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>> Councilmember Nguyen: Good afternoon. I'd like to call the Public Safety, Finance and Strategic Support Committee to order. Item B review of the work plan.

>> Good afternoon committee. I'd like to call to your attention, there are two items that we are requesting deferral on. Then we to need sunshine waivers on ideas D 3, 4 and 5. Those items were distributed a day late and we would also like to request as part of your review that item D 3 be taken as part of the consent calendar if there is no speakers.

>> Councilmember Constant: I'll make that motion.

>> Councilmember Oliverio: Excellent. Second.

>> Councilmember Nguyen: We have a motion to accept the work plan with the amendment. All those in favor? Opposed, seeing none motion carries. We'll move down to item C, consent calendar.

>> Councilmember Oliverio: Motion to accept the consent calendar.

>> Councilmember Constant: Second.

>> Councilmember Nguyen: We have a motion to accept the consent calendar. Air Force, opposed, motion carries. Item D, committee reports. D 1, quarterly status report on Consortium for Police Leadership in Equity.

>> We have Dr. Phil Gough here to present the report.

>> Councilmember Nguyen: Welcome.

>> I understand now that there's been a little bit of confusion about all of the documents that were supposed to be circulated. I apologize for that. My understanding is everyone does have a copy of the actual quarterly report, is

that correct, okay, and that not everyone has a copy of the issued report, safety because we're fair, that's being remedied right now by Sergeant Bowers. There are essentially three items to update. I'll walk through the quarterly report. I want to introduce Meredith Gamsen Schmidt. I'll do a bigger introduction than just saying her name. And then I'll walk through this report in broad strokes and obviously, if there is question, that can happen either here or offline, online, as is always the case. So I'm loud, but if people can't hear me, please let me know. This is the quarterly report which was prepared initially for August. But then pushed back for -- until September. The updates are essentially that we have requested an amount and kind of data from the San José police department that is, as I've said before, unprecedented. No police department in the world is set up to collect data the way that researchers would like, and so we've asked for them to essentially transform their data collection and their data management strategy into a very small research university. Now, the University of California at Los Angeles has tens of thousands of employees, and they have four devoted to this. So there is a bit of a mismatch when it comes to that. They are also undergoing, as you know, severe budget constraints, and as I think you also know, they are the most understaffed major city police department in the country. So we were not clear how long it was going to take us to get all this data arranged. Within the context of that, we have had our first annual summer conference where we had 27 major city chiefs, plus 30 researchers, agencies from the federal folks there, as well as the ACLU, national branch of course, NAACP, NAACP Legal Defense Fund, the rights working group, and the president of Maldef, to come together to figure out one of our major topics, how to measure racial profiling. The solution that we came up at that conference was essentially an adaptation of what we had already decided we were trying to do here in San José. Okay? And that's going to essentially entail creating multiple modes of testing, like a doctor would testing a disease. Right? So it's not just that there's a silver bullet that measures it, but there's multiple things that will measure whether or not racial profiling going on. And like any doctor diagnosing a disease there's multiple indicators. So we are now in position where I think two of the indicators will be or three of the indicators will be completed in terms of data collection, and we'll have another two that are likely to take until the next report, if we're being super-fast. The report after that, at the latest. So what I can say now is that my hope is, in two quarterly reports, that Meredith will be here telling you that we have done -- we have completed the data collection, and that shortly thereafter we'll have a preliminary report on what that data are telling us, what those data are telling us, does that make sense? Okay. We now -- at this moment we have three research assistants in a conference room. They are assisting the San José PD in data collection. They have

been here all week. Occasionally we feed them. Occasionally we let them sleep. And when they've got written permission we let them go to the bathroom. But for the most part they are in there and doing data entry full-time. Which is -- the hours are terrible, but that's okay, because we don't pay them at all. That's the report in terms of the data collection on that piece. While this is going on, and since our last update, you may have been reading in various newspapers that Arizona has been up to interesting reforms with regards to their law enforcement and the issue of immigration. Now, my understanding prior to this meeting is that there have never been -- in fact, we have spoken to the people, or at least to a large percentage of the people who don't like the San José police department. They don't have a high impression, and they feel that the San José police department is biased. And we have never, even upon prompting, heard anyone say anything about San José police department profiling with regards to immigration status. That has simply not been a community concern. Still, when we went to every major city in the country and said would you like us to look at what the outcome would be if your municipality was forced to enforce immigration policy, federal immigration policy, chief Davis said please, please test our officers. So we've been working with the Salt Lake City police department on this for over a year. We included San José police department in an analysis for Salt Lake City police department on how officers would feel about their jobs if they were forced to enforce federal immigration policy, which is something akin to like what would go on in a 287G scenario or with a bill like Arizona's SB 1070. Okay? Again, we didn't ask officers very much in terms of what they wanted to have happen, but how they would feel doing their job. That is the report that you have before you, entitled safe because we are fair, okay? Couple of notes about why there was some miscommunication with regard to getting it passed out, you'll see at the bottom, it says do not cite or circulate without the express written permission of the Consortium for Police Leadership in Equity. That is because of the unique nature of the way that the CPLE does business. Because we're a nonprofit, and because we don't have our stuff ratified by the people who take money, we take our stuff and we submit it for peer review in scientific journals. And that process takes longer than the data collection process sometimes that we're encountering here in San José. So we ask that you not publish it on a Website, but we are happy for you to -- and I'm telling you now, you can get written permission, to cite it, to make reference to it. It's just that if you publish it on a website, peer review journals then don't want to publish it. And regardless of scientific merit, we can't then have it vetted by our scientific peers. I see that there's a question, let me stop here.

