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San José study session.

>> Mayor Reed: Good afternoon. I'd like to call the San José city council into session for this study session on the airport economic budget and competitiveness issues. We have a quorum on the dais and I think a few more councilmembers are in the back room. They'll come out shortly but we can get started on time. Start on time end on time or maybe even early. Something to aspire to. Today we're here to talk about our more than a billion dollar investment that we're trying to protect at the San José Norman Y. Mineta international airport. We're just about finished with a \$1.3 billion improvement program that will give us the only airport built since 9/11. An airport that is convenient, comfortable and safe with the nation's most advanced baggage screening system and some new actually announced on Friday some body screening system as well. But it's going to be a great airport. But the recession and the construction has taken a toll on it. So today, we're here to talk about what we can do to ensure that the airport remains competitive in the marketplace that we're in so that we can grow our traffic back, making it competitive and attractive and to the airlines and for our silicon businesses as well as our leisure travelers. We will get an airport staff presentation today. This is not a council action to be taken meeting. It's a study session. We're beginning the process, and undoubtedly we'll have to have the staff do additional works and bring recommendations back to us for action as we go through the next coming months. But this is a chance for the council to ask questions, get up to speed, and for the public to know what it is we're thinking about, and the issues that we have to consider. And with that I'll turn it over to City Manager. I think Bill Sherry is going to lead.

>> City Manager Figone: Yes, he will, Mr. Mayor, so it's okay with you we'll turn it right over to Bill.

>> Bill Sherry: Thank you, Debra, thank you mayor. My name is Bill Sherry. I'm aviation director. City of San José. Our partners in economic development. To my immediate left is Kim McQuery, she is assistant aviation director. To her left is Terry Gomes, she is the airport's director of finance and administration. I think you all know Kim Walesh, with our partner in Economic Development. Behind me I have Dave Moss, Director of Planning and Development at the airport. To his left is John Aiken, Director of Operations at the airport. To John's left is Patrick Tona, director of facilities, and to his left is Ed Nelson, Director of Air Service Development. We're here today to give you a short presentation and hopefully turn it into a question and answer. We'd like to explore the problem. We'd like to explore possible solutions and get council input on next steps. We're at a critical crossroads at the airport. And the airport can take one of two paths. It can either continue its downhill slide in terms of passengers and flights or we can take corrective action and turn the airport around, to make it the economic engine that we all want it to be. Let's speak about the economic value of the airport. Revenues come from landing fees, rents, concession fees and other user fees. Important to note that no local taxes are used to either build or operate the airport. The airport supports roughly 5,000 noncity employees and its economic value to San José and to the South Bay region is about \$4 billion a year. The airport faces direct competition in the marketplace. The airport must compete for flights and passengers. Airlines have options where they want to locate their assets. Their assets principally being airplanes. To be competitive, San José must offer a superior product at a competitive price. I would argue, in the past, we had a competitive price, but perhaps not the superior product. Tomorrow, we will have the superior product, but it's imperative that we price it correctly. The airport is the only city department that competes directly. The economic value of the airport, if we can keep our competitive prices in line, means increased flights, increased passengers, which means increased jobs, spending and better fiscal ratings. So who's our competition? Well, some might say that San Francisco and Oakland are our competition. If I were asked, I'd say that every airport in the world is a competitor of ours. Airlines could -- they have airplanes, they can place those planes anyplace they want. If you are an airline CEO you might want to say I want to put a plane between Miami and New York. You may say no, I'd rather put it between Washington and Dallas. Another airline might say Salt Lake and Seattle. Another might say San José and Boston and that's what we're looking for. We're looking for the airlines to choose San José to place their service. So before we start talking about competition, I think it's important that we understand the marketplace. So let's explore the national marketplace. This chart shows the past 30 years. You can see '79 to '89, '90 to '94, '95 to 2000, 2001 to 2008 and then to current. The red shows the combined losses of the airlines during those periods. The blue or the black shows the profit. What this basically says, and draws into question, is whether or not this industry is a for-profit industry. If you add up all those 30 years, the airlines, the U.S. airlines, collectively, have lost \$43 billion in the last 30 years. Why is that important? It's important because passing additional cost on to this industry is virtually impossible. Those of us in the airport industry know that airlines from time to time can act somewhat schizophrenic. I think this chart shows why. You see on the blue line, the

average profit for all U.S. corporations. The red line shows the airlines, and you can see how it's highly volatile. Let's again talk about ticket prices. Some people say, well, just add the cost of the added cost of the airport on to the airline and the airline will pass it on to the passenger in terms of ticket prices. The airlines are very, very good in airline management and yield management. The problem is, is the passengers are not willing to pay the going price for tickets. This chart shows that ticket prices today are back to where they were in '97-'98 time frame. In other words, the airlines can't get more revenue out of the passengers. They will fill their planes. But it doesn't necessarily mean that those planes are operating profitably. These are two quotes, out of the Wall Street journal and I'm just of going to give you a moment to read both. In the last several months and years we've seen the airlines reduce capacity. Now I'm going to use the term capacity a lot today so let's define what that term is. Capacity are the seats flying in the market. It's not necessarily the number of flights and it's not necessarily the passengers. It's the number of seats. For example, an airline can pull a flight, but add capacity, because they can put larger planes in the market. So there's more seats. Converse, they can add flights but actually pull from the larger aircraft and add smaller aircraft and reduce the capacity. So when we talk about capacity, we're talking about available seats. This chart shows the major U.S. carriers, and the capacity reductions that they've had over the past couple of years. Then we look at the industry as a whole. And as a whole you can see that we're down to the late '90s level in terms of capacity. So why is that important to San José? Well, our planes are full. It's not a matter of the South Bay or San José or Silicon Valley residents not willing to fly. They're willing to fly. The problem is, they have to get in their cars and drive to San Francisco to catch a flight. Our flights are full. If we want our -- if we want our airport to be profitable, and bring in the maximum number of jobs, we have to got to get more flights in the from the carriers. Let's talk employment. Employment since May 2001 the industry as a whole has cut 163,000 jobs. This is a disheartening graph. This graph shows the major U.S. airports, and the amount of service that they've lost since the first quarter of 2008. You will see that Oakland is the at the far left with one of the greatest losses. San José is the seventh from the left with 24.9% loss. San Francisco has fared very well. It has lost nothing. I also want to point out that the far right of this chart you see two airports, Denver and San Francisco. Both of these airports went through very rough times after they were rebuilt, Denver was a new airport and almost day one of opening it struggled to keep flights and passengers. It did so because of its high cost. San Francisco, right after 2001, opened a new international terminal, and it too lost considerable traffic, again because of its cost. However, fast-forward eight, nine years, and you can see that these two airports are doing very well. The reason is, that they've got their cost under control. That is the mission for us. We will have a rebuilt airport, but we've got to get our cost under control. Continuing with the look at the airline industry, if you take all U.S. carriers combined, they barely exceed the capitalized cost of eBay. You can see it's an industry in peril. So what's -- what do we conclude from this? We conclude that this is an industry in very difficult times. That is sporadic and volatile in terms of its profits and losses and it's an industry that does not accept added cost well at all. Now let's look at Bay Area service trends. I mentioned before that San Francisco has done very well. You can see in the last few years it has gained in market share in the bay. You can also see San José in the red that where we have lost market share. This chart's probably the most disheartening. You can see that since 2000, San Francisco, the Bay Area as a whole, has lost 8.8% of its service, and its passengers, yet we have lost 36.5%. And I'd say into year 2010, that number's even going to increase. Airlines are reducing capacity and seats and flights around the nation. But there's a different dilemma or phenomenon going on in the Bay Area. And we call it the hurting mentality. And what is this? San Francisco did a very, very good job several years ago at reducing and restructuring its rate structure. But also, in acquiring virgin America. That airline, I believe now is operating somewhere in the neighborhood of 30 to 40 flights a day. But it's the reaction that the other carriers made to that airline coming into San Francisco that really drew the difference. And on this chart you can see that since virgin went into San Francisco, San Francisco has 592 flights per week that it didn't have before. The airlines with it not come up and stand at this podium and tell you what policies they like or don't like. They will come up to the podium and talk to you about keeping costs low. But they have a different way of talking to us. And this chart defines how they talk to us. And what this says is, the airlines are not receptive to the policies and principles that the City of San José have employed. We have to turn the trend around, in order to get more jobs and more services. 8.2 million passengers a year were projected for 2010. That's down from 13.9 in 2001. That's a 41% decline. San José's the 39th busiest airport in the nation but we're the 10th largest city. I would say to you that if we were the 10th largest airport instead of having 5,000 employees we'd have 10 to 15,000 employees. We have 125 commercial flights a day, that's down from 190,000 flights in 2007, almost a

33% decline. We have a declining share in the Bay Area air service market. Let's take an example of five cities. And here you can see that San Francisco has 23 daily flights to JFK alone. We have one, and it's a red-eye. In Boston, San Francisco have ten. We have one. Dulles 11, we have zero. Chicago O'Hare they have 17 daily flights we have two. Chicago midway, three, we have one. So what does this chart tell us? What this chart tells us is there's a disproportionate concentration of air service in the North Bay. Airlines don't care if you have to get in your car and drive to them. They're going to capture your business one way or the other. The problem is all the economic benefits are going to San Francisco, the jobs are going to San Francisco and the economic impacts are going to San Francisco. This is not good service for our residents, or our employees. We need to balance the air service in the Bay Area. Poor service also equates to poor environmental impacts. So let's talk about cost per enplaned passenger. Just so we understand what that number is. First off it is not a fee. It is a ratio. And basically it is a very simple ratio. You take all of our operations and maintenance expenses, you add the debt service, you divide it by enplaned passenger and that's the cost per enplaned passenger. That's the fee that the airlines pay to the airport in order to board one passenger. Now we've got some problems with our CPE. The cost are going up. Even though we've reduced over the last several years our O&M cost, our debt service is increasing radically because of the terminal area improvement program. All \$1.3 billion of that program was debt financed. So, because of the added cost and the added debt the CPE is going up. But other things can cause the CPE to go up. If passengers go down, the CPE goes up. The problem that we have, in our city, is, we have both. We have rising costs, rising debt, fewer passengers, and so the cost per enplaned passenger is going up disproportionately. This chart is the problem. We would not be sitting here if this -- if it were not for this chart. The lines that you see on the chart, and let me see if I can explain this chart a little better to you, is where you see the red, that was the forecasted enplanement level when the airlines, the airport, the city and the city council all approved the terminal area improvement program. We were anticipating relatively modest increases in traffic, two, three, 4% depending upon the year. The problem is, is right towards the end of this program, the recession hit, and now you can see, at the bottom, the blue line and the light-blue line are where our traffic levels are today. The blue line, the dark blue line is where we are from an actual perspective, the light blue line is where we are hoping that we're forecast in other words the additional traffic to come from. The difference though is 6 million passengers. We average on a very average basis about \$15 per passenger. So new take six million passengers, the loss of six million, that equates to roughly \$90 million that the airport has lost since we have no tax revenue to offset that by, we have a serious problem balancing our profit and loss. Our cost per enplaned passenger, this chart basically shows where we've been and where we're going. Now, the good news is to date we have stayed on target with what the airlines have expected us to do. Although our costs are going up, they are going up less than what was originally forecasted. The problem is our enplanement levels are going down. Faster than what was originally anticipated. So we've had to make even more cuts than we thought we would have to do. The problem is, is where do we go from here? With the reduced enplanement levels, we have the potential that our costs will get in a noncompetitive position not only in the Bay Area but also throughout the U.S. This chart shows the cost per enplaned passengers, cost per -- cost per CPE at the three Bay Area airports. I mentioned San Francisco when it lost a lot of traffic, in 2001, 2002 and 2003, when they had rising CPEs and that's when airlines started flocking out of San Francisco. Much to San Francisco's credit they got their CPE under control and as soon as they did the airlines started going back into San Francisco. We are now faced with that same challenge. San José CPE needs to remain considerably below San Francisco to avoid further reductions in air service. That is a direct quote that we heard from our airlines. They said they will pay more to be in San Francisco. They will not pay more to be in San José. To achieve a competitive CPE, San José must make substantial additional cost cuts. And so the target, if we're looking at it, in order to try to keep our CPE competitive, for every dollar that we need to reduce the CPE, amounts to about \$4 million in actual cost cuts. So how do we chief that? Well, we have some very difficult decisions that we have to make. I'm going to start off here by saying that staff, when we presented this issue to city council, we excluded nothing. We have not keyed anything up or made any specific proposal. But we have listed everything. And some of these issues obviously are very sensitive issues. But we're presenting them all to the city council and hopefully today you can give us your guidance in terms of what you think are the most appropriate areas to explore for San José. First and foremost, the council has a directive for the airport to build a world class airport. I would tee up for your consideration that you may want to consider editing that to build and operate a competitive world class airport. If we can achieve that goal, we can increase jobs, increase services for our residents, and increase the economic impacts San José international airport has

