this year. We have, as the City Manager mentioned, we have been in discussion with the letter of credit banks since February. We have received commitments for them to extend to September 30th. At the same time, we've also issued an RFP for letter of credit banks to provide us options if the existing letter of credit banks elect not to renew. It also makes sure that the fees and conditions that the existing banks put on us are consistent with current market practice. So we have the most competitive rates. And then it also provides us the most flexibility with respect to choices. And it's also good to have choices. In the unlikely event that the LOCs cannot be renewed or we cannot find a replacement, the city would refinance into fixed rate bonds which as I mentioned earlier reduces our flexibility and results in higher annual interest costs. So you say why a short term renewal, why are we here today? Well the LOC providers have chosen to wait for the city council's final decisions on the budget solutions. They've been reading the whole host of information we post on our Website, the information we posted relative to our ongoing negotiations with our labor unions, and what, as Debra mentioned, the credit analysis that the letter of credit banks go through is very similar to the credit process that the rating agencies go through. And what they're looking for is, they're looking for the council to continue to make those hard, tough choices, that will result in us maintaining our ratings and then feeling confident that we will continue to be the strong credit rating that we are. So they're looking for these types of actions as we close out the budget process. Ongoing solutions as budget balancing which a higher percentage of ongoing is better from a credit perspective, maintaining appropriate reserves to deal with economic uncertainty, to avoid the use of debt as a budget balancing solution, and to have a solution to continue to address our growing retirement costs. So here, you know,

financial management, as the City Manager mentioned the informational memo that came out on thing agencies, financial management is a key analysis used by both rating agencies and credit providers and I just provided an excerpt of June of last year moody's report where they have lots of good quotes and this one says specifically the current set of fiscal challenges require that the city again carefully manages expenditures to close the current budget gap, our current rating assignment and outlook assumes the city will in fairly shortly order close the gap and replenish reserves. A failure to do so or protracted recovery would apply negative pressure to the rating. These are the things we are constantly aware of as we bring forward these issues to you. While the nox today is just on the variable rate for the lease revenue bonds the other credits that are currently undergoing review are the airport and their expiring letter of credit for their commercial paper program which expires in December and then as you're well aware of the agency and their letter of credit with J.P. Morgan. We are taking a very holistic and comprehensive approach to the credit markets, we're partnering with the agency, we've had conversations and tested the market with respect to the airport and we have some presentations coming up so the credit providers can look at the airport coming up this summer and the finance department continues to be a key player and is intimately involved in these relationships across the city. So with that if you have any questions.

>> Mayor Reed: I have a couple of questions. First is, is it still true that banks won't lend you the money if you really need it? That you have to demonstrate that you don't need it that you've got reserves and you've got a plan and you don't really need the money and they'll lean it to you, right?

>> Certainly at a lower cost.

>> Mayor Reed: At a lower cost. I just wanted to check this number. This particular issuance the 2008 was 177 million in total.

>> Correct.

>> Mayor Reed: I think you said the variable would be 3 to 5 million per year .

>> Per year the interest we would pay approximately.

>> Mayor Reed: So if for some reason the people who we want to lend us money decides dyed they don't like us because we didn't deal with our budget or whatever, then we would have to refinance into fixed?

>> Correct.

>> Mayor Reed: And that would cost us 3 to 5 million a year.

>> Approximately.

>> Mayor Reed: But that's just on this series?

>> That's just on this five that I have before you today.

>> Mayor Reed: The others, the airport stuff and additional stuff would be gicial risk on top of that .

>> Yes.

>> Mayor Reed: And if it cost us 3 to 5 million per year on this issuance, where would that money come from? General Fund?

>> General Fund. These are basically General Fund credits.

>> Mayor Reed: Okay then we just have to be good so they think we don't need the money. Councilmember Oliverio.

>> Councilmember Oliverio: Thank you, mayor. Thank you Julie and the entire staff that worked on that. I think we think of the budget as only people focused on it are the residents, and the employees, whether in reality we're being watched by the financial markets and the banks, and if we're judged by how we handle it so I think that's important indication as we go to trying to solve our budget. I'd like to move the staff recommendation.