>> Councilmember Constant: Yeah, can I just ask a question, because this essentially is a public document now. And what do I do if somebody asks me to see this document, because I'm a public official in a public meeting that's being presented to me as part of my public duties. And if somebody asks me for a copy of this tomorrow, I feel I have to give it to them.

>> And I wouldn't ask you not to.

>> Councilmember Constant: Okay. I just want to make sure we're all on the same page. I don't plan on putting it on the website, but I just want to be sensitive, but understand that, you know, once we're here, that it's a public document.

>> I understand that, and this is a courtesy.

>> Councilmember Constant: Okay.

>> And we ask as a courtesy that you don't put it on a Website, and we would ask that anyone who you give this to, all the same requests apply.

>> Councilmember Constant: Okay.

>> It is out of my control if someone then walks in -- we've had these available for meetings for chiefs. Out of my control someone walks in and does something that we don't like with it. That makes me sad. So I would ask you not to intentionally make me sad, and I would ask that of others as well.

>> Councilmember Constant: Okay, I just want to make sure we're on the same page as to the status of this.

>> Oh, we're on the same page. I'm not asking you to do anything that would make you less of a public servant.

>> Councilmember Constant: Okay.

>> Okay. So let me walk -- since you haven't had a chance to review it, let me walk you through the major findings, and then obviously if you have questions about those, or upon reading it, you have additional questions, as you know, I can make myself available to you at your request. Essentially, what we asked was, first, how do you feel about the bills like this? Perhaps not surprisingly, about 50% of law enforcement, these are rank and file, so these are patrol officers, say we like bills like this. About 50% say we don't. So we don't have a sampling bias there. These are not people who don't like the bill who are answering the reports, 50/50, not even a split. But regardless of how they feel about whether or not it should be law enforcement's job to be doing something like this, regardless of how they feel, the majority of respondents both in San José and Salt Lake City said that they would feel less physically safe and less comfortable patrolling their neighborhoods if they were forced also to enforce immigration policy. Okay? Perhaps not surprisingly, they also said that they would have a lower job satisfaction, and what was unexpected for us is that that was acute among nonwhite officers. So black, Asian, Latino officers were exceptionally less likely to enjoy their jobs when anticipating the prospect of enforcing these kinds of law. If any police department -- and every police department we work with is -- is interested in recruiting and maintaining a police department that reflects the diversity of their community, then these kinds of laws present a tremendous obstacle to that. It is also the case that if an officer feels unsafe, feels like their life is in danger, it is likely to escalate encounters with civilians. Right? So this is not a judgment on the, you know, validity of the law one way or the other. We're scientists, we don't do that. But what we have not seen is a serious discussion of the public safety implications of this kind of legislation in the more public debate, and that was the purpose of doing this report, was to reflect the opinions and the perspective of the rank-and-file officers who would be forced to enforce federal immigration policy to then of course be made state immigration policy. So the take-home messages are they would feel less safe, they would be less satisfied with their jobs, and therefore it would be less easy to recruit and maintain a police department that reflected the diversity of the community. Okay? So that's -- those are the bullet points. That's the executive summary. Let me pause there before I introduce Meredith, and then I can get out of your collective hair. No offense. Questions comments concerns discussion items on this report without having had a chance to read it at all?

>> Councilmember Constant: No, maybe later, we might call you.

>> Fair enough. That's by the way how I like to do it with my students as well. Do you have any questions for me on this material you haven't read? Great, let's move on. So with that, as you may recall, from the last quarterly update, the last quarterly update was the last of Dr. Kim Kahn. Dr. Kim Kahn -- and we should take a moment to be angry with her -- has left us to go to University of Lisbon. She has a place on the beach in Portugal. Another moment to be angry with her. But obviously, the CPLE could not afford to be sending her back and forth, and I wouldn't ask the City of San José to send her back and forth to Lisbon -- from Lisbon to San José. So we have a new full-time staff person. She is not a graduate student. She is an MSW. We forgive her for her from her MSW, Master's of Social Work. We forgive her that her MSW is from USC, here at UCLA. But this is Meredith Gamson Schmidt. She will be coming up to do the quarterly reports. She has been briefed not the research agenda, not just in terms of our racial profiling agenda, but all of the various projects that are going on here in San José. And so most questions that you have can be directed towards her. She has her contact information available on the CPLE Website, and obviously if you know how to get in touch with me, you know how to get in touch with her. Okay?