on the South Bay and to San José. It's also important to note that the airport over the last several years has taken very significant steps to reduce its operating cost. We've reducing staffing. Our staffing at the end of fiscal year '10-11, going into fiscal year '10-11, will be at two-thirds the size it formerly was. We're proposing to cut our full-time staff equivalent positions from 400 to roughly 270. We've made significant strides at increasing revenues. The airport will have many more shops, concessions, and the revenue that we'll get from those shops and concession are significantly higher than what they were previously. And we've pursued, aggressively pursued new air service. Now, the proposals that I'll tee up here really fall into three categories, and I'll break them down into each of those categories. Some policies have direct impacts to the cost per enplaned passenger. Other policies don't really impact the CPE, per se, but do add added costs to the airlines which are influencing airlines' decisions whether or not to provide service in San José. And then finally some policies are not easily quantifiable but add to the challenges complexities and costs and ultimately impact the airport's competitiveness. So what can we do? Well, looking at the airport operation, we're again all of these are not necessarily proposals, these are just simply identifying areas of opportunity for more competitive cost. Our custodial services, we think that by outsourcing custodians, and that service we could save \$3 million a year. Our fees and the cost we pay our employees are considerably above the living wage. I will also point out that all of our employees and all of these proposals, we have very hardworking dedicated employees. But they've expensive and for a department that competes directly for service that puts us at a competitive disadvantage. Aircraft fire protection services, what's aircraft rescue firefighting, we've identified potential \$2.6 million a year of reduced cost. Police services, we think by outsourcing police services, theoretically we could achieve a \$6.4 million savings. The T.A.I.P. has ongoing public art cost. We think by indefinitely postponing the requirements of the public art ordinance we could save \$3 million between fiscal year 11 and fiscal year 14. Now, I mentioned earlier about the fire department. If we did not want to outsource it but we just reduce the staffing, the federal aviation administration puts minimum equipment requirements on airports but our bargaining agreements require twice the amount of staffing required by federal lay. So if we kept it in-house and reduced the staffing, that could be \$1.6 million a year. The airport, as an enterprise fund, pays the city overhead. And we pay for nonpublic Safety, \$3.4 million a year in city overhead. For Public Safety we pay anywhere from 1.7 to \$3.5 million a year. Again those are added costs that add to our lack of competitive position. I might also point out, those are two costs that some airports don't incur at all. We've also identified a potential of \$600,000 a year in savings that, if we restructure the VTA flyer service, this is a bus service that we're in partnership with VTA, that provides service between CalTrans, light rail and the airport. We pay half the cost, roughly about \$1.5 million a year, in total the operation costs \$3 million a year. VTA pays the other half. But we think if we could augment the timing and/or the bus size we could save \$600,000 a year. Living wage. Last year, the city council approved the living wage ordinance at the airport. Our rates do not compare with San Francisco and Oakland which puts us at a competitive disadvantage. Higher rates also affect our ability to get air service. Changing the enforcement methods of the living wage, to my knowledge, all California airports have a proactive -- or I'm sorry a complaint-based enforcement. San José is the only city that I'm aware of that has a proactive enforcement. And that adds costs. Allow a 30-day grace period for violations. Right now if an airport tenant is found in noncompliance on the ordinance, they are immediately assessed fines. Many of these actions and some of those actions can be accidental, or misinterpretation of the ordinance. So if we could be a little lenient, and allow a 30-day grace period, which we believe every other California airport does, and city does, that could help have some savings to airport tenants in terms of airport fines and penalties. When you passed the living wage you also allowed for an airline exemption. Given the poor economic times we find ourselves in, consideration of extending that exemption could be of benefit to the airlines. And finally, wage, prevailing wage requirement on third party construction. City Council does not have the discretion to waive that for the city itself but we do have tenants that build facilities on the airport. And if we could waive the requirement for those third party tenants, that could spur development at the airport. Next, we can look at other issues that impact the -- our competitiveness. Authorize a full analysis of the impacts of altering or eliminating the curfew at San José. I will point out that if we were to do that, it would require a full supplemental EIR and EIS and it would indefinitely postpone the west side development that is being proposed on the west side. We can also look at the impacts of downtown obstruction in high-speed rail. Let me give you an example. We very much would love to have service reinstated to Tokyo Narita airport. If an airline were to do that one aircraft doesn't do it, they really need about one and a half to two aircraft. Each one of those aircraft are about \$150 million in cost. So they need two airplanes to provide that daily service between the two cities. That's \$300 million. To run those

aircraft for the year, will add up to about \$100 million in added -- in just normal annual operating cost throughout the year. That's \$400 million and then you can add a few extra million dollars for marketing, airport cost and so on, so forth. So an airline in order to provide service to San José and Tokyo is looking at an investment of over \$400 million. Now, they realize that the city is dealing with height issues of downtown. Would you make a \$400 million investment, knowing that in any day, a building could be proposed that would turn that flight into an economic loser? The odds are no. So that issue is causing us difficulty with marketing because airlines are reluctant to add service until that decision is reached. If we don't ensure our long haul capability, high speed rail is proposing to take our short term capacity. Theoretically, both of those two issues could put the airport out of business. Now, we have some good news. The good news is, we had a \$1.3 billion modernization program. That program, when we started day 1, was \$150 million out of balance. When we came to city council, and you authorized the contract with Hensel Phelps, you asked the question, how are you going to bridge the gap on \$150 million budget shortfall? And we explained that there are three elements to a program. There is project scope, there is budget, and there is schedule. We knew that the budget was fixed. We knew that the schedule was fixed. So we had to adjust the scope. So for many years in the early part of this development program we started value engineering, we started reducing scope and we looked at other ways of implementing the same benefits. I'm very pleased to tell you that we have turned that program into a program that has got a surplus. We're currently sitting at about a hundred and -- I think \$138 million under budget. So we've had more than \$300 million swing. Now, under budget doesn't necessarily mean cash in hand. Because some of that was debt financed, some of that was not. So if we look at what cash we have in hand, in other words, moneys that were already taken out, debt-financed, we will complete this program with \$78.5 million surplus. And that \$78 million can be used for a multitude of different things. Ideally, since you have debt financed these funds, we would like to put it to capital projects that have a capital life equal to or greater than the debt period which is 40 years. However, given the extraordinary economic times we find ourselves in, that \$78 million could be used to help offset some of the operating difficulties. There's many other things that add to our noncompetitiveness, and I won't go through all of these in great detail. But the cost of the acoustical treatment program was \$170 million of which 77 was borne by the airport directly. We have master plan implementation requirements, environmental initiatives, multiple cost accounting systems and the taxi administration, all of which individually don't amount to much but collectively add to our position of noncompetitiveness. The airport -- it's important to remember that the airport has taken many steps to achieve its budget targets that we agree with the airlines over the years. But at this point we cannot do any more cuts that do not involve violating or intruding into very sacred city policies. So the purpose of today is to really lay out the issue to city council and get your direction on where you would like to see us go. I'm going to conclude by saying that again it's the tale of two airports. Denver and San Francisco both faced the same challenges that we do and he they were able to turn their airports around to make them into huge successes and huge income engines for their community. Keeping cash flow doesn't ensure success but not controlling cost will surely ensure our failure. And with that, Mr. Mayor, I'll turn it back over to you.

>> Mayor Reed: Thank you, Bill. Excellent presentation. Not one that I wanted to hear. But a good job presenting the difficulty facts. I'm sure the council is going to have some questions on some of the details, so let me start with a few that I had as we were going through this. Would you go back to the Denver and SFO examples, when -- I'm not sure you had a specific slide on it. You were talk about a couple of airlines that had major construction projects. Costs went up. They lost a bunch of service. They got their costs under control, and those are the two with positive gains over the last few years.

>> Bill Sherry: I'm getting there.

>> Mayor Reed: That slide.

>> Bill Sherry: That was it.

>> Mayor Reed: Denver and San Francisco are the two on the very far right which is the place we would like to be I suppose, unfortunately we're on the left-hand side of that scale. We have lost a lot of service as has Oakland. Can you talk a little bit more about what Denver and San Francisco did when they faced similar challenges and they got cost under control and regained their services and what airlines might have been involved in that?

>> Bill Sherry: Yeah. Most everyone knows that Denver is the newest airport in the nation. They closed stapleton, opened Denver international just north of the city. With that airport came immense debt. A lot of the airport was financed by grants but most of it was debt-financed. And it made Denver into the most expensive airline in the nation. An industry that really does not accept added cost well, and so many of

the carriers that had committed to Stapleton decided to start pulling service and put it elsewhere. The same is true with San Francisco. They embarked on an airport expansion for international terminal. And right after 9/11 opened that facility. And again had enormous debt. Both airports, both cities had to look at the debt that they had, and find ways of controlling their cost to bring those costs down. Both airports restructured their debt, and we can do that, too. Except our time frame to do so, our bonds have ten-year call provisions. So we're looking at the first opportunity to resize our debt would be in 2014. And then we will have another opportunity again in 2017. But much like Denver and much like San Francisco, in -- until we can restructure that debt, they had to look at their operating costs. And look for areas where they could reduce. And they had many of the same issues that we have. And contract by contract, they were able to reduce unit cost, reduce staffing, in order to get those costs back into line, to a point where the airports became competitive. And now, are actually huge successes. And I go back to say that in order for us to succeed, we need to offer a superior product at a superior price. Both San Francisco and Denver prior to their remodernization did not have the best products. They came out of those development programs with a far superior product, but their costs were out of line, much the same situation that we're facing. So if we can control our cost, I think that we've got -- and you've heard me say this before -- we have the most modern or will have the most modern technologically advanced airport in the nation. That means huge efficiency for the carriers and also means intense improvements in customer service. So our challenge is simply to reduce the operating cost to remain competitive.

>> Mayor Reed: What airlines were involved in Oakland -- I mean in San Francisco and Denver that actually pulled out?

>> Bill Sherry: Both airports, southwest pulled out. There were other carriers that pulled out but I think southwest was probably the most notorious. Southwest is a low-cost airline. And they don't operate at high-cost airports.

>> Mayor Reed: Southwest pulled out but now they've gone back to SFO.

>> Bill Sherry: Yes, and into Denver.

>> Mayor Reed: How long was it from when they pulled out to when they got their costs under control?

>> Bill Sherry: I'm going to say -- I'll turn to Ed but I'll say probably four, five, six years.

>> Yes, this is Ed Nelson, director of air service, I believe it was something to the tune of approximately five to six years, that's correct. What we've seen with southwest in particular is that while they've added 40 flights a day at San Francisco, they've reduced roughly 280 flights per week at Oakland and San José. So they end up with the exact same number of flights as they had before they went into San Francisco. So they've just spread it over three different airports.

>> Mayor Reed: How much of our service is provided by southwest?

>> Bill Sherry: 54%.

>> Mayor Reed: 54% of our service, if southwest decides we're a high-cost airport, and they decide to move that service, is there anyplace they could move it? Does San Francisco have capacity, does Oakland have capacity where they could move the service or they could go to any of the other airports that you've been talking about?

>> Bill Sherry: Yes, mayor, they've demonstrated they do not have to be in all three Bay Area airports. Both Oakland and San Francisco have sufficient capacity to handle any flights pulled out of San José.

>> Mayor Reed: If Southwest would pull out what would that do to our cost per enplaned passenger?

>> Bill Sherry: More than double it.

>> Mayor Reed: The \$78 million you talked about being unspent in the capital program due to being underbudget, if we were to use that \$78 million as sort of a disaster reserve how long could we hold onto it under the provisions of our bonds or IRS regulations or whatever might control that? How long could we keep that as a reserve in the event that southwest or any other of our carriers decided to pull out?

>> Bill Sherry: I don't have that specific answer. We'd have to defer to bond counsel. But I will point out that we don't actually have access to those funds until at the earliest 2012. And the reason for that is, if we wanted to use those funds for a reserve, we cannot tap that source until all the projects within the terminal area improvement program are closed out. I would venture a guess to say that we could probably hold onto those funds for at least a year or two thereafter. So theoretically you could keep them as a reserve until, say, 2013, 2014.