>> Second.

>> Mayor Reed: Motion to approve the staff registers. Councilmember Liccardo.

>> Councilmember Liccardo: Thanks mayor. Julie as we go back to that graph describing the spread between the variable rate and the fixed rate.

>> Uh-huh.

>> Councilmember Liccardo: As we expect -- if interest rates were to rise, generally out there in the financial environment, would we expect that spread to shrink?

>> It is -- it is a little bit out of distorted right now because the market is -- the interest rates are so compressed. But generally speaking the spread is usually between two and a half to 3%.

>> Councilmember Liccardo: Okay, so even if let's say we saw you know sky high interest rates like they had back in the '80s or something, well, let's not go that high, but let's just say the rates got a lot higher, would at some point, would we be seeing more of this aberrant behavior where you see the variable rate peeking above the fixed rate line?

>> No, they would all kind of -- it would generally move together.

>> Councilmember Liccardo: Okay.

>> So would you see it in the band where you see like 2001 to 2004, probably look like that. Those spikes are when there's an abnormality, in the bond market, Lehman and others, they happen for a relative short period of time and then the market readjusted are adjusts. And the period of time where you see it where it was above, that away when the real curve was inverted, another relatively short term abnormality.

>> Councilmember Liccardo: Thank you. Do we still need the letters of credit if we were to go to fixed rate?

>> No.

>> Councilmember Liccardo: Essentially it's an insurance on the vaish yability of variable rate bond. Glps to be in a variable rate mode.

>> Councilmember Liccardo: Okay, thanks.

>> Mayor Reed: One last thing. What banks, sit generally bank that is in the letter of credit business?

>> In this case it is bank of noaf ah Scotia yah in this particular barkt but as I mentioned we do have an RFP out on the street so when we come back in August there may be a different package of banks.

>> Mayor Reed: All right do we have a motion to approve the staff recommendation? All in favor, opposed, none opposed, that's approved. We'll now take up the redevelopment agenda. Take a minute for the staff to swap positions. First item on the agency portion of the agenda. Is the consent calendar.

>> Move approval.

>> Mayor Reed: Motion to approve the consent calendar. All in favor, opposed, none opposed, that's approved. Item 6.1, approval of purchase and sale agreement for parcels needed for the Autumn Street extension project. Mayor Reed Mr. Mayor, members of the board, this is a 4,000 square foot parcel there is one small sliver to buy after this. We'll probably be coming back to you later in the year for that from the Water District. This essentially completes the acquisitions north of Julian street for this important access to the downtown. We recommend your approval.

>> Motion to approve.

>> Mayor Reed: The motion is to approve. All in favor, opposed one opposed Councilmember Campos. That's approved. Item 7.1. Amendment to the 101-San Fernando residential project ground lease to allow for the sale of the property .

>> Harry Mavrogenes: Mr. Mayor members of the board just very quickly. When we were doing our budget earlier in the year, we were asked to look for resources as much as we can, find land sales. In

this particular case, transaction was occurring between forest city and Essex and we asked the question and the buyer is interested. So this is an opportunity, we believe, in a very fair price for the land underneath the 101 San Fernando apartment project and will assist the agency with its finances this coming year particularly since we are not doing the bond issuance as soon as we thought. We ask for your approval of this.

>> Mayor Reed: This income line on the budget is where we typically see this?

>> Harry Mavrogenes: Yes and I've noted in the report consistent with your budget message Mayor of March 12th that these funds will be available to acquire other properties for economic purposes as well.

>> Mayor Reed: Okay, we have a motion all in favor, opposed, none opposed, that's approved. 8.1, the joint item, city-agency board related to the implementation of a West San Los C bid also known as a C bid, what is a C bid commercial business improvement district?

>> Councilmember Liccardo: Community based district,.

>> Mayor Reed: C bid as opposed to P bid, we have a motion to approve, all in favor, opposed none opposed that's approved. Open forum. Wilma hashi, David Wall, Mark Trout.