>> Councilmember Nguyen: Thank you very much.

>> Questions, comments, discussion items, otherwise we're out of your hair.

>> Councilmember Constant: I don't have any hair.

>> Right, and again, I sympathize.

>> Councilmember Constant: Mine is by choice, though.

>> TouchÉ. For our next quarterly report perhaps I might have Meredith have a batting helmet. All right, thank you.

>> Councilmember Constant: Thanks. Motion to accept the report.

>> Councilmember Nguyen: Oh, absolutely. Mr. Wall, you want to speak on this item?

>> David Wall: Good afternoon, Your Honors. I must applaud you on your punctuality. First I'd like to ask: Is there a box of Kleenexes or perhaps a clean handkerchief that could be afforded to this learned doctor over here prior to my speech? Because I don't want you to cry in public. Because this document will be posted on the city's Web page by the City of San José, do you understand that?

>> Okay.

>> David Wall: This reflects the work product of a group of educated charlatans, in my opinion. The whole CPLE project as of this date should be discontinued with extreme prejudice. As a taxpayer, and a firm supporter of the San José police on all matters, this is an unjust enrichment of this group at the behest of the taxpayers of San José. With our budget deficit, our reduction in police and fire, we cannot afford any longer to accommodate these people with sustenance in kind, police officer time in research and development for this group's unjust enrichment. In other words, these people benefit to their own entity by having our honorable police officers and city staff prepare the information for their cock eyed scientific results. They don't even have the staff to prepare the information appropriately. I am insensed, as you folks who know me can tell, that this group has been given any credibility whatsoever. And insofar as police officers enforcing all the laws of the land, sir, it is not your opinion or whatever to say what they can and cannot do in the City of San José. Our police officers are of the highest standards and they will enforce the law. This is garbage. It should be discontinued. Thank you.

>> Councilmember Nguyen: Thank you, Mr. Wall. I just wanted to respond quickly that we will honor the requests of Dr. Gough and the City of San José will not post this document on the Website. Thank you.

>> David Wall: On the record, it will be posted on the Website, guaranteed.

>> Councilmember Nguyen: Okay, we have a motion and a second to accept the report, all those in favor, opposed, hearing none, motion carries. Thank you very much. We will now move down to item D2 of the police management audit status report.

>> Sharon Erickson: Sharon Erickson City Auditor. You have before you our second monthly report. Field work is in process. We've got some summary bullet points of what we are up to. We are looking forward to an anticipated release date tentative of November 2010, this November. That's my report.

>> Councilmember Nguyen: Thank you for the report. Are there any questions? Comments?

>> Councilmember Constant: Motion to accept.

>> Councilmember Oliverio: Second.

>> Councilmember Nguyen: We have a motion to accept the report. Air Force? Opposed hearing none motion carries. We will now move down to item D-4 the annual review and proposed amendments of the City's investment policy. San José thank you, Madam Chair, members of the committee, I'm Scott Johnson director of finance and I'm also joined here today with Arn Andrews our division manager in the Treasury Department and also Udiah will be steering our slides when we make a presentation. In your packet you have a staff report from staff on proposals to change to our investment policy. You also have a red line version that indicates strikeouts and if it is in color, it's in red, for the enhancements or any wording changes in regards to the policy. So let me briefly go over with you this update. The last council approval of our review -- your review and certification of the investment policy was December 2009. So this review, and these recommendations, are not the typical annual certification of the council that's required by the state government code, and required by our policy. It's really prompted by staff and the hiring of our independent investment advisor on changes that we like to recommend moving forward in regards to the policy. So the policy changes are required to be reviewed by this committee in accordance with the investment policy that the council has approved. I also want to mention I'm also pleased to