>> Mayor Reed: One of the things you didn't mention in your presentation is alternatives that have been considered by other airports like Chicago at midway and I think even New Orleans is looking at it as selling the airport, privatizing the airport, leasing the airport. I'm not sure what plans they had. I think the

one in Chicago came pretty close and fell apart for some reason. Is that a realistic alternative for us to consider or is that just too difficult?

>> Bill Sherry: The -- there's considerable federal law that restricts or inhibits the privatization of airports. Congress authorized in its last reauthorization of the FAA bill, a pilot program, allowing five airports to consider and pursue privatization. To date, no airport has been able to achieve that. I think it's in part because of a poor economy and also, in part, because of the federal requirements associated with it. As you pointed out, Chicago Midway was the airport that came the closest. But at the 99th hour, that deal fell through. Currently, New Orleans is exploring it. But I would say that the odds of achieving that probably aren't worth the time it takes to invest in it.

>> Mayor Reed: A couple other ideas that have been mentioned. In your presentation that was marketing, building a business case for the airlines to come to San José. But you said you've already been doing -- aggressively pursuing new air service. How much more aggressive could we get and are there things we can do -- I think this is part of things you need to put together when you come back to us. But it's not like we haven't been trying to increase air service because I've been involved in some of those conversations with folks. In fact I think I'm going out tomorrow morning to kick off the Alaska flight. So I think the question is, can we grow our way out of this? And that's certainly a lot more fun than cutting our way out of this. But it seems to me that growing our way out of it is something that we need to work on but it doesn't offer much hope for any immediate fix because we've been working at it.

>> Bill Sherry: Well, unquestionably, the best case scenario for us is to grow out of this as opposed to having to cut, cut, cut. And I think we certainly need to give you know a very concerted effort to marketing. I will tell you that airlines, if you go to their corporate headquarters every day they're being approached by one airport or another. And we routinely do it. Mr. Nelson's on the road pretty much throughout the entire year. He goes to every airline corporate headquarters. We go to conferences and we attend route-planning conferences and the like. But the airline really looks to the community. How -- they know that the airport staff want to see more flights. But they also look to the community and say -- and look to see how serious is the community about this? Is it a priority for the community? And if it is, that weighs heavily in the airline's decision to invest in that community. And I think we can make significant strides in that area in terms of making this a priority for this community.

>> Mayor Reed: Thank you. We will certainly need a lot of help from the community to grow the -- grow the traffic. One final comment is, I want to thank you for what you did when you first arrived here, Bill. Because the slide you showed us would be much different if we'd built a \$5 billion airport instead of a \$1.3 billion airport. So thanks.

>> Bill Sherry: You're welcome.

>> Mayor Reed: There are a few other questions. Councilmember Liccardo.

>> Councilmember Liccardo: Thanks mayor. I echo that thanks, Bill. I appreciate everything that you and your team have done particularly around managing costs in the construction and producing what I think is not just an incredible airport from a technological and economical point of view, but I think it is also very beautiful architecturally and I think we should be very proud of it. I want to touch that issue relating to the \$78.5 million in savings from construction at this point. If we simply don't touch that money, if we don't use it for construction of a parking garage or some other use, in terms of savings on an annual basis what does that do for us? Is it about \$2 million less? Do you have any idea what it does in terms of the ongoing cost for airport operations in terms of financing, those ponds?

>> Bill Sherry: Well, if I understand your question, if we -- we are already paying debt service on that \$78 million.

>> Councilmember Liccardo: Oh, okay, doesn't matter whether you draw on it or not?

>> Bill Sherry: Right.

>> Councilmember Liccardo: I see, that's a very different situation.

>> Bill Sherry: We have short term debt and we have long term debt. If we were looking at both sources then it would be the \$138 million that I talked about.

>> Councilmember Liccardo: Right.

>> Bill Sherry: But the long term debt that we've already taken out the moneys in the bank is \$78 million.

>> Councilmember Liccardo: Okay, well I appreciate that, that certainly affects our decision about how we use the money. Turning to the curfew. I know there's been a lot of public conversation about should we eliminate the curfew or not. And I want to address that a little bit. I understand that we had to undertake pretty expensive EIR in order to expand this airport. And the expansion, the EIR was --

contained within it certain assumptions around curfew. Away would it take to modify that EIR in terms of time, money, et cetera, before any modification of the curfew could happen?

>> Bill Sherry: We estimate, and I have to put the caveat that all of these proposals, whichever the council decides they want us to pursue, require a lot more research. So anything that I say here is subject to change, as we learn more. But we would estimate that a full supplemental EIR and EIS would have to be undertaken and that is at least a year and a half effort and hundreds of thousands of dollars.

>> Councilmember Liccardo: Okay. And Rick, feel free to jump in here, but my assumption is we simply as a council cannot make a decision to modify that curfew without an approved supplemental EIR, is that right?

>> City Attorney Doyle: I think that's correct. Again, it depends on the scope of the change but as a general comment that's right. It was part of the noise mitigation for the EIR and the EIS.

>> Councilmember Liccardo: Okay, thank you. Look, I know you touched on this briefly during your presentation but can you give us a sense of what the opportunity cost is in terms of the airport staff being consumed with a year and a half two years of modifying that supplemental EIR, what doesn't get done if you're dealing with what will be undoubtedly a very strong response from community, at least in a couple districts I know. What doesn't get done during that time in the year and a half or two years if you decide, if the council decides to go forward and modify the curfew?

>> Bill Sherry: Many things. I would say that one thing I've got to put out is that with a third less staff, our capacity and our bandwidth to take more on is very challenged. That's not say we can't do additional study. But we really need to prioritize the work efforts that staff undertake. And I would say to you right now, it's that capacity is more constrained than I've ever seen it. As a matter of fact, it's even more constrained than I've ever seen it in any airport I've ever operated in my 30-year career. But that's not to say we couldn't do it. I think the biggest impact would be that we're proposing in the FY 10-11 budget the nonterminal area improvement program which opens up the West side of the airport to general aviation development, large and small. And that is an opportunity that is realized because we're moving all the terminal parking into the terminal campus. All of that proposed development and improvement and the jobs associated with it and the economic impacts associated, would indefinitely be postponed until we completed the supplemental EIS and EIR.

>> Councilmember Liccardo: So knowing that west side development -- well let me just ask you. I know we've talked about the west side development before. But tell me briefly what would you expect the impact, the positive impact would be for the bottom line on the airport if that is successfully developed?

>> Bill Sherry: Again, it is very early in the program's development. So everything that I'm going to say here is order of magnitude numbers that are subject to change that as we go into more detailed studies, could be refined up or down. But we have 40 acres where the current long term parking is located, we call it the orange lot off Coleman avenue. That could be developed consistent with the type of development that we have, that is out there now, the jet center. And we also have the San José State University site which could also be developed, to better support corporate and general aviation interest. We estimate that the annual impacts from that development, if it were completely developed, and it went with the larger corporate type of aircraft, would be about \$8 million a year. Four of that would go to the airport fund and about \$4 million of that would go to the General Fund. And then, you know, when you do an economic analysis, it gets into the tens and hundreds of millions in terms of direct and indirect benefits over the term of the development.

>> Councilmember Liccardo: Sure so that's obviously a substantive economic opportunity for us. And as I understand it you said it would be about \$4 million to the operations fund for the airport. That's about a dollar CPE, is that fair?

>> Bill Sherry: That's a dollar, yeah.

>> Councilmember Liccardo: So knowing what we know or what we seem to know at this point about the opportunity cost of taking on the curfew change, knowing that could defer the West side of the airport development and make that at least in the short term something of a casualty, would you recommend council going forward and seeking to modify the curfew at this time?

>> Bill Sherry: Tough question. That's obviously a public policy question for the council. But I guess if I were asked and you are asking me, I'd have to say no. I'd say that this city has a curfew. And when I look at the potential impacts -- when I look at the potential impacts both in terms of the impacts on the community, and the negative impacts on the airport, I would say that's probably an exercise that isn't really going to achieve great results either for the community or the airport.

>> Councilmember Liccardo: I agree wholeheartedly. I know that's not a secret but I appreciate your forthrightness about that. I certainly know that there are costs, that the curfew imposes on the airport and its ability to develop business but I also appreciate that knowing what it takes to change that curfew, I think is certainly going to generate more heat than light in the end. The last question I had related to the downtown high rise construction issue. I agree that the lengthy period of policy indecision is good for nobody. The way that I heard you describe it is something along the lines that no airline would invest \$400 million or more if, in any given day a building obstruction could alter their operations. But the reality is, is that the council's approval of any height on any building would predate the construction of that building by several years. So is that really, I'm trying to understand what that really is in terms of risk to an airline, when I think everybody expects that there would be several years for any airline to adjust whatever they wanted to adjust and even move and pull out. Is that -- could you help explain?

>> Bill Sherry: Yes, I think the best way I could put that, as I tried to point out on my charts on the industry, the airline industry works on very, very small margins. And if you recall, that first chart, a negative margin. But they fight vigorously for that little bit of profit that's there. When they announce new service most every airline knows for months and sometimes years, that service is going to operate at a loss, until it matures. And by maturing, what we mean is where it develops a loyal customer base and a customer base that is aware of the flight and the advantages of that flight. So an airline really looks at new service as a very risky proposition, first, and two, if they elect to do it, they are looking at it as a long term endeavor. And if there is impediments, if there are impediments out there that could minimize or eliminate any profit in the long term, they're going to choose to put the aircraft elsewhere.

>> Councilmember Liccardo: Okay, thanks Bill.

>> Mayor Reed: Councilmember Constant.

>> Councilmember Constant: Thank you, mayor. I wanted to kind of keep going a little bit on away Sam started with the curfew. I think you did a good job about exploring the opportunity costs of the airport West. But we didn't hear much about the opportunity costs as far as lost red eye flights, cargo planes, things of that nature. Do you have an estimate of what that opportunity cost that we're currently paying is?

>> Bill Sherry: Councilmember, we do not. There has never been an economic analysis performed on the economic impacts of the curfew. And so at best, all I could do is guess. But when I look at the number of flights in the curfew period offered at San Francisco, Oakland, Sacramento, comparable type of airports, it's not a great number of flights. If we take San Francisco out of equation, just for a minute, because their air service is going to be much different and will be much different than ours. If we compare ourselves to Oakland, Sacramento, we may be talking a dozen flights, maybe, at most. And most of those flights are in the first hour of the curfew and in the last hour of the curfew. There are very few flights in the two, 3:00 in the morning range. And when I look at what this community would go through to explore augmenting the curfew versus what it could achieve on the west side development, I just conclude that the benefits are greater in the west side development than it is, by looking to try to augment or eliminate the curfew.

>> Councilmember Constant: So even-what would it take just to modify the hours? You mentioned augmenting. If we know that hour is the critical time, what would it take to look at what that hour either in the evening or in the morning, either one would look like, what the economic benefit could be?

>> Bill Sherry: I'll default to legal counsel. But I think the process is the same. Whether we're look at a small insignificant change, or total elimination, you have to complete a full EIS, supplemental EIS and supplemental EIR. And I'll default to Mr. Doyle.

>> City Attorney Doyle: Councilmember, the director is correct. It would trigger the environmental review. Separately under federal law, we're under ANCA which is the federal law that does not allow us really to put in more restrictions. If we relax the restrictions we would still want to work on the FAA on any proposed changes but the initial work would have to be any environmental work. And how long that takes is, you know, it can take anywhere from six months to a year.

>> Councilmember Constant: Okay. Moving on, then, we talked briefly about the living wage expansion that, as a result of the council action recently. Can you refresh our memories on where that took wages from and to and what the exacts were to each individual business that was affected?

>> Bill Sherry: Yeah, I'll try to do it in a very high-level way, and then if I miss any points I'll ask Kim to jump in. She's the one that really is overseeing the living wage for the airport. But the council always had living wage requirements on the airport for contracts that we entered into directly. Couple of years ago, year and a half ago when the council expanded that, it expanded the requirements that we have on us to

all airport tenants. Which, in some cases, increased the wages that airport tenants had to pay their employees. There was never a full economic analysis done to quantify what those impacts are. So I really can't talk with any assurity in terms of what those impacts are. They could be small, they could be large. We really honestly don't know. Insofar as our policy and our ordinance compares with other cities, L.A., San Francisco and Oakland to be precise, our ordinance is a bit more rigid. It has in some cases higher rates. As I noted earlier, it has a proactive enforcement and those elements put us at somewhat of a competitive disadvantage. And so that might be one area to say could we look at trying to bring parity of our living wage policy into parity with L.A., San Francisco and Oakland.

