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>> Councilmember Nguyen: The Public Safety, finance and strategic support committee to order. And we will start with item B, the review of the work plan. And we have a couple of items that are being requested for deferral.

>> Councilmember Constant: Motion to defer then.

>> Second.

>> Councilmember Nguyen: We have a motion and second to defer the item. All those in favor, opposed, that carries. C, consent calendar. We have C 1 through 6.

>> Councilmember Constant: Make a motion to approve C-1 through 6.

>> Councilmember Chu: Second.

>> Councilmember Nguyen: We have a motion to approve the consent calendar. All those in favor, opposed, hearing none, motion carries. Move right along to item D, committee reports. D-1, Santa Clara County cities association expenditure review.

>> Sharon Erickson: Sharon Erickson, City Auditor. At the request of the association and council liaison Sam Liccardo, our office performed an expenditure review of the association for the years ended 2009, 2008, and year to date as of March 31st, 2010. We reviewed the controls in place to protect association assets, and based on our expenditure review, the records were accurately reported to the board of directors, and the association has controls in place to protect association assets. I want to thank Ranyam Olson and Joe Royce from my staff for their work on this project. The board of the Santa Clara County cities association accepted the report on June 10th. Thank you.

>> Councilmember Nguyen: Thank you, Sharon. Is there other questions from committee members? I think this is just for -- to note and file, right, there really no action?

>> Councilmember Constant: No, we accept.

>> Councilmember Nguyen: Accept, yeah.

>> Councilmember Constant: Members of the public?

>> Councilmember Nguyen: Do we have anyone from the audience who wish to speak on this item? No?

>> Councilmember Constant: Motion to accept the report.

>> Councilmember Chu: Second.

>> Councilmember Nguyen: We have a motion to accept the report. All those in favor, opposed, hearing none, the motion carries. Thank you, Sharon. We'll move down to item 2, police management audit status report.

>> Sharon Erickson: Yes, per direction from the Mayor's June budget message and in accordance with our work plan, we've initiated an audit of police management. The City Auditor was directed to report monthly on the status of the audit. This is our first such report. I'm here by myself today because staff today -- last night was out with the merge unit and today is out with FESAT. They've been interviewing folks in the police department, reviewing workload reports, and our review is progressing.

>> Councilmember Nguyen: Thank you, Sharon. Also wanted to thank Councilmember Constant for his recommendations through his budget documents. Do you have any comments or questions?

>> Councilmember Constant: No, just looking forward to it.

>> Councilmember Nguyen: Okay. So we'll just accept the verbal report then.

>> Councilmember Constant: Motion to accept.

>> Councilmember Chu: Second.

>> Councilmember Nguyen: We have a motion to accept the verbal report, all those in favor, opposed, motion carries. Item 3, fourth quarter financial report.

>> Councilmember Constant: This was set up much better.

>> Scott Johnson: Good afternoon, Madam Chair, members of the committee. Scott Johnson, director of finance. And just want -- before we get into the actual report, I want to give you an update on a few new developments in regard to staffing in the finance department. First of all, Charlene Sun. Charlene, can you stand up? I'd like to introduce Charlene Sun. You've seen Charlene in the past. She has been a financial analyst in the finance department debt group. And she's been appointed debt administrator. We've had the position vacant for a little bit. David Perselin was our former debt administrator, and he is now working in the city manager's budget office. And Charlene has significant experience in the California municipal market on the debt side as well as on the investment management side. She previously worked, prior to working for the City of San José, she worked for the City of Sunnyvale as a senior analyst in their budget program. And in addition she's worked for several banks and other private companies in the past. So we're really pleased that Charlene has been promoted and appointed as our debt administrator. And in addition to that, I wanted to mention that unfortunately, other news in regards to our staffing is Kathy Jackson, who is my left, you've seen Kathy in the past. She's made our presentations on our investment program. Kathy is responsible for the city's investment portfolio, roughly a little bit over \$1 billion, in addition to our cash management and all of our cash receipting and cash payments and cash processing, as well as responsible for our multidepartmental citywide banking relationship, which is currently with Wells Fargo Bank. And unfortunately -- I mean, I'm pleased for Kathy. It's with some misgiving, she's going to be