notify this committee and our council that our policy was recognized as one of 21 governments within the United States and Canada to have its investment policy certified by the association of public treasurers of the U.S. and Canada. And this certification program, it was instituted to assist state and local governments in drafting or improving upon an existing investment policy and comparing submitted policies to the association's model investment policy. So I'm very proud of staff and the work that we put into this for our existing policy where we're one of only 21 governments throughout the United States and Canada and receiving this certification. And this is a recertification for the city. Every four to five years we submit for that certification process. Now I'd also like to review with you on this next slide the independent reviews of the City's investment program. First I want to remind you that in 2007, Macias consulting group, they're a consulting arm of our independent external auditors, they conducted an evaluation of the city's investment programs, and one of their recommendations included the hiring of an investment advisor. In addition, Macias performs agreed-upon procedure audits. So they review our investment program, the activities, and every six months this is actually charged through our City's -- City Auditor's office Ms. Erickson. So every six months Macias issues an agreed upon procedures audit with any findings or recommendations that they would like to notify the council. And that report is submitted with the quarterly report, as appropriate, that is distributed to this committee, to the council and available to the public. Third, there's a review and documentation of operations procedures by the government finance office association, where we hired GFOA consultants to come in and review and assist the finance department in documenting many of our finance procedures. So we had a comprehensive review and the documentation of our operational -- daily operational procedures within the investment program. And as I mentioned the council approved the contract for main street capital advisors as the independent investment advisor for the city. And the services from this independent investment advisor includes annual review of the City's investment policy. The investment policy also drives the investment actions. So this comprehensive review is an essential first step in working with our investment advisor. At this time I'd like to have the pleasure to introduce Mr. Rick Phillips and also Susan Munson. Rick is a principal with the company we have hired and he is the president and chief investment officer. And also Susan is a primary California contact. She's our senior portfolio consultant with main street capital advisors. This team has over 50 years of combined investment experience. They have 30 years of combined investment experience as investment officers. They have over \$5 billion under management. And the principal, Mr. Phillips, co-founded the government investment officers association, also known as GIOA. So finally

I also want to mention that we publish our investment reports, they go forward to this committee, and then they are forwarded to the city council. They are put online, on our Website, and they're available to the public. So they're reviewed by this committee and then available to the public. So on the next slide I'd like to briefly talk about the proposed policy recommendations. In your committee packet, as I mentioned, you have a copy of the memo that outlines the proposed changes we are making and also you have the red line version of the current policy with those proposed changes indicated. And in this presentation Arn will review a summary of the proposed key policy changes to this policy. So the policy recommendation, just want to reiterate a couple of important points. First, this -- the policy changes that we're making does not change our primary investment policy directives, which are primarily and foremost safety, then yield, and last, excuse me, safety, liquidity and lastly yield. So there's no deviation from our primary policy objectives. It also -- these recommendations also have continued conformance to the investment provisions of the California government code, the city charter and the San José municipal code. And then finally the general purpose of the policy changes are first to clarify some of the technical terms within the policy. To strengthen consistency within the policy on our operational procedures. To increase our portfolio diversification which is very important, to reduce portfolio concentration risk and finally to enhance the credit quality of the portfolio. And I think you'll see this as Arn goes through the key components that we're recommending. And finally before I turn it over to Arn I just -- I'd be remiss if I didn't acknowledge and thank the team that has been working on this. Definitely Arn Andrews, Kathy Jackson who has since left the city, we talked about that at the last meeting, Udiah has been very key as well, Julia Cooper our assistant director, and Karen Morabido in the city attorney's office. She sat through many, many hours as we were going through the policy talking about the methodology. And Danielle Kenealy, who has reviewed the staff report and reviewed the proposed changes that we are making. And of course our independent investment advisors, Rick and Susan, we spent a lot of time with them and thought process in regards to the recommendations that we're making. And with that I'd like to turn it over to Arn to go over a brief summary of the recommendations that we're making that we ask that you forward to the council for implementation in the new policy.

>> Thank you. We're just going to go through briefly some of the high level concepts that transpired while we were looking at the entire investment policy in its totality. And they kind of fall into several buckets, and so I'm going to walk through a few of them. We are available for questions afterwards. You obviously have a red line

policy and you notice there is a good amount of red and we think the faculty that we've finally done a comprehensive review of the policy we're going to end up with a much stronger policy and a much more viable policy for the city and for the investment staff. First off, one of the things we looked at was replacing subjective words and phrases with objective words and phrases and also editing phrases to better clarify the intention. An example of that is right up front in the very beginning of our policy in section 1. We replaced the term maximum yield with the term rate of return. The rationale for that is it more accurately reflects our primary objectives, which are safety, liquidity and yield. So right away, at the very front of the policy, we wanted to make it clear that our mission is to not necessarily get a maximum yield, but it's more appropriate to say we're going to get the best rate of return for the city. Another example of this is in section 7 under authorized financial dealers and institutions. We're replacing the word qualified with approved. And the reason we're doing this is because it reflects the fact that we actually have a proactive approval process that investment officials actually vet financial institutions we do business with to determine if they are appropriate to do business with. And on a side note I'd like to add that this is one of the areas where our investment advisor is going to be able to enhance our program because they're actually reviewing and helping us write better standards and procedures for this very process. On the next page another example of areas that we looked at when we reviewed the entire policy is add language to clarify authorized investments. Section 8 under authorized investments subsection 5, 8 and 12, in the past our investment policy strictly stated A rating. Well we're expanding the A rating to actually define what that means by the rating agencies and what that means is A3, A minus or A minus by the three rating agencies respectively. In the past, there was no actual delineation of what an A meant, we just used the term A. In addition, we also added language to ensure the fact that if any of the rating agencies have a rating on a security that we put in the portfolio that is less than that, that's unacceptable. Right now the policy is silent on that issue, and you could do what's referred to as a split rating. We could have the appropriate rating by two, but maybe one of the other agencies that is a rating that's lower. We are making it clear that that won't be tolerated for our portfolio or for the policy. Another area we're looking at is, we're modifying language to conform to current financial market conditions. And this is just cleanup. The financial markets have evolved since the last time we've done this. Section 8, authorized investments, money market mutual funds. We're adding language to clarify that a money market mutual fund's adherence has to be to the Securities & Exchange Commission, rule 2A7. We're documenting the genesis of where these rules come from. Another area of consideration we looked at is we're