>> Councilmember Constant: And do you know how much that disparity is?

>> Bill Sherry: We do not.

>> Councilmember Constant: Okay.

>> Bill Sherry: It varies.

>> Councilmember Constant: Okay. Also going back to a question that Sam started on. The \$78 million. I understand we have the debt, we're paying on the debt. But one of the options is taking that \$78 million and paying down the debt. One of your slides had that option and then the option of potentially building a garage. What would the effect of making a \$78 million down payment make on our debt service?

>> Bill Sherry: Well, it depends on how you use it. We have a couple of different possibilities on how we could use those funds. We could hold it in abeyance until we see how this recession goes. If economic recovery comes soon then we could trigger capital development later. A garage was the key element of the terminal area improvement program that was eliminated early. When we eliminated that garage, it was in the 90 to \$100 million price range. And now, we can build that same garage for about 50 to \$55 million. So prices have come down considerably. If it were not for the economic times we find ourselves in, I would not hesitate to make that recommendation to you, to use those funds for that investment, because the life span of that garage far exceeds the debt term. But unfortunately, we find ourselves in extraordinary economic times. So my recommendation is to hold onto those funds, find O&M cuts elsewhere, and let us see how this economic recession pans out. That would be my recommendation to you.

>> Mayor Reed: Before you move on the City Manager had a comment.

>> City Manager Figone: Bill, could you just clarify how the ten-year call provision factors into the councilmember's question.

>> Bill Sherry: Okay. We -- there's many different bond issuances. But we can for simplicity sake say we took a bond issuance in 2004 and we also did one in 2007. Principally for the 2007 was for the terminal area improvement program. Both of those have ten-year call provisions. And so our first opportunity to restructure the debt would be in 2014. And then the second opportunity would be in 2017. So one thing you could possibly do is, in 2014, as I said, restructure that debt. In so far as the 78 million is concerned you can really only do one of two things because they are restricted funds. You can either pay down debt service or you can put it to other qualified eligible projects. If we bought down debt service you could do it all in one year or you could do it over a period of years. What we looked at is what if we did it over a three-year period, what would that equate to on the CPE? And over a three-year period it would bring it down \$2 per year for the three years. But I would just have to add a caveat to that, if we were to do that we would continue paying on that for 40 years.

>> Councilmember Constant: I just wanted to try and get a dollar amount so I could try to tie it all in together. I think that's all I have for now, but maybe later I'll have a couple more.

>> City Attorney Doyle: I just want to note, it's important that these are tax exempt bonds and we need to work with bond counsel and using the proceeds. There are two different types of tax exempt bonds here, and there are great restrictions. I think both the department and our office are working with bond counsel.

>> Mayor Reed: Councilmember Pyle.

>> Councilmember Pyle: Thank you, mayor. First of all I would like to say I hope we can maintain our credibility with our residents and our employees. And as far as the curfew is concerned even our past agreements, words, promises, I truly believe we need to stick with them. And Bill, I've always admired the fact that you were very, very centered with the idea that we have a curfew and you work with it. So thank you for that. I appreciate it. The first point I want to make is that inconvenience. When the airport was being built, it was a certain amount of inconvenience as we all know. Do you have any idea how much of our business was lost due to inconvenience? I know several in my district started going up to other airports. So is --

>> Bill Sherry: Councilmember, I will say to you that that's more of a customer issue than it is an airline issue. And the customers have not shown a propensity to leave San José and go elsewhere because of convenience. I'm not saying there aren't some that have done that. But they're not flocking out in large numbers.

>> Councilmember Pyle: Okay.

>> Bill Sherry: We've kept the convenience at a tolerable level. The problem is we have full flights, we just don't have enough flights.

>> Councilmember Pyle: Enough of them, yes. I wanted to know in reference to the demographics of the fliers. Do you, I don't know what information you keep. In other words, who flies, who doesn't. Is it corporations, is it frequent fliers, chambers of commerce, social clubs? Do we have anything that gives us a sense of how much of it for business is and how much of it is for more social reasons?

>> Bill Sherry: Yes, we have all of that. As a matter of fact we share that information regularly with the airlines, the full demographics of this community and the population, and those that fly out of our airport. I will tell you that before this recession started, it was more business than local or leisure. Probably up in the 57, 58% range. But since the recession it's gone down in terms of business travel. And it's almost 50-50. Right now it's like 51-49, in that range. I will tell you that that's a huge asset though, because airlines, when they look at the demographics of a region in particular of a particular airport the catchment area of an airport, the higher the business travel the better, because that tends to be high-yield travelers as opposed to the price-sensitive leisure travelers. So that's something we have going for us.

>> Councilmember Pyle: Okay, I think we certainly need to work on more of a sense of loyalty with people who do live in our area. That is something that those of us as councilmembers could certainly stress. Wanted to ask you too, maybe this is more opinion than anything but I think the city could do more to promote the city and the airport. I don't know, I've never been given a presentation in reference to what is out there, what isn't out there, and whom we're appealing to, and one of the things that piqued my curiosity was this. Over the last five days the San José -- I mean, the Dublin delegation has been here visiting. And they will be bringing business to San José. But they said, how can we get a flight from Dublin to San José? And I said funny that you should bring that up. Is there something you could do on your end? And it occurred to me that very often we don't have someone on each end pushing towards the middle and doing what they can do to exert more people to think in terms of flying Aer Lingus. And we only had like 90 passengers per load, I found out. That's not enough, and when I explained that to them they said, oh. They want it, but if we don't get the numbers up there, we will never have it back again. And I don't know what the number is but I'm going to be keeping in touch with those that were really desirous of having this come back and see what we can do to do that. I think we need to do that with almost all the airlines.

>> Bill Sherry: Yes.

>> Councilmember Pyle: And I'm sure you do connect with overt airports. Ed, I know do you that all the time. But that seems to me city to city, wherever we happen to be it would be a good idea to make that promotion possible. And then this sports venues would bring in some dollars as well. I know they won't all come by car or light rail or what have you. But I think over the years that would happen. But right now, whatever we can do to work airport to airport I think might be more meaningful and I would certainly like to be involved in helping with that as much as possible. So with that I think that's all I had, Mr. Mayor.

>> Mayor Reed: Councilmember Chu.

>> Councilmember Chu: Thank you, mayor. First of all, on the \$78.5 million in excess of terminal area improvement program, I want to congratulate you to be able to yield such a large savings. And just follow up on Councilmember Constant's comment. If I would have a choice, I'd rather see that money, we use that money to pay down our debt services. \$2 per enplanement for every year to knee is a lot for the three consecutive years. And can I ask you to maybe show that market train, you have a slide on market train that you compare with the number of flights to major cities in the United States from San Francisco airport, Oakland airport to -- with the San José airport?

>> Bill Sherry: The other way -- where is it --

>> Councilmember Chu: X number of flight to New York and X number of flight to Washington, D.C.

>> Bill Sherry: Am I going the right way?

>> Councilmember Chu: I just see that flight didn't I?

>> Bill Sherry: I'm trying to find it, hang on.

>> Councilmember Chu: Okay.

>> Bill Sherry: I'm going to wrong way here, right? Let's see here. Bear with me just a minute.

>> Councilmember Chu: Well, that's actually okay. I think the point I'm trying to make is, have we ever done a comparison with our international flight from San José, versus international flights to Asia Pacific area from San Francisco?

>> Bill Sherry: Okay, I think is this the slide you wanted?

>> Councilmember Chu: That's the one, thank you very much.

>> Bill Sherry: Okay.

>> Councilmember Chu: And you're talking about major cities in the United States. I was wondering if we have done a similar comparison with the major cities around the world? We're talking about making San José a world class airport, not just a U.S., high-class airport. So do --

>> Bill Sherry: I think -- if I understand your question correct, councilmember, this example shows the disparity in flights in the Bay Area just domestic flights. It would even be worse if we were looking at international cities around the world. San Francisco has all of the service to Asia, Western Europe and points that we desire to provide service to. So right now, other than Mexico, we have no international service.

>> Councilmember Chu: Thank you for pointing that out. That's what my gut feel is, it's much worse than international, than domestic. You mentioned one of the reason is the building height in Downtown San José. Can you think of another reason that we will not be able to attract any international flights to San José?

>> Bill Sherry: Well, I have always been very optimistic. When you look at the demographics of San José, Silicon Valley, South Bay, our catchment area is about 3.5 million people. And as noted earlier with Councilmember Pyle we have a high percentage of business traveler, and those business travelers need to get to points particularly in Asia and western Europe, more particularly Tokyo, Paris, London, and even points in India and so forth. The times have to be right, though. And right now, I don't want to set false expectations. I don't see the likelihood of us being able to get international service here because of the state of the airline industry and because of the state of the global recession. That said, this recession will end, airlines will add capacity, Boeing is now putting out a new aircraft called the dreamliner, the 787, which is ideally suited to this market. It's in other words suited and it's built for smaller markets in order to support international air service. So I think the horizon is bright. But again, it comes back to us keeping control of our cost. I'll ask Ed Nelson if he has any other comments he wants to add on top of that.

>> Certainly. I'd just like to just say a few things. The 787 is truly the ideal aircraft for the future, at Mineta San José international and in particular what we find to be most appealing is the number of foreign air carriers who have ordered the aircraft. So we see the potential down the road of dealing with flights perhaps to Japan and certainly to China, as all the Chinese air carriers as well as both Japanese air carriers will be receiving the aircraft. So that makes things a little easier that the aircraft is coming online and they'll continue to fly larger aircraft to places like San Francisco and Los Angeles whereas the smaller aircraft will be to the smaller markets which is what we bring to the table.

>> Councilmember Chu: Well, thank you very much. I share that optimism like you do, that one of those days, the economics will turn around, we will definitely see many increased flights. I just want to make sure that San José international airport is doing what we can during this downturn to seize that opportunity. My conversation with some of the major airlines from Asia, China airlines and Evergreen airlines, to be specific, to ask them why won't they consider San José international airport. And the number one, without you know, within a heartbeat they will tell me is the curfew. Most of the airplanes taking off from San José, San Francisco international airport, towards Asia, you know, where there is air China, China airlines, Evergreen, Singapore airlines, Cathay Pacific, you name it all taking off around the midnight hours our time. So they can arrive at Taiwan Hong Kong Beijing Shanghai about seven, 6:00 in the morning. And business travelers like that schedule so they can sleep in the airplane and when they get to their destination they have the whole day ahead of them. When I asked them what would make you consider moving to have a flight from San José international airport, their first reaction is the curfew. Do you have any response to that?

>> Bill Sherry: I'm not going to dispute it. I think unquestionably the curfew has had implications on our international air service development. That said, we supported direct service to Tokyo for 16 years with the curfew. So airlines have choices when they put the service in. And I might also point out that that Tokyo service had very high load factors and high yield. So it is possible to live within the curfew. Is it better not to have the curfew? Yes.

>> Councilmember Chu: Okay. I just wanted to make sure that we do everything we can, during this downturn, just to be prepared when the economy turns, and the opportunity knocks. Another comment is

regarding to your prevailing wage and the living wage. You know, as many of you know that I have operate a Chinese food concession in San José international airport for probably eight, nine years. I can definitely share that with you, that with the negotiated contract, we're paying a higher wage than the other fast food restaurant in the city. Will give me the opportunity to pick and choose the employee. So I strongly believe that I have a better qualified employee, and the turnover rate is much slower. So when you're talking about cutting down the living wage or prevailing wage, I think there is a cost of the safety issue, in our airport, and whether they will be a well maintained airport. That's another question. And much higher, with a much higher turnover rate. So I would really recommend that we take this prevailing wage and the living wage off the table, as we move up and consider any other alternative to either increase the revenue or cutting down the cost. [applause]

>> Mayor Reed: Councilmember Oliverio.