leaving the city and she's going to join the team in the City of Santa Clara. And she will have some additional opportunities there working in their finance department. So it's really unfortunate Kathy's leaving, but I really applaud her for her professional development. And since I previously worked for the City of Santa Clara, in the beginning of my career working in municipal government, it's a really good city to work for, so she'll have some really good opportunities there, and I wanted to make sure we acknowledged her. And then finally, in addition, I want to mention that Mike Rider, although he is not here today, Mike is our division manager in our accounting division. And he is our subject matter expert and really helps coordinate citywide our comprehensive annual financial report. Well, unfortunately he has made a decision to retire from the city. So his last day will be tomorrow. Friday. So we are going to be working very quickly, because these are key positions, both Kathy's position as well as Mike Roger's position, we're going to be working with HR and try to bring some of our new team members on board as soon as possible. I thought this was important to share this with this committee because you've seen these faces in the past and they're major contributors to our work product that we put out of the finance department. Clearly some very important levels of responsibility for an organization our size. And with that I wanted to just give you some real quick summary recaps of our investment policy that -- and the report that we have in front of you. So this is the semi annual oral presentation. It's required by the investments -- the council's investment policy, that we provide this committee with an oral presentation twice a year. And so it's the second quarter and the fourth quarter reports that we provide this oral presentation. And the investment staff manages the city's cash requirements through our investment of funds to meet the city's objectives and the investment guidelines which were adopted through the council adopted investment policy, and also in accordance with the California government code. And just a reminder that our objectives are first and primarily safety, then liquidity and then finally yield. The monthly and quarterly reports are circulated via e-mail to the mayor and the city council, and they're also posted on the Website. Kathy will go over the rest of the report, but I do also want to mention, as Kathy will mention, that we have hired an independent investment advisor, and we've done substantial work at reviewing the council investment policy. So next month, you approved a deferral of the investment policy because we're doing a very substantive review of that with our investment advisor and also reviewing it with the city attorney's office. That will be coming to you next month, so that's a real important document as we move forward. With that I'll hand it over to Kathy for her last presentation to this committee.

>> Okay. Just go through a summary of the portfolio performance. The size of the portfolio is \$1.1 billion as of June 30th, which is up from \$900 million as of March 31st. The total portfolio earned interest yield was 1.57, down from 1.84 in the previous quarter. The decrease was due to the maturity of securities purchased in the higher interest rate market and the purchase of securities in the current lower interest rate market. The weighted average days to maturity has decreased from 179 days in the previous quarter to 122 days. There were no securities sold and therefore no gains or losses on the portfolio. The next page, just show you quickly, the breakdown of the investment portfolio as of June 30th. Showing approximately 74% of the portfolio is held in Treasuries and U.S. agency issues. The next slide, General Fund interest earnings was below budget due to the continuing decline in market interest rates and also the structural reduction in General Fund cash balances attributable to the recent budget actions to use some reserves as a balancing strategy and the reduction in revenues as a result of the economic downturn. Cash balances in the General Fund have increased approximately \$99 million from the previous quarter to the June 30th ending balance of \$173 million. Cash balances usually peak during the months of January and June when property taxes are received and minimal debt service is paid. The next page, we wanted to show you a slide that would have a graph showing the monthly total balances of selected city funds for a two-year period. It illustrates the peaks during the months of January and June and the structural cash balance shifts that I talked about on the previous slide. Okay, next we're going to talk about the current economic and financial environment. First slide shows the graph of the treasury yield curve as of June 30th compared to the December 31st, '09. The second half of this fiscal year or last fiscal year, you can see the short-term Treasury yields experienced increases while the longer end had yields declining. This shift resulted in a significant flattening of the yield curve, indicating lowered expectations of economic stability and growth any time soon. The monthly portfolio performance benchmark shows the portfolio's performance against two benchmarks, a local agency investment fund and the two-year agency. The investment portfolio has been able to maintain its yield advantage over the benchmarks due to the yields on the core holdings in the portfolio having been purchased during higher interest rate environments and because the continuing decline of interest rates, the portfolio though is still experiencing a decline in yield. The average days to maturity for the portfolio has continued to decline due to cash flow needs, but will allow the city to react more quickly when interest rates increase. For the investment strategy we are going to continue to match maturities to cash flow by filling liquidity needs within the next 12 months. And once liquidity needs are met, the slope of the yield curve may start to present opportunities for the