modifying language to reflect changes to updated investment procedures. Section 5 delegation of authority. The elimination of the requirement for monthly reports. This actually stems off a budget proposal action that was accepted by council, and we just want to reiterate that the elimination of the monthly reports does not in any way change our internal controls. This document was actually generated strictly for an outside audience. It has nothing to do with internal controls. And in addition, I would like to reiterate we are continuing the quarterly investment report for both council and the public to be apprised of the actions in the portfolio. And this recommendation is actually consistent with the reporting requirements of the California government code. They do not require a monthly report. I would actually like to add one more comment on that, too, and that is, in addition, there are bimonthly reports that are generated that come before this council, and that's another area where you can get a glimpse in terms of general fund balances and things to that effect. Another area is restructuring transactions. Section 142.B, and this is stating that we require the finance director's prior written approval for restructuring transaction, and that those transactions will need to be reported to the City Manager within 72 hours, and any of those transactions will also be reported in the quarterly investment reports. Another area we looked at was, add new asset classes. Or modify language to increase portfolio diversification potential. Section 8, authorized investments time deposits. We added language that deposits are not limited to banks and savings and loans located in the San José area, and by not limiting us to the San José area that improves opportunities for portfolio diversification if we ever deemed time deposits an appropriate investment. Section 8 of authorized investments, the addition of mortgage and asset-backed securities. We are adding language to make sure these are allowable investments within our investment policy. One of the ways to do that is to improve diversification policy for the portfolio. Once again just to reiterate what Scott said in the beginning, all of this is within conformance with the current California code. This is actually what I think is one of the more important things to come out of our review process. And what we did is we changed current percent limitations and the reason we did this was to decrease concentration risk and improve the overall portfolio credit. Under section 8, authorized investments, overall policy limits, we are actually adding language that no more than 10% of the city's portfolio may be invested in aggregate in any single institution. And this change further restricts the potential for concentration of investments in certain asset classes, specifically bankers acceptances, negotiable certificates of deposit, commercial paper and medium-term notes. Currently with the policy we have a 5% issuer limit, but theoretically we could have purchased 5% of Lehman bankers acceptances, we could have purchased 5% of

CDs, 5% of their commercial paper and 5% of medium term notes, which would have given us an exposure of 20% to a single entity. By putting this in place we are making sure that we have the appropriate concentration risk and that kind of throughput cannot happen. This next slide just kind of summarizes many of the percent limitation changes we're recommending. Some of them are down. Some of them are up. In aggregate what this slide shows is that all of them are still below the state policy limits and I would just like to reiterate the state policy is what we're mandated by. It's a very conservative policy to begin with and our policy has always been tailored off of that and has always been more conservative than that policy. And the recommendations we're making here reflect a continuation of that philosophy. You will notice several changes up and down. I'm be more than happy to comment on them after we finish the presentation. On the next slide I believe Scott is going to finish the presentation.

>> Scott Johnson: Okay, thanks Arn. A couple more things I want to point out. First I neglected to mention that we also reviewed these proposed changes, the red-line version, with Sharon Erickson, our City Auditor. And Arn and I and Julia spent time with our City Manager in going over the changes and based on hoar feedback we made the appropriate adjustments. So one of the things that we did talk about is how important it is that we communicate the continuous improvement on the City's investment program. Given our budgetary challenges, reduction of staff that we have training and development tints are very key. We need to keep up with that training and make sure that our staff have the appropriate training and professional development. In addition, we are embarking upon reviewing technology opportunities and enhancements and we'll be working with our investment advisor in regards to assessing technology that may be available for us to streamline our operations and become more efficient. And then finally you know the investment advisory firm just can't say already how important and how valuable that they have provided input to us, and really an extension of staff for expertise. And it really -- the benefits are, you know, the third party independent oversight is real key. We get best practice insights, the advice and recommendations on internal controls and procedures are very important, and we rely on them, and then of course the cost effective method of increasing our analytical capacity will continue to be an important factor. So in summary, we're asking that this committee accept the recommendations that will provide further clarification, strength in our consistency, increase portfolio diversification, reduce our portfolio concentration risk, and enhance the credit quality of the portfolio. And this achieves the City's investment policy objectives of safety, liquidity and a

rate of return consistent with the first two objectives. We ask that you forward this on to council for council's approval. Thank you, and we're available for any questions you may have. And our investment advisors are also available if you have any questions for them.