>> Councilmember Oliverio: Thank you, mayor Reed. Bill as always thank you for the presentation. Excellent PowerPoint, I'll be looking forward to going through that later and sharing it with the community. I think it brings forth a lot of sobering points. Mayor I thank you for pointing out that southwest airlines is 54, 56% of San José. If they were to leave and they have all the power to do so we would be in very bad shape because we rely on them so much because they are the low cost carrier and you mentioned just how they basically distribute the flights elsewhere because they no by the end of the day that residents will drive because we have three airports in one area and that's the reality. Bill your comments to the council is what is it that -- what guidance can we give you and would I say anything that lowers the cost per enplanement. You've given us a memo that has multiple pages and I'd say pages 6 through 10, basically, items 3 through 5, should definitely be -- the three before should definitely be looked at, those are things that we can control. We have direct understanding that can you save money tomorrow if the council allowed you the flexibility to go do so. This is an incredible asset that we have. We're incredibly in debt on that this asset and we need to make sure that you can function with the most competitiveness you can. So some of these are taboo topics but in the end we have a responsibility to pay back that debt. We have a responsibility to be competitive both for our residents and for our businesses. So I think we need to look at anything that reduces the cost of enplanement and anything that reduces the complexity to the airlines. So the living wage ordinance that was passed by the council last year, that makes private sector businesses pay a wage that's not the market rate adds complexity and it adds to the cost. I think at this time we really need to figure out -- to call time out and put all these issues on hold, three to four years until we figure we can bring down the cost of employment so we can reduce the complexity. Because what you didn't talk about was that we may not have numbers that recover any time soon. Business travel has permanently changed. You can just peek into any web advertisement, when you're surfing the web, commercials, et cetera. And what they're talking about is why travel when you don't have to? Why have all the inconvenience of parking and flying and this and that when you could travel from your desktop? And so many companies now because of the recession have adopted these technologies, faster than they would have historically and now they are just simply traveling less. And you know might be better or worse for some marriages in this city but the fact and reality is a lot less people are flying around the country to do business. And I think we have to be cautioned of that because I don't think we can rely on the Denver and San Francisco story because inherently those are two different cities. Geographically different and unique. And I think we can't rely on everyone to come back all of a sudden. So I think with that said we have to reduce the cost of enplanement and the complexity of that. When it comes to the topic of curfew, I thank Councilmember Liccardo for showing the tradeoffs that if we were to embark in that it would take us an incredible amount of time, effort and money and might not produce any results because it's intangible versus what you've presented to us, is hey, this is how you can save money to reduce my cost per enplanement. I want to thank Councilmember Pyle for those comments because it's true we have a certain geography of the airport that is near the airport. I guarantee if flights aring coming in at 3:00 a.m., that other parts of the city are going to start to hear the airport. So I think we have to take that into account. So I think again it's the opportunity. So Bill here is a question for you. How many flights would have to come in during the curfew hours for you to make \$12 million? Which is the amount that you told us we could save if we give you the flexibility.

>> Bill Sherry: Councilmember, I can't answer that question. Again, as I pointed out earlier, there would have to be detailed analysis. Obviously, each flight brings revenue into the airport. Each flight brings economic value into the community. But all of those things have done weighed against the negative environmental impacts it would bring late at night. So we're happy to explore that if the council feels that's

a policy it wants to explore. Otherwise, as I stated before, my recommendation is hold to the curfew and look at making a successful airport during the day.

>> Councilmember Oliverio: I appreciate the answer but my belief is that it would take a lot of flights to garner \$12 million, a lot of them and I think when, again, and that's an intangible. Would they come? We don't know. And two, if they come it's going to ruin hundreds of thousands of people's quality of life in this city. So I think again we have to reduce what we can actually control versus the intangible. And then to Eric there, is that Boeing 787 is that a class 3 or class 4?

>> Bill Sherry: Let me turn that over to the Dave Moss, director of planning and development.

>> Actually, Dave Moss, as Bill mentioned, I don't know the answer to that. I believe it's a stage 3 we'll have to go back and take a look at it.

>> Councilmember Oliverio: Stage is the right term. To Councilmember Chu's concern about an Asian airline or having a connection to Asian city the reality is an airline today could buy a stage 4 class 4 airline and fly into San José today and leave at after the curfew.

>> That's correct.

>> Councilmember Oliverio: So in reality, if we wanted to have that connection today, under the EIR and the curfew we have, a foreign airline who typically buys stage 4 aircraft before the United States carriers do, could fly in and do so.

>> Bill Sherry: Yes, a number of years ago we converted from a weight-based curfew to a noise-based, and I know that's complicated, but in essence, those aircraft that operate above 89 decibels are restricted. Those that operate below can fly in.

>> Councilmember Oliverio: Thank you Mr. Sherry.

>> Mayor Reed: Councilmember Nguyen.

>> Councilmember Nguyen: Thank you. First of all I wanted to thank the airport staff for all the hard work and the commitment to ensuring that SJC remains a competitive and a world-class airport. I think that through these economically challenging times if we didn't have your commitment it would just be really, really difficult as we just learning more about the reductions in the revenues, the increased cost in fuel and everything that's associated with the high cost of operating the airport. I wanted to sort of preface my comments and questions regarding this issue to a statement that I believe wholeheartedly, and that is, I believe that the City of San José prides itself on trying to deliver the best services to our residents to a different services and programs that the city provide. And I truly believe that the staff at the airport really see this as not just a goal, but a commitment to ensuring that they provide the best services to our passengers. And the reason I preface with that is because I believe that the living wage ordinance that we passed in 2009 and the prevailing wage that -- requirements that we have really contributed to these factors and contribute to the fact why we have such dedicated employees at the airport. So when we're looking at the different strategies to reduce airport cost affecting the CPE, seeing these options on the table really raise a lot of concerns for me. We're trying -- just a year ago we implemented this policy and we're seeing a lot of changes, a lot of positive changes at the airport. And to see this a year later being on the table for possible elimination is not something that I would even want to discuss at this point because we have so many different options and so moving forward, just alluding to Councilmember Chu's comments earlier, this is not something that I want to see on the table. Because we have other flexibilities and we have other options to try out before we bring something that we just implemented a year ago to be put back on the table. So that would be my first comment regarding the living wage ordinance and the prevailing wage ordinance from third party. Now if staff decides to move forward with that in bringing this back to us again with the different options I'd like to request a couple of things. I wanted to know if we, moving forward with waiving the prevailing wage requirements, I wanted to see what are the cost savings and how do we calculate that? So the cost and benefits of putting this on the table. The second request that I wanted to see coming back would be that obviously, eliminating the prevailing wage requirements would certainly carry administrative, labor relations and other costs. What are some of the other cost factors that we need to come up with in order to make this possible? And finally, we've gone through this third questions I have with the convention center expansion project. One of the things you have heard from the council wholeheartedly that we want work and jobs here to stay local. And therefore we're always looking for local employees to make sure that they are the first one in line when job opportunities open. And so when we're look at eliminating or possibly waiving the prevailing requirements we're looking at introducing these job opportunities to outsiders. And on a personal level I don't like to see that happen. And so that's one of the fact -- one of the benefits that we have having the prevailing wage requirement. And so we would need to factor those factors in. Because we work so hard to try come up

with all these requirements to make sure that all residents or employees feel that they are being respected, that they gain the wage that they deserve, and in a flash of a major issue, we're putting -- we eliminate all these things. And I just don't think that it's fair to our city. I don't think that it's fair to our residents and it's definitely not fair to our staff to put those kind of options on the table at this time. [applause]

>> Councilmember Nguyen: Now again, going back to the \$78.5 million question. And I think that even staff in your final paragraph in the memo, you actually express that this is an option that we can use in order to help decrease the airport's debt service, using portion of that money to pay back the debt service, and putting some of that funding towards helping to reduce some of the operating costs. I really like to see that option explored. And I just think that if we're looking at potentially building the terminal B parking structure when we're so concerned about not having enough passengers to use that parking lot, there's just really no way that we can even think about something that's so far fetched and so beyond our control to in dealing with what the mayor alluded to at the current disaster that we're dealing with right now. So I'd like to see us look at this \$78.5 million and see how we can use the portion of that funding to help reduce some of the operating cost that we're currently facing rather than looking at building another parking structure that you know we're looking at ten years from now trying to entice passengers to fly in and out of SJC. [applause]

>> Councilmember Nguyen: And then the last question that I have, 23rd has to do with more a general -- perhaps a general research and development strategies that staff might want us to look at. But I just wanted to know, in terms of comparing other airports similar to SJC, could you look at some of the models that other airports throughout the nation use at this time or in the next five years and how that relates to our airport and operating cost and see what kind of efficiency, just looking at the greatest efficiency methodologies and see if we can use some of that best practice and best models and use it here as we move forward in developing some of the strategies so that we can operate our airport more efficiently.

>> Bill Sherry: Councilmember, would be very glad to do that. There's good benchmark information out in the industry and we can compare, we can look for airports similarly sized as we are in similar demographics and geographic areas. Pull the benchmarks from the industry and see where we are here, and that there's opportunities for efficient and where we compare favorably.

>> Councilmember Nguyen: Thank you very much.

>> Mayor Reed: Vice Mayor Chirco.

>> Councilmember Chirco: I have a few questions but one of the questions I had was airport administrative staffing. And maybe you can help me understand. You call out custodial, you call out fire, you call out police. And I don't know where -- you know, what is your staffing ratio per enplaned passenger, per airline carrier versus how that kind of is across the nation? Because that's not something that's called out at all and I don't know if you -- I know you've been reducing your staff but I don't know where it's at. And that's something that's not called out in this memo.

>> Bill Sherry: Okay, Vice Mayor, be happy to provide you with that information. I can tell you that we compare very favorably, in terms of the total number of airport staff as it relates to other airports. I can tell you the airlines are constantly on us about that. I will also state that over the past several years as we've made cuts we've made a very concerted effort to make sure those cuts were proportionate throughout the whole organization. So that one work unit or one class, management, nonmanagement was unfairly picked on. So we'd be happy to provide you that information, but I can tell you all work segments, management and nonmanagement received proportional cuts.

>> Councilmember Chirco: I think that's an important message to communicate, when we're talking about such Draconian cuts, that it is shared pain. I'm talking about living wage and prevailing wage when we have police and fire out there, so many retirements, we've had to cancel recruitment classes so I would like to see something like that looked at where we might be able to transfer them back with the skills that we need in our communities, rather than to look at our lowest paid wage earners and put additional cuts on them. When we call it living wage, it's not -- it's a living wage. And if you go below that, in this valley, you're not living. You're not buying your groceries, you're not paying your rent. So I'm troubled when we use that as a strategy for trying to make our budget balance. I know in your report you talk about there have been reductions in the police at this point. But possibly looking at maybe a police in a supervisor position using the FAA requirements and to preserve the jobs, the individuals could then be transferred to the openings we have because of our many retirements. We've really got to look at how do we deliver services in the best way possible. And yet respect the least among us. Because they are the weakest. And I think that is a critical one. You mentioned at one time we had airlines that flew to China

and Japan, and they flew full. And they've been pulled. Can you tell me why they discontinued those flights? This was prior to us having, you know, a recession, this was prior to us talking about costs going through the ceiling. Why did they cancel those flights?

>> Bill Sherry: The -- councilmember, the night to Narita, Tokyo, was a flight operated by American airlines, and that I think was all part of American's decision to de-hub San José. American had San José listed as a hub airport for many years. And in the early '90s started making decisions to de-hub that which meant pulling capacity out of the market. And the more they started pulling that capacity out, the feed that went into that Narita flight suffered. So I think that ultimately that was more a decision on American airlines side to de-hub. And I don't think that that necessarily relates in anything that we're talking about hereof today.

>> Councilmember Chirco: Well, as we're looking about how do we attract carriers, I want to understand why people left before and is there anything that we're doing now that we should be looking at as we look at why previous carriers left the market? And you talked about the growth in the San Francisco Denver area. Let's talk about San Francisco, they have growth problems, too, because they are surrounded by a city. What is their capacity? Are they close to it? Do they have a 10% ability to grow?

>> Bill Sherry: San Francisco is very near its capacity. Just talk a little bit about the three Bay Area airports. San Francisco is restricted on its air field. In other words it doesn't have enough runway capacity. It has terminal capacity but it doesn't have enough runway capacity. Particularly when we operate in instrument conditions which San Francisco does pretty regularly because of the fog and the marine layer. On the Oakland side, Oakland has plenty of air field capacity but is restricted on terminal capacity. So they have limitation of gates. When you look at San José, San José has plentiful air field capacity. We have two 11,000 foot runways and we operate very seldom in marine layer. San Francisco has over 300 days a year where it's delayed because of fog and instrument conditions. We have five days a year where we're delayed. And so we have plenty of air field capacity and we also have plenty of terminal capacity now that we've completed this modernization program. So I would say of the three Bay Area airports we are the best positioned for future growth. To answer your specific question, San José -- I'm sorry, San Francisco, my understanding is they're operating right now about 91% capacity.