addition of higher-yielding, longer-dated U.S. agency securities. As required in the investment policies, staff has reviewed projected cash flows over the next six months and have sufficient investment maturities and revenues to cover current anticipated cash flows. The investment program continues to maintain its focus on the core mandate of safety, liquidity and, lastly, yield. Significant activities during the fourth quarter, as Scott mentioned, we did begin working with the investment advisor. It was approved on March 23rd. Began working with staff on April 1st. Their initial deliverables included a review and assessment of existing investment technology used by the city. They provided procedures for reviewing broker-dealers and procedures for credit analysis of medium-term notes. In addition to the deliverables, did include a thorough review of the investment policy which Scott spoke of that will be coming to the committee next month. Also, to note, staff has successfully completed the transition of city banking services. It added numerous efficiencies, and staff will continue to work with the bank to identify and incorporate further areas for efficiency. One that was started was the pay cards. The first phase of this program was successfully implemented for employees of the county wide summer youth program which included the distribution of 406 pay cards to these employees. We do plan to expand this program to include other departments and other employees that are still receiving paper paychecks. And last but not least, staff recommends the committee accept the investment report for the quarter ended June 30th.

>> Scott Johnson: Madam Chair and members of the committee, I wanted to make two other points in regards to staffing. First, I wanted to acknowledge Udiah. Udiah has been doing the slides. She was transferred from the retirement services department to Finance a while back, right? And she is a financial analyst and very key in our day-to-day performance in regards to our investment portfolio. In addition to that I want to just assure you that we do have a transition plan that we will be implementing as we are recruiting for a new investment officer. And Arn Andrews, Arn, if you can stand up. You have seen Arn here before at the committee. Arn is our division manager for the treasury division, which has overall oversight of both our debt program as well as our investment program. So Arn will be filling in and coming in early, crack of dawn working with Udiah, to make sure that we make those investments timely and appropriately in accordance with our policy. So with that we're available for any questions you may have in regards no report. And I also want to mention you have a debt report in your packet. We were not planning to make a formal presentation. But if you have any questions related to the fourth quarter debt report, we are available to answer questions as well.

>> Councilmember Nguyen: Thank you very much Scott. Welcome to the new staff on board. Thank you very much, Kathy, for your service to the city of San José. You've done an extraordinary job, and we wish you all the luck with the City of Santa Clara. Councilmember Constant.

>> Councilmember Constant: I just want to add my farewell. Remember that Santa Clara borders District 1, so take good care of that part of Santa Clara for me. We'll miss you here, you've done a great job. And welcome to others. I should point out that Arn actually inspired my new style. So it was because of Arn that I decided to shave my head and grow a goatee. Once he got on the retirement board, I just kept looking over, and I couldn't resist. So thanks.

>> Councilmember Nguyen: Anyone else? Okay.

>> Councilmember Constant: I'll make a motion to accept both reports A and B.

>> Councilmember Nguyen: We have a motion and second to accept both reports. All those in favor, opposed, hearing none, motion carries.

>> Scott Johnson: Thank you.

>> Councilmember Nguyen: Thank you very much.

>> Councilmember Constant: Shortest committee meeting you ever had.

>> Councilmember Nguyen: Doing good, we're on a roll. Open forum, anyone wants to speak on any item not on the agenda today? Okay, then our meeting is adjourned.