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

>> Councilmember Constant: Thank you. I have a question on one of the changes that's in the red line that wasn't in the memo or the summary. I just want to understand it a little bit better. And thanks for the red line version because it really helps quite a bit. On page 3 of 31, second bullet point, market or interest rate risk discussion. In the second subbullet to that where we're striking the words maximizing cash flows and replacing with enhancing yield and return, or I guess it's enhanced return and yield. Given the situation we've seen continually with the cash flow, I don't want to call it a crisis because it's not a crisis yet but cash flow difference of what we're seeing recently compared to cash flows of what we've sooner in the past, why would we not want to protection our ability to restructure our portfolio to preserve cash flow for the organization, and only worry about the yield and the market value?

>> If I may. The point you're getting to is the liquidity aspect of the portfolio. And that comes right up front at the beginning the of the policy and that's paramount you know in terms of one of our objectives. It seems in this area where we're discussing market or interest rate risk, cash flow's not really necessarily an item that we discuss in that capacity. And that's why we thought in this section it was more appropriate to talk about an enhanced return or yield. But this is in no way by striking this is any indication of minimizing liquidity. Liquidity can our primary objective right after safety. And safety in essence dictates that we'll always have liquidity. We will always have security but if we had to go to the market and restructure which means we would have to go to the marketplace and transact a sale, our first tenet of safety, guarantees will always have liquidity. And the way we actually structure our portfolio is we go out 12 months and actually in the quarterly reports, we actually report out a six-month projection of cash flows. And so we actually look at our liquidity the way you're describing it all the time to make sure that there's always sufficient maturities or revenues coming into this city to make sure that we have all

the cash necessary to not only meet expenditures but to meet any type of unforeseen incidents. And so this is more just we didn't think the language was appropriate here, it is not striking the language.

>> Scott Johnson: Just so that we're all clear, this section talks about market or interest rate risk, and the two subbullets are ways that we can mitigate the market risk or the interest rate risk. So to Arn's point, I just want to kind of simplify his explanation, is that cash flow really is not a component of market or interest rate risk. That's -- there's another -- that's obviously a primary driver that we will continue to evaluate and make sure that we have sufficient cash flow. But we do not have the intent to restructure the portfolio to maximize our cash flow needs as it relates to market or interest rate risk.

>> Councilmember Constant: Okay, yeah. Because when I read that I then read the next subsection B which talks about liquidity and it talks about being structured in that manner, but it doesn't really reference restructuring if necessary. My assumption is that it's going to be structured in a way that we could always pull money out if we needed it, is that a correct assumption?

>> Scott Johnson: That's right, and Arn did speak in the slide about -- I forget what section it's in -- on the restructuring provisions, on what the requirements are, what the limitations are. But there could be a need, if we don't have sufficient liquidity, that we may have to restructure. And there is a process we're putting in place with the safeguards and the notification related to restructure, to this point in my ten years with the city, we haven't had to restructure our portfolio because of liquidity. We really do pay attention to our liquidity needs.

>> Councilmember Constant: Okay, thanks. I just wanted to make sure that we weren't limiting you by passing this policy. And I think Arn answered my other question, because I marked it before he gave the slide that had all the comparisons. And just to make sure I'm understanding it right. When you talk about the change on page 13, the new section, section 18 that talks about the no more than 10% of the portfolio be invested in one single institution and at first that seemed likely a little bit of a contradiction of what's on page 9 in section 10 where we're increasing percentages of the portfolio in one particular market or mutual fund, money market fund or mutual fund. I just want to -- if you could maybe bring that chart up, I just want to make sure I'm understanding what

you're meaning by that. So first glance, it looked like they were contradictory. But I think when I look at this, you're saying we're just shuffling the percentages around for better balance, is that -- am I understanding that correctly?

>> Scott Johnson: Yes, and also keep in mind, mutual funds -- a mutual fund by nature is a combination of investments in a lot of different types of investments in different types of companies, and government institutions, as well. So they have their own you know set of limitations in regards to the diversity.

>> Councilmember Constant: Okay, I was pretty sure that answered my question when I saw that, but I just wanted to make sure I was understanding it appropriately.

>> Councilmember Nguyen: Councilmember Oliverio.

>> Councilmember Oliverio: Thank you, Chair. On page 331, just the simple wording of eliminating the safest types versus high quality, can you give me an example? It would seem like the safest types would be more restrictive. And high quality would allow you to have some assumption that well these are all kind of good. So what would be an example that -- an investment instrument that's a difference there?