>> Councilmember Chirco: So you know I realize these are very real financial pictures. And we need to look at how can we maintain our enplanement passenger cost. I want to look at what you laid out here. I do not support looking at the living wage. We have too many residents that struggle just to put food on the table. And for a city our size -- [applause]

>> Councilmember Chirco: To look at those least able I think is not worthy of what San José is. I think there are some in here that we can look at. And I'd like to see us move forward on that. I think we have -- as you -- as I am optimistic about our ability in the future but we have to get to that future. And Bill, I really do thank you, as the mayor said, you took an impossible dream and made it a possible dream. Now we're just having a few early morning nightmares as we get ready to wake up into the future. So thank you and your staff for all that you've done. Thank you.

>> Mayor Reed: Councilmember Kalra.

>> Councilmember Kalra: Thank you, mayor and thank you Bill, for the presentation. What's the CPE again for SFO, SJC and Oakland?

>> Bill Sherry: Let's see, what slide is that? Okay, this one shows the current San José CPE, where it's been and where it's projected to go based on the targets. And then this chart shows where we're actually at.

>> Councilmember Kalra: So San Francisco is approximately 15, Oakland's around 10 and we're a little over 10, around there so --

>> Bill Sherry: Right. The issue at hand is that our cost, if kept unchecked, will have us go at or above San Francisco.

>> Councilmember Kalra: And looking at the staff report, it seems like the cost and the debt service will be doubling over the next year or so and then by 2013, 2014 rise to \$58 million. So it would go from 19.8 to 40 and then rise as high as 58 million by 2014?

>> Bill Sherry: Yeah, I'll let Terry Gomes our finance director address that. But I will say this, that our debt costs are moving up, and that was anticipated because of our terminal area improvement program and the debt underwrote the modernization. What was not forecast was the decline of passengers, and Terry.

>> Yes, the numbers that you are quoting on the \$19 million, that's the actual debt that will go to the CPE. And so the 58 million is the debt that will go to the CPE in fiscal year 2014.

>> Bill Sherry: It should be noted that the debt is actually higher than that, but that's the portion that goes into the CPE.

>> Mayor Reed: And Terry you're cutting out a little bit, so you need to get a little bit closer to the microphone next time.

>> Councilmember Kalra: For a dollar in CPE, it's basically \$4 million in cuts or revenue or some effect on the equation?

>> Bill Sherry: That's correct.

>> Councilmember Kalra: So a \$4 million payment in debt service will reduce the CPE by a dollar?

>> Bill Sherry: That's correct.

>> Councilmember Kalra: In looking at -- well, first, a comment on the curfew. It seems like what you're saying, particularly in the short term, is in the short term a better investment is to work on the airport west program because that will bring immediate tangible returns based upon projections. As a long term proposition though, is there potential in analyzing it if not now, I understand it seems that analyzing it now will put on hold the airport West project and that is something that we're setting aside tangible revenue, revenue that we know we're going to get by doing that. But as a long term proposition because still have studied a curfew, it could be at some point in the future even if it's a couple of years from now but at some point after which we start to realize, after we finish the airport west project and start to realize some of those gains?

>> Bill Sherry: You can yes.

>> Councilmember Kalra: And I know that Councilmember Oliverio was saying that these night flights are intangible and I've had similar conversation with Councilmember Chu, with a lot of business travelers especially those who represent airlines, I've flown to Asia probably four times over the Pacific, every one of the flights were from SFO, each of them were between midnight and 1:00 a.m., they all left at that time. That being said, looking at the staff report, it looks like the Volares airline flight from Mexico they specifically chose Oakland over San José because they wanted to provide -- they wanted to test a new service that was after our curfew.

>> Bill Sherry: Yes, when Volares first approached us last year maybe two years ago I think we were in the lead. And we would have secured that service had it not been for the curfew.

>> Councilmember Kalra: And anonymous they have four daily flights from Mexico to Oakland. Are all of those flights after our curfew period or some in the daytime?

>> Bill Sherry: I think they're all during the day, two are during the day.

>> Councilmember Kalra: And so my point is, you can't always calculate the value of the curfew by simply looking at the flights you get during the period of time that you open up the curfew. You get that airline to come to your airport. That might add one curfew flight, and three, four, who knows how many during the daytime.

>> Bill Sherry: Yes.

>> Councilmember Kalra: And Volares is a perfect example of that. Again I'm not suggesting we should lift the curfew but it definitely needs more analysis. Now is not the time to do it, I understand that but there is a value and I certainly think if take away if you want to compete and in looking at our regional airports, Oakland is more direct competition than SFO. Right now we're a domestic airline that flies to Mexico. We want to change that eventually as the market turns around. Part of it is what the councilmember or Vice Mayor Chirco had asked about capacity and so on. We're in a good position because we have plenty of capacity and plenty of gates. However, we have to think about long term, what kinds of things we can do particularly because of what you mentioned like high speed rail, that will take away X amount within 25 years, X% of short term flights. We have to think more along the lines of getting flights across country and overseas. We're not going to get overseas flights until we get more flights across country because they're not going to have the connecting flights to send people from China or India or Japan over to other parts of the U.S. Similarly, we have to be aggressive in approaching the Asian airlines. Although business travel has cut down, travel to Asia has been something I think that's been much more promising than any other kind of travel particularly internationally. I run into people all the time, they fly to Asia twice a week they're still -- San Francisco their city took almost a half a dozen delegations to Dubai in order to get Emirates. I'm not suggesting that we ever would have gotten Emirates. But the reality is there are opportunities there, and we need to continue to seek them, and I think that at least examining the curfew, whether we would agree to do it or not, and as part of that engaging the community and hearing the concerns being part of it obviously we have spent \$17 million of money that could have gone to airport improvements, in 2700 homes in the neighborhood to mitigate noise. So we have things that we have

done and continue to do. So that's just it often curfew. On the other issue of competitiveness and on lowering the CPE, essentially we need more passengers and by doing that we have to lower our CPE as effectively as possible. I agree I don't think that examining our policy, put into place so soon, and that exists at other airport, living wage policy I imagine exists on most -- or not all, there's some sorts of standards that must exist in some other airports. Do San Francisco and Oakland given a waiver to their airlines on living wage?

>> Bill Sherry: Not that I'm aware of. Their policies have been implemented much longer than ours was.

>> Councilmember Kalra: Okay. So their policies even though their living wage is going to be a lower dollar amount it applies to all their airlines as well?

>> Bill Sherry: Yes.

>> Councilmember Kalra: So it's not necessarily an apples to apples comparison. I think the vice mayor put it very well as did all the other council colleagues, it has to do with not just the competition of our employees but also the level of service we want to have in this essentially brand-new airport. I think that's essential to maintain the living wage in order to have the quality service that we would want to have as the gateway into our community. And so I would also ask that if we're talking about \$4 for every dollar in CPE then consider over the next three, four years, let me ask I what sort of CPE reduction would be effective if right now we're rivalling Oakland but we can anticipate an increase what kind of CPE adjustment particularly over the next three or four years when we try to become more competitive and increase the enplaned passengers which is the key to all this what would be an ideal number, you said you'd mentioned 12 minimum so that 3 \$3 in CPE cuts annually?

>> I think the focus is on the San Francisco CPE. San Francisco tends to be a -- when we look at our market we look at leakage out of the market. And that leakage is going more to San Francisco than Oakland. So San Francisco is more our direct competitor than Oakland.

>> Councilmember Kalra: And so we need to say considerably below as I think you've stated before considerably below SFO?

>> Bill Sherry: SFO has committed to the carriers that they would keep their CPE at 18.50 or below through 2015. That's our benchmark, so we're saying we need to keep our cost per enplaned passenger somewhere in the \$15 range.

>> Councilmember Kalra: Okay. And right now, we're at 10.67?

>> Bill Sherry: Right now, we are. But the forecast for 2012 and beyond has us going above San Francisco.

>> Councilmember Kalra: Okay. All right. Well then I think that -- and also you had mentioned before that the garage that the 78.5 million that was supposed to go towards that project was cancelled and there's a suggestion, one of the suggestions or recommendations could be to go forward with that, another could be just to hold on to the 78.5 because of the uncertainties we have but the other options we have could be to hold on to the 78.5 lower our CPE.

>> Bill Sherry: That's correct. And I need to correct the statement I made previously. We have a very complicated airline agreement that has residual rates and compensatory rates. So when I was answering councilmember, I believe it was Constant's question, he asked what would the \$78 million reduce it by. If we did it in the full residual basis it would be more in the 5 to \$7 range over a three-year period. But again, you're using 40 year money for a three-year gain.

>> Councilmember Kalra: Sure. And however, given the nature of the industry, and in particularly with our new buildout of our airport, what it sounds like, the next three to four years can be incredibly critical for the future sustainability of our airport. If we don't maintain and sustain what we do have and hopefully gain more in the next three to four years, 40 years is not irrelevant, if we can -- but the long-term propositions are not too good. If we don't somehow -- if we're not able to sustain our current business and try to add more passengers. So I think that we have a great opportunity. It is 78.5 of excess funds that we can use towards the debt service. I think that some strategy which is over a three- to four-year period rather than all at once, my personal suggestion, all options should be out there whether it be all at once, whether it be over a certain period, whether it be holding some of it in reserve I think all of those options should be looked at so we'll have a complete analysis of the issue.

>> Bill Sherry: Thank you.

>> Mayor Reed: Councilmember Herrera.

>> Councilmember Herrera: Thank you. Thank you Bill for your presentation and I and other councilmembers, Councilmember Liccardo and Kalra have had a chance of to go to some of the presentations at the airport in January with the travelers association. And it was very helpful. And it was

very helpful to talk directly to customers to see what their impressions were on the airport. So on the positive side people are really suggested at the airport. We're excited up here, but it's great to hear that customers coming into San José are excited about the new things that are going to be at our airport. These numbers today are very sobering. I guess one of the questions I want to is, it sounds to me like what we're really trying to do here in terms of keeping our cost down and being competitive is really just holding the line, making sure that we don't lose any more. Is that a fair characterization?

>> Bill Sherry: Yes, but I also think there is a huge potential of being able to gain. Again back, to Mayor Reed's comment, I think the best case scenario is to grow ourselves out of this problem. I keep going back to the most simplest way of describing it is, we have to offer superior product at a competitive price. We didn't have a very good product before. When I talk about product I'm talking about the whole airport experience. Parking terminal concessions et cetera. And now that's -- I would argue to say that we're going to have one of the finest if not the finest airports from a facility perspective in the nation if not the world. That brings huge benefits to the airlines, and huge benefits to the user. So if we can take that product and offer it at a competitive price, I think it not only holds our own but it also allows us to grow the passenger base back and then we, whatever cuts we have to make in order to achieve that can be put back in, once the passenger comes back.

>> Councilmember Herrera: Are you saying though that in this environment we can attract more flights? I guess I start of hearing that the economy right now makes it not even a guaranteed proposition that even with these guarantees we would be able to attract flights. Help me to understand that.

>> Bill Sherry: Councilmember, call me the ealternatively optimist, I believe we can. Even with the reduced capacity in the industry I think there's a disproportionate congregation of air service up north, and if we can offer a product that's superior and we can do it at a competitive price I think the flights will come back.

>> Councilmember Herrera: So what's our capacity now at San José airport? How much are we at capacity?

>> Bill Sherry: We have ample capacity.

>> Councilmember Herrera: I think you said San Francisco is at 91 or 93%. What would our percentage be?

>> Bill Sherry: 91% at San Francisco would be the air field. Our capacity would be -- Dave do you have that number?

>> Yes would I say the terminal we just built could handle about 14.3 million passengers, at that level of service I think B that we're targeting today. We're at about 8 today we're at 60% just in terminal facilities. I'd have to take a look at the air field but we have as you said ample capacity. We have two serviceable runways, that's not going to be our issue.

>> Bill Sherry: I guess the way I conclude it is capacity is not our problem.

>> Councilmember Herrera: And we have a great product and you pointed out good weather, capacity, the new terminal. So what's stopping us from getting the other flights to locate or other legacy carriers or other carriers to locate here right now then? Since our numbers right now are reasonable at \$15 per CPE.

>> Bill Sherry: I think it's a combination of all the factors. As I alluded to earlier, San Francisco did a very good job at getting virgin America and virgin America in and of itself didn't do a whole lot for San Francisco. But what really catapulted them in terms of the service was the reaction of the other carriers. Southwest went back in jetblue went in, other carriers increased Service in order to offset market losses caused by virgin America. That said, they did that because San Francisco got their cost back down. I think that's an unsustainable environment, and I think that if we offer a good alternative, those carriers will see the light and come back into this market. But the fear right now, particularly on the domestic side, is the cost. On the international side it's probably other policies and decisions that have yet to have been rendered a decision.