>> My name is Wilma hashi and I'm here to speak on behalf of the libraries. I should have come last week but I didn't really support what was going on so I didn't want to do that but I'm here this week with some letters from grade school students at park view elementary school who want you to know how much the libraries mean to them. And also after the creative mess with the Mexican heritage plaza I'm hoping that can you find some of that creativeness to open the Seven Trees and the Bascom libraries because those communities have been without a library, Seven Trees was promised 18 months and you'll have a new library. 24 months later they still don't have it now they're told another 18 months and you'll have one. The kids over there are really hurting. They cannot walk to Tully to have it open so Tully being open on Sunday didn't help that community. I wish you could think of some way you could help some of those communities. This is a letter from a student in Park view. As a we have complaints about the libraries closing. We're old fluff to understand why we need libraries to help us. When we have a project we need to search up certain information but we cannot search on the Internet since some of the information not be true so we have to go to the library to borrow some books. We need libraries that are open for five or six days. As well close by so we can walk to the library. Where are we going to find a quiet place to read or do homework? When you are going to close the libraries, the libraries are so useful to us. We don't have a lot of books in our library so we have to go to the public library. When I have a project I borrow seven to ten books from the public library. If I did not go to the public library I would not get a lot of information or get false information from the Internet. Books help us learn letting us enjoy new things that we didn't even know about. So we strongly disagree of your closing down libraries and cutting down the time that the libraries are open. There's more to the letter but I'm going to leave it at that so I'm going to give them to you so you can read them.

>> Mayor Reed: Give them to the clerk. David Wall and Mark Trout.

>> David Wall: Two points before the end of today's procedure. I hope I'm very, very wrong about my analysis of world events as it applies to economies throughout the world in reference to our city. I doubt that I am. This is very, very serious business that the entire world is facing right now, if I develops into a shooting war in the Koreas. This book, as you've seen me carry before records things. What it does not record will ever record is any private conversation between a councilmember or any city official or anything I hear said off record. But on record, it's fair. Community of Community and Economic Development meeting, councilmember Pyle or chairman Pyle, chairwoman Pyle excuse me runs a very fine meeting, excellent with the exception of small ig regularity of the speaker cars not for any other reason however her contemporaries on the committee are a little lax in attendance. And I will reference

Councilmember Herrera, two minutes late. Without a mayoral pass. And yet, the two other contemporaries. Laughing e-laugh and joke as they did as they came into the meeting, nine minutes late at 1339 hours. Now, I chucked it off as probably the Fr early before the meeting started so perhaps there's a deficit reduction formulation here a little charge for being late. This indulges the Catholic doctrine. Thank you.

>> Mayor Reed: Mark Trout.

>> Just had a job come through which I didn't take and I might have missed a job now it says here we are invited to speak on any item that does not appear on today's agenda. I missed the 8.0 one, I came in late. Is it okay that I talk about the 8.1 on the balance deal Public Safety services?

>> Mayor Reed: Go ahead.

>> Okay, I spoke to a lot of ambulance people in regards to this recent thing where the government was asking us or telling us we really ought to take our H1N1 flu shot for our own health. I found information on the H1N1 vaccination says it can give you cancer, it can give you major health problems and yet KSFO, KFSX and a lot of radio stations were pushing that on us that we really ought to take the H1N1 vaccination. Bill Gates for instance, we all know who he is, billionaire, you can listen to him, two weeks ago I heard him say this, you know I swear before the lord and the Bible, I'm not lying, okay, and I know God is here, I said that there's an over population problem and we need to reduce, his words reduce, not kill but that's what he meant, reduce the population by 15%, through vaccinations, that would be a really good way to reduce i.e. kill 15% of the population. Dr. Sam Keenan speaking at the world Gorbachev conference briefed this would be accomplished through a bogus problem, we had 150 people die from the swine flu, we came this close to being government mandated, you can be arrested if you don't have this little thing. I'm writing for city council, I'm the write-in candidate, I probably won't win --

>> Mayor Reed: Your time is up. That concludes the open forum, that concludes the meeting, we're adjourned.