>> Scott Johnson: You know, actually the word "safest" is very subjective. So that's why we changed the wording to high-quality. Because we can actually define that based on you know in this policy, we added additional rating requirements, for example. So we're looking for higher when we say higher quality Arn talked about the A rating and no lower than that A rating would we make those investments for those types of investment classifications. So I think that's what ties into high quality, it really defines the high quality securities that we're looking at within this policy.

>> Councilmember Oliverio: But you need the wording changed to get there?

>> Scott Johnson: Right. Well, this is more of a clarification. Truly, the wording is more appropriate, high quality as opposed to safest types. Because someone can argue a B rated investment might be safe. But we want to say the high-quality securities is what our objective is.

>> Councilmember Oliverio: I think you're correct there, and I appreciate the answer. And definitely, subjective, I could put it in other topics, but I won't bring it into this public session. Other thing is, the last -- you know, the major investment policy changes were done back after the bond loss in 1984, the \$60 million, and we've had iterations since then, and that investment policy came out of a moment of, you know, the loss. And this policy is being done after there's been somewhat of a melt -- market melt down the last 18 months, two years. And if we had done this edits to this policy let's say in 2002 or somewhere else, it would have been different. Can you give me an example how the current financial quagmire influenced this, just give me one item or something.

>> Scott Johnson: I think you know this slide is a very good example, you know. Arn gave the example of Lehman Brothers. They're no longer around. And so we're putting limitations on single -- on financial institutions, on how much we can invest in those, and within the asset classifications.

>> And if I may add just one more comment. No matter what the business cycle is or what the aftermath of the climate is, there are some things that are just always standard portfolio practice. One is, you always want to seek diversification. You always want to seek diversification in a way that you're making sure you're not getting concentration risk. So if you look at the first two, bankers acceptances and NCDs, we're lowering those two. One of the reasons we're lowering those two is because that is exposure to, A, a specific entity, and B, usually financial companies. So by doing that we're not only making sure that we're not getting concentration risk in financial companies, but then we're saying we would rather shift that to corporate notes. You see we're recommending moving from 15 to 20%. And by shifting that, we're actually moving a better -- into a better asset class, because we'll have more different types of potential in the corporate asset class than focusing on those two classes. So it's a rebalancing and a shifting that I think we would recommend regardless of the climate. But certainly the climate has I think made everybody keenly aware, I mean the portfolio is always important to us. Maybe it's not always important to you know the public or anyone else. So I think what it does is it just

crystallize the importance of what we do and make sure that we're always vigilant and doing what you expect us to do which is safeguard the money of the city.

>> Councilmember Nguyen: Thank you. Is there anyone from the audience that would like to speak on this item? If not, can I get a motion?

>> Councilmember Constant: I move that we accept the review, the proposed amendments, and cross-reference it for council action. Is that what's needed?

>> This item will be cross-referenced for September 28th. I just do want to call to your attention that it will not be on the amended agenda until September 24th. The packet, as well as the staff report itself, show that it was intended to be cross-referenced on the 28th. The report will be out ten days before, but just for full disclosure and in your sunshine consideration.

>> Councilmember Oliverio: Second.

>> Councilmember Nguyen: All right, we have a motion and a second. All those in favor, opposed, seeing none, motion carries. Thank you. Move down to item D-5, quarterly report on workers compensation program.

>> Good afternoon, Dave Wong, assistant risk manager with the human resources department. I'm actually filling in for John Dam who about 45 minutes ago found out he had a family situation to attend to. So he asked me to attend on his behalf and answer any questions or issues on our quarterly report.

>> Councilmember Nguyen: I don't have any questions. Are there any questions from committee members?

>> Councilmember Constant: I just want to make sure that on the table 3, that IND stands for indemnity to match up.

>> Yes, it does.

>> Councilmember Nguyen: Anyone else? Does anyone from the audience wish to speak on this item?

>> Councilmember Constant: Motion to accept.

>> Councilmember Oliverio: Second.

>> Councilmember Nguyen: We have a motion and a second to accept the report. All those in favor, opposed, seeing none, motion carries. We'll move down to item D6, audit report of the City's procurement card transactions.

>> Sharon Erickson: Once again Sharon Erickson, City Auditor. The City of San José's procurement card program was established to streamline small dollar purchases. Procurement cards are commonly known as P cards and I may use that term throughout. They are means of expediently purchasing supplies materials and equipment. So the purpose of our arrive was to look at those transactions specifically in three departments this time. Environmental services, the San José police department, and the Parks, Recreation, and Neighborhood Services departments. We reviewed transactions for compliance with the policy and other applicable policies. We reviewed all transactions from those three departments, two months of transactions for each department. Again, we were looking for inappropriate purchases. And in that score, the report is great, from my concern. We found very few inappropriate purchases. There were a few, those had been repaid to the city. We did have some recommendations in that area. However we did find of course always room for improvement. Many of the purchases from the departments we reviewed were not well described in the documents, and we actually showed that on pages 10, 11 and 12 of the report. On page 10 you can see a sample of a nonitemized receipt from a Mexican restaurant. You can't tell from that receipt how many people were there. In this case there was a case number but there wasn't a lot of detail there. On the next page, exhibit 6 you can see where somebody did attach the receipt. This was a PRNS purchase. They did attach the itemized receipt. I'd like to point your attention to page 12, which does give the information we needed. So here was just simple notes on the receipt. Saying there