>> Councilmember Herrera: So some it's out of our control, some of it locally at least we can make a difference with the cost.

>> Bill Sherry: Yes.

>> Councilmember Herrera: Another concerning statistic I've heard today and I think I've said before is 56% of our business is southwest, of our airport service and that always concerns me when as a business person, a former business person, being overly concentrated with one customer. It's a -- it's a concerning thing. So in terms of how we market our airport, and where we see ourselves in the marketplace, are we positioning ourselves just -- we are the low-cost airport or how are we going to

position ourselves that maybe we can attract some airlines that aren't necessarily just low-cost provider if you will move the airport to just in a price point situation where price is the only thing is there a chance of recruiting other kinds of carriers that might look at the full quality that we bring to the table since that's what I think everybody's talking about up here is making this a wonderful gateway and we've got this new product so how can we attract some of those airlines?

>> Bill Sherry: Well, let me see if I can take your questions in order. First off I want to say that southwest is a wonderful airline, they are a great partner. They were with us the entire way from this program development. And they have -- they are one of the few carriers at the airport that have really not reduced during this recession. Most of our reductions are all from other carriers. Southwest has held their own. I share your concern about being overly reliant on one carrier. And regardless of how good or bad a carrier is, you don't want to have that kind of percentage in one carrier. That said, if you are going to have a heavy reliance on one, southwest is certainly a good carrier to have in that position. But I think going forward, we want to look at how we can diversify better and grow other carriers and in order to do that, again I keep coming back that we have to control our cost. We will never, at least in the foreseeable, future be a low-cost airport. We elected to depart from that when we put the first shovel in the ground for this development program. So we are going to be on the higher side of airport cost even with proposed cuts. But that said I think you have to look at the product in totality. You have to look at what's being offered and at what price. And that compared to Oakland and that compared to San Francisco, I think if we can keep our cost in check, we have a better product than any of those other two airports.

>> Councilmember Herrera: And I certainly think southwest is a great airline so my only concern is just the numbers that we seem to be overweighted in that and that it's a vulnerability and we should look at that diversification as you said and it's kind of interesting to me that the low-cost carrier is the one that stayed and even though we're concerned with our cost and we seem to be losing those other airlines that may not be as sensitive to the low cost. I'm not sure. I think all of this requires a lot more understanding of how San José compares to other airports that are similar to San José. I agree with the comments that some of my colleagues made earlier. We're not San Francisco, we're not New York, we're not Dallas, we're not Denver and what is unique about San José that we can offer that's more uniquely us? And I think we look at that in terms of, you know, attract being companies to San José. In terms of, you know, making decisions like finishing our convention center and how that relates to the airport. There's a whole lot of economic factors I think that come together that we need to look at as we're analyzing what we have to do. I'm certainly supportive of reducing the cost. I think we absolutely need to do that and I think I appreciate all of your recommendations. I think we have to look at every single one of them. Some of them may not be practical or may not be the way we want to go but I would like to understand the cost implication of each one of those as we're moving forward. I don't think today's the day to say we're going to do this one or we're going to do that one but I'm certainly interested in everything that you've brought forward. Regarding the curfew, I've heard a lot of comments up here about the curfew. I'm wondering is there long range because I think Councilmember Kalra brought up a good point in his discussion in terms of this may be a longer term thing we want to look at but as we look at the curfew in the longer range scenario, are there subtle changes that we could make so that we are able to accommodate some flights and not necessarily open it wide, wide open for any leaving time but adjust it slightly so that we would be more attractive to some of the long haul carriers?

>> Bill Sherry: Councilmember, unfortunately not. Any change to the curfew, whole or in part, would require as I said earlier that full year and a half to two years of study, the full supplemental EIS-EIR, even if it's just a very small change, or if it's elimination in totality, and anything in between.

>> Councilmember Herrera: So I mean long range I think we should look at this that. I think we do need to look at that. I had a question on the 787. When will 787s be coming -- be able to be part of San José airport?

>> Bill Sherry: They are test flying the aircraft now. We've been watching with great interest the development of that aircraft because as I said earlier it's ideally suited for this market. And I think the first aircraft orders are latter part of this year, next year?

>> The first delivery I believe is around December, and then first air carrier receiving them is all Nippon. And then I'm told that they will then have to fly internally in Asia before they do long haul flying for a time to prove the reliability of the aircraft. So it probably might not be until later in 2012.

>> Councilmember Herrera: And how many decibels do they -- how does that play into our regulations around noise and curfew and the obstruction policy for downtown, the 787? Can you comment on that?

>> Bill Sherry: Yes, councilmember, the 787 is like the new generation aircraft. And none of the new generation aircraft help us with our high rise development issue. While all of them perform much, much better in terms of efficiency and environmental advancements, they do not perform better in terms of climb, rate of climb on -- with one engine out. So unfortunately the newer generation aircraft don't help us with that issue. Insofar as noise is concerned, some of the newer aircraft are stage 4. We're still trying to find out if the 787 is a stage 4 or a stage 3.

>> Councilmember Herrera: Okay. Thank you.

>> Mayor Reed: Councilmember Campos.

>> Councilmember Campos: Thank you. I think this is a very interesting conversation that we're having today and I know Bill that this is not something that you are excited about bringing to the whole council. But I think it's timely that we have this discussion considering what you've laid out in the presentation. I think there have been a lot of good questions that have been asked and I think there's some clear direction on certain policies that councilmembers would not like to review or look at or be considered. I know that you have put everything on the table. And it's for us to make those decisions on who we would like for to you review. Before I ask my questions, in listening to the dialogue, you've laid out several things and you've used certain words to describe the airport. And I would just like to understand what your definition on certain wording that you used or phrases. Because it will help me to understand the direction you have taken in preparing this memo. And I think that in listening to your conversation, it seems like customers and the airlines, that they're two different products or two different entities. And I think that when you talked about the airports, and I saw your face light up, you said we have a superior product and people will be able to experience something that they've never experienced, and in the same breath I heard you earlier talk about when you addressed Councilmember Pyle, that that's a customer issue not an airline issue. And I'm not quite understanding how they're different. Because when you talk about a superior product or a superior experience, to me, you can't have one without having the other. So we can't address the issues of the airline and really what it is earlier in your statement is you need to have customers. So explain to me in your definition of how are they different. Because I think they are -- one connects to the other and I'm not hearing you connect the two so explain it to me.

>> Bill Sherry: Okay, I'll give it a try. I think that the ideal airport offers a travel experience that's second from none, ample parking close by, ease of access through ticketing, security, into the secure areas, the gates. And plenty of shopping choices for both food and retail. At reasonable prices. But the ideal airport also has an array of flights that offer the community what it needs, and when they need them. So let me see if I can dissect some of that. When I say that we're going to offer a superior product, I'm talk about the airport experience as it relates to parking, the terminal experience, until you get on the plane. When I'm talking about the customer, the customer has shown a lot of loyalty in this airport, in terms of flying. All of our flights virtually all of them are full. So our problem is not with the customer. The customer is choosing the option that we're offering. The problem is we don't have enough of it. And so our issue is with the airlines to try to get them to put more flights into San José. If they bring the flights in the customers will use them. It's just that we don't have enough of them. Does that explain it?

>> Councilmember Campos: It does. So then my questions go back to, and I know you had a slide on this but I'll just look at my memo here, where you talk about you know the VTA, saving costs and it's about \$700,000 that you're talking about and if we were to, I guess, contract this to a private contractor would can provide smaller vehicles, I'm not seeing any option necessary this small paragraph. And maybe you can add to this, of have we had that discussion or with VTA because they have other options as well, as to how they can provide services. I mean I was on the VTA for a very long time, I'm an alternate now but I know that when we had to reduce services in certain areas, we didn't completely remove the service but we went to smaller called community buses. So I'm -- first of all I'm not sure how you came to this number of the savings. But wondering, have we had those discussions, have we looked at other ways to be able to continue to provide that service by not having to go to a private contractor?

>> Bill Sherry: The short answer to your question is no. This requirement is a master plan environmental mitigation requirement that came out of our environmental requirements in order to proceed with development. So the first issue that we'd have to look at is, what legal requirements would have to be met. But what we're saying here is, given the head ways, the head ways are the timing of the buses and the size of the buses, which have a relatively low ridership, we might be able to save \$600,000 per year by adjusting the timing, and adjusting the size of the bus, to better meet the demand. And if there's reception on the council side for us to explore that then we would go ahead and explore that to see what kind of opportunities exist.

>> Councilmember Campos: Thank you. And I think the other question that I have has to go to one of the things that you talked about, about contracting the janitorial services out. And for me, when you kind of explained what the difference with the airlines and the customer, I think one of the things you talked about, you talked about safety, you talked about parking, you talked about all these other things. But I think that one of the things that we know that's consistency at the airport, when you walk in it's inviting and I think that goes to the cleanliness. I think that when someone is experienced in something, whether it's going and getting your food or whether it's someone that is using the ladies' or the men's room, and all of that plays into your experience, and I think that when we talk about the janitorial services, that's consistent, they're city employees. They're skilled to be able to provide a high quality service to the customers. And the customers may see them rarely but they know when they go into San José airport they're having an experience they may not be able to have anywhere else. So I'm not going to be 74thive of several things. I don't know if we say, you know what that's not even an option or we send you back to look at everything, but when we think about making sure that we have consistency, that we don't have a high turnover, whether there's people that provide the security, the people that check our bags in, to make sure that we're experiencing good service, to make sure that nothing is in there that shouldn't be in there, that's part of customer service in providing a quality service. And I bring that up because because people like anything they talk about a product or a place that they go to. Me when I travel, I pick San José not because I'm a councilmember but because it's a smaller airport, it's easy to get into, it's easy to get out of and the lines move fast and it's a quality experience. And believe it or not, the turnover, I believe, is really low, because I see a lot of the same faces when I'm checking in and checking out. So I think that some of these, my colleagues have already talked about this, prevailing wage, living wage, we pay a prevailing wage so we can get skilled workers to do the infrastructure and that weigh know we're not going to have a roof leaking or we know we're not going to have something explode because the wiring was not put in incorrect. So for me, it's what product we're getting today so it will be able to sustain itself not only today and the next five years but the next ten years. This is an airport that we want for it to be able to sustain itself. I would encourage you, I appreciate you putting everything on the table but I would really encourage that we look at other things that will not compromise the quality of our airport not only today but for ten, 20, 30, 40 years down the line. Thank you. [applause]

>> Mayor Reed: Thank you. I think that completes the first pass through the council with questions and comments and we're going to do it again here. I'm going to start with a couple of comments. First, there's good news and bad news here. Plenty of bad news. You know we got 5,000 jobs at the airport that are at risk as well as our ability to cover debt service and the things that you've outlooked. The good news is it's within our power to protect those jobs and I think it's important for us to say to all the 5,000 people who are dependent on the airport that we're going to do everything we can to protect those jobs and keep them in San José. We also have to be able to say to the carriers that we have to do everything we can within our power to make sure they're competitive, so they don't have to worry about in three years when they're make decisions today to add or withdraw service. And I think it's within our power to do that. A couple of things have been mentioned today, a curfew for one. There's more good news because there's probably six or eight or ten things we can do before we have to wrestle with the curfew question. And it's in our control of whether or not we do those things before we ultimately come back to look at the curfew as another way to deal with the problems. It's not clear what the time line is for having to do things. I kind of lost track of the years with the -- when we get out there. But a couple of things, first, you have to balance this year's budget. We know what the time line is because we're already in the budget process so by May 3rd, I believe the manager has to deliver a balanced budget for next year so we know that we'll have recommendations for what to do then. But we need to have you come back with a competitiveness plan and I don't know how long it's going to take to you put that together but clearly we have to take some actions before we get into 2011. And so we're going to need that plan sooner rather than later. And I think we need to sort of focus on the work plan of how we get the plan, and have you come to Rules so that we can work that into our committee schedules, so that we'll know when we're going to get it back to the council with whatever recommendations you might have as a package to deal with this. But when you do that, I certainly think we have to include in that some more aggressive business development effort beyond what we've been able to do. Because there's no doubt that building, the traffic, and getting of lights back, is really important, to everything we're doing, and a way to avoid some of the things that we don't want to do. So we need to get aggressive about that business development piece of it. And I think with that, those are my comments. And I anticipate that the council is going to want to you come back with a plan. It's just a question of how we go about analyzing it, doing the work and figuring out the choice

that we have that we're willing to make. But that's work not for today because we're not asking for answers today. We're not taking a vote today. But there's plenty of work in front of you. Councilmember Constant.