was a barricade event, the case number, there were 70 plus officers deployed at fixed positions, and it was impractical to leave. They purchased in that case from Togo's and Rite Aid for those meals. So you can see that it wasn't an expensive meal for those folks. They were buying meals at Togo's. But what we are saying is, we made the recommendation to please just put succinct notes on the receipt. The phrase I've been using is it's the kind of thing that your spouse or partner would require you to do in case they see where you spent your money. So it's as simple as that will really help us in following through on these purchase in the future. We did find a few things of note in reviewing PRNS transactions. We found that they had a practice of purchasing gift cards to reward certain volunteers. There is nothing in city policy that specifically allows us to purchase and provide gift cards. So we did in consultation with the attorney's office that practice was stopped for now while they develop some kind of internal process or policy on what kinds of gifts are appropriate. We did find some other policy violations. They were really not -- not that significant. We did find some people splitting transactions. We found some people exceeding the thousand-dollar P card limit on service purchases. Some people where receipts were not committed. Again, for any kind of personal purchases, those had been reimbursed. There is a reporting process that is required when that happens and that had not always been followed timely. And finally, the office -- U.S. Bank which is the vendor for our credit cards that we use citywide, does have great online tools that departments can use and the finance department specifically could use to review purchase on an annual basis, we're suggesting, just to look through and see how many purchases we had with various vendors. Looking for cases, an example is uniform purchases that are happening across the city in different departments where if they add up to a significant amount of money we may be able to negotiate a certain type of a discount. Uniforms in that case, but there would be some kind of a discount associated. The city administration generally agrees with our recommendations. There are a total of eight recommendations sort associated with the report. The response is attached in yellow in the back. I want to thank my staff, Steve Hendrixson, Gitanjali Mandrekar and Michael Houston. And then I wanted to thank the staff from the finance department, from purchasing, and then from the departments that we reviewed. As I told senior staff the other day, this is one in a series of ongoing audits of the P card program. We have about a thousand credit cards out there. We need to keep monitoring those. We'll be back. I told them we'll be back, they can hope it won't be their department that we look at next time, but they better be aware that if it is, we'll do what we can to make sure all purchases are appropriate. With that, I'm happy to answer any question, and I think the finance department is, as well.

>> Councilmember Nguyen: Thank you, Sharon. Are there any questions from committee members, comments? Councilmember Oliverio.

>> Councilmember Oliverio: Just thank you for all the work. We went through this in a private visit but just a good job, thank you.

>> Councilmember Constant: No questions.

>> Councilmember Nguyen: All right. Anyone from the audience who wishes to speak on this item? Okay, we have a motion and second to accept the report. All those in favor, say aye.

>> This item will also be cross referenced for the September 28th council meeting.

>> Councilmember Nguyen: Very good. Motion carries, thank you very much. We will now move down to the open forum. Mr. Wall.

>> David Wall: Take a breath of fresh air relax, good news. I'm here to thank two independent San José police officers. One, his name is officer John McElvy, that's M-c-E-l-v-y. Number 2625. This occurred on September 13th in my neighborhood. As to the time and the nature of the officer's activities this you'll have to ask because there are certain operations that can't be publicly discussed. There was a individual taken into custody. The individual didn't even mind being taken into custody. But he had to be. And other than that that's all I can say. This officer did his job expertly as one would think with 25 years of experience. He's to be publicly thanked as I'm doing. It would be very hard to write it up because I can't put the times or what was going on. The other officer, due to my own negligence and incompetence, I was unable to write down his badge number, because after Rules yesterday, my hands were full. And he helped me across the street because of the parade that was out in front of City Hall, and he saved me from having to walk an enormous distance with my sore leg. He's part of the motorist division, and I will ferret his name out through appropriate means and thank him in appropriate fashion. Lastly possibly not

good news this issue of censorship, be very wary of this insofar as public records are produced, that are generated with taxpayer moneys in kind. That's all I'll say because I want it to be good news and happy feelings. Thank you.

>> Councilmember Constant: Always good to have good news from you. And Mr. McElvy used to be my partner. He was a boy scout that's why he helped people across the street.

>> David Wall: I have profound thanks to San José police officers because they are the ones who help me on a routine basis out on the street.

>> Councilmember Nguyen: Thank you, Mr. Wall. Meeting is adjourned.