>> Councilmember Constant: Thank you, mayor. I wanted to ask the City Manager about on page 8, item D and E, the reduction of overhead. We've had this discussion in the past about the city overhead and how it gets billed out, not only to our own departments but to people who contract with us. What, if anything, can be done in these two areas? And that's question 1. And question 2 is, what are the drivers that make police and fire overhead higher than the general overhead?

>> City Manager Figone: I am not sure on what is making police and fire higher. That is something we'll have to take a closer look at. And I think to the question of what can be done, we are looking at overhead as part of the budget development currently underway. And so the double edge sword question, whenever we lower overhead is the impact on the General Fund. Because it's a significant revenue source to the General Fund. Now, that's not a reason to artificially raise overhead. Because I think we're now seeing the impact of the -- of overhead on special funds, which used to be plentiful in the past and no longer are. So I'm not able to answer your question specifically from kind of the breakdown of overhead but I do acknowledge that it is of great concern not only to the airport, but other special funds, it's a great concern to the development community, in terms of costs that get passed along to them. So we are taking a hard look at overhead knowing that in lowering that there is a consequence in terms of revenue to the General Fund.

>> Councilmember Constant: I think it's really important that we do that because I have seen numbers all over the board on overhead in just the short time that I have been here. And I remember when we were talking in context of Team San José probably a year and a half ago the number kept moving. And I would imagine that something like overhead should be set up formulaic. Where you have a fixed formula, and anybody should be able to explain it at any time how we get to that number, and I don't feel like we have that.

>> City Manager Figone: Yes, we do need to spend some time explaining overhead. I'll just tell you in a very quick snapshot that it is a retrospective view. So costs from a prior year's period are then factored into the formula and passed along prospectively. And therein lies part of the disconnect I think when we do try to explain it. Also there are elements of fixed cost such as the cost of the City Hall debt service and other areas which, you know, do have to get factored into overhead and passed along.

>> Councilmember Constant: Okay. I would like you know when this comes back that we really have some attention in this area. And specifically, on the difference between the two different class of employees. Because that's a significant difference between the two. Now, going back, just kind of summarize this talk we've had here, we have all these potential strategies, but all I've heard from my position is no. So contracting out we know that we have a policy that is going to take 18 months to two years to complete. And we haven't been real successful with that in the past. So you can give that a very weak maybe. Fire services are MOA issues, police service are MOA issues. Deferring the public art, we have one time \$3 million that will be just deferred basically. It is not a new source of revenue, a couple year deferral, maybe five years or so. We have reducing fire department staffing MOA issue. We have reducing overhead that we know is complicated because all that does is shovel that from one pocket to the next pocket so we get General Fund money. We talked about restructuring reducing or eliminate VTA airport flyer service which would give us \$600,000 a year, so we finally have a tangible number that we can look at. We talk about living and prevailing wage. Which I know I have a different opinion than most of the opinions that have been expressed here today. But reading the tea leaves it seems like we have a at least a pretty significant no but not a positive no because we haven't taken a vote. And then we run off because curfew also got a no as well. And I think I'm at the end of the memo. So does our \$600,000 help you in any manner? That was rhetorical. You don't have to answer that because I think everybody here knows the answer to that. But my concern is, we've just spent two and a half hours or whatever it is talking about policies that no one's willing to budge on. And we have a problem at our airport, much like our problem in our General Fund that we talk and talk and talk and talk about but we have all these self-inflicted wounds that we don't seem to want to heal. So that's just my editorial comment, and everybody can take it for what it's worth. But for every argument you have on why we can't undo a promise that we made, you also have the argument that we have a completely different world today than we did when we made these policies for every time you say we can't do something, I think you can substitute the words we're not willing to do something. So I just ask all the councilmembers to really think about that, go back through this memo, unless there's pages that I'm missing I don't see anything more than a \$600,000

ongoing savings and a \$3 million deferral of payment that's going to do absolutely anything for us. And it's a significant problem. We saw the charts. We saw where things are going. The question we have to ask ourselves is, do we want to change a policy that may in fact affect somebody's paycheck, a small amount over a long period, or do we want to not make any changes, keep our head buried in the sand, and eliminate that employee's paycheck altogether? Because that's where we're going. It would be sad for our airport to turn into an aviation museum because the only thing that's there are the planes that have their wheels locked and their fuel lines disconnected. But it would be a really pretty museum. But that's where we're going. Because we have a limited number of options. And from what I've heard no one really -- no willingness at least of a majority willingness to do anything about it. So I'm not really optimistic that when we come back and talk about this anything's going to change because all I've heard today is not this one. Not this one. And not that one. So that's all I have to say.

>> Mayor Reed: Councilmember Pyle. [applause]

>> Councilmember Pyle: Thank you. I'd like to talk a couple -- about a couple of things that perhaps we haven't tried and maybe we need to. These are different times. First question is, or let me say, back it up with a little statement first. Brazil has risen into a position of prominence as far as wealth factor is concerned. And one of the reasons for that is because they're building a tremendous amount of airplanes. I wondered if you have any information about what kind of airplanes they're building, are the planes of the future smaller, faster, lighter, all of the above, do we have any information on any of that?

>> Bill Sherry: Councilmember Pyle, I do not. I can certainly get that information. Right now, the two largest and most dominant aircraft manufacturers of Boeing, it's based in the U.S. and Airbus that's based in Europe. And I would venture to bet they're supplying 99% of the air carrier aircraft. So Ed do you have any knowledge about Brazil?

>> The largest manufacturer in Brazil is Embraer, and they are currently manufacturing aircraft that seat up to about 100 passengers. So they're not quite in the same league as Airbus or Boeing. And their major competitor is Canada Air in the North where they too are building aircraft that are somewhere between 70 and 100 and some-odd seats. So they're not very, very large aircraft.

>> Councilmember Pyle: That's my point. Maybe that is the airplane of the future. Rather than figure up passengers with 200, we fill them up with 100. At least we get the passengers. And in reference to that, as well, I'm thinking in terms of the airports that are doing well and the ones that are not. If we for example have X amount of passengers that would like to go to India for example, which is also been doing quite well in reference to their technological side, could we not team up with them, come up with a Bay Area regional approach to filling up planes? If San Francisco is 15 spots short of getting a 19 going to India could they not drop down pick up our 15 and away they go? It would involve looking at things a little differently. But if Oakland for example is suffering and we're suffering maybe there would be less of that if we teamed up. It wouldn't have to be forever, I'm just talking about doing things a little differently now so that we can make more airplanes go up in the air.

>> Bill Sherry: We can certainly look at that.

>> Councilmember Pyle: Yeah, it would involve -- well, we have -- I think we have so much in the way of this is Silicon Valley. We have so much in the way of technological help out there. It would be some job for some technology company, wouldn't it? And then the other -- I congestion that was primarily it. What else could we do differently that would help us to keep moving along and not standing at all, for example in India it is my understanding that a lot of Indian people travel eight times a year, at least they were. I don't know what they're doing now to India. And then what's the name of the company, Habashi, Hitachi had daily flights going out of here. What are they doing now, are they going to San Francisco? Is there some way to do a connect? So just a thought. It's certainly worth looking at things that would make more money rather than cut more money out.

>> Mayor Reed: That said, let's add that to the list of things for them to come back on. Or some of those ideas. I do have some public testimony we need to get in this afternoon. We're almost there, folks, so just be patient. Councilmember Kalra.

>> Councilmember Kalra: Thank you, mayor. First to councilmember Constant's comments, he labeled the council policies self-inflicted wounds, implying that it was the council policies that have put us in this mess when the message I'm getting is the unanticipated drop in enplaned passengers is really the biggest source of disappointment that's put us where we are. And it wasn't just the \$600,000 or the \$3 million from the arts fund really, I think several councilmembers have given clear direction that they prefer to see the excess funds from the terminal area improvement program used to improve our CPE. So that may not be the answer or the option that Councilmember Constant would prefer to go in but it certainly

seems like there's some sentiment up here that that is the direction that we would be considerable with. Secondly in regards to the competitiveness with SFO do we have or is there access to numbers of the number of -- I'm sure there's access numbers on how many times planes are fogged out at SFO but is there access to how much that's costing the airlines?

>> Bill Sherry: That's a great question. And it's a bone of contention between airport staff and the airlines because we don't think that they use that information in evaluating air service development. And they certainly should. The delay cost in San Francisco is exorbitant. And there is virtually no delay cost in San José. Now that said at the end of the day they don't factor those costs in when make decisions. Albeit that we think they should, they don't.

>> Councilmember Kalra: Well I think that if they don't we should advertise as much as possible in our marketing material. I agree with the mayor that we have to come up with a very aggressive business development plan. I know that we already do market the airport but that has to be part of it. We have to get the exact numbers. Create our own estimates of how much the airlines are losing out on. I just saw an article out right now that jetblue and delta want temporary exemptions from the new government rule that limits the time passengers can be held on the tarmac. If it's over three hours and they don't have to plane the passengers back to the terminal, \$27,500 per passenger. Now that is a dramatic, dramatic change in policy that will certainly give second thoughts to folks that want to increase their flights out of SFO knowing how many days they're fogged out and we if they're not going to share that information with the airlines and if the airlines aren't going to factor that in, in their analysis we need to put it right in front of them and be as clear as possible of how much money they're losing because they choose to fly out of SFO.

>> Bill Sherry: And we agree with you.

>> Mayor Reed: All right, it's time to take some public testimony because we have a lot of people that want to speak get everybody in the audience practically has turned in a card I'm going to limit the speakers to one minute so we can get out of here without going into the evening hours so I'm going to call a few names. Please come on down to the front so you're closed to microphone. Cut down the transit time and I'm going to start with the former mayor, Janet Gray Hayes. Mayors always get a little extra consideration. Mayors. John Salah, Frank Sweeney and Mookie Fatone.

>> Thank you very much, mayor. It's been a long time. I just wanted to say that I'm here representing cap, which is citizens against airport pollution. Which is noise, and air. We have been voted the most livable city, one of the most livable cities in the country and one of the reasons is that we can sleep at night. And I'm very much for maintenance of the curfew hours that we have now. And that's the most important thing to our organization, which has been in existence for several years now. Thank you very much. [applause]

>> Mayor Reed: Thank you. I'd like to point out that former mayor Janet Gray Hayes set a very good example. 40 seconds. Right to the point, thank you.

>> Thank you, honorable mayor and council. So the airport is a neighbor, we all know that and we all know you have tough issues and tough things that we have to deal with, things like living wage and curfews and other things here. The loss of service is really the key aspect to this whole thing. So the staff has pointed that out. And I want to reiterate that. As a business travel manager that is our key role to have more routes, more structure here in San José. So everything we can do to help that, and any cost structure would be much appreciated. Thank you.

>> Mayor Reed: Frank Sweeney, Maokie Patel, Steve Frost.

>> Thank you, Mr. Mayor, members of the council. I'm Frank Sweeney, chairman of the airport commission. The economic condition of the airport is the worst I've ever seen in the 45 years I've been involved in it as a passenger and other aspects. Some day this recession is going to end. I'm going to talk very briefly about two things, one a long term issue that will go long far beyond this, and another a just do it issue among those Bill laid out. The long term is the downtown obstruction situation. If we allow high rise buildings to go up, in the remaining corridor for one engine out operation long haul service will never return. Second issue, just do it one way, to save a little money, for the airport, although it's a small amount compared to the huge issue the airport's facing is the enforcement of the living wage. If you'd change it to a complaint based rather than a proactive approach as the airport commission did recommend some while ago you could save a small amount of money. Those are just two issues among the many that Bill has pointed out.

>> Mayor Reed: Your time is up.

>> Thanks.

>> Mayor Reed: Mookie Patel, Steve Frost, Lorraine Tellarillo.

>> Thank you, Mayor, councilmembers for having this important study session today. It shows that the council is engaged with the airport staff on such an important topic of sustaining an airport the size of San José. I represent Alaska and horizon airlines. We support cost containment ideas that were presented to you today to help lower the cost of the operating the airport. San José is an important part of our network as are all the Bay Area airports up and down the West Coast. Being cost competitive is an important part of our nature as being an airline, and we appreciate you looking at any and all possibilities to help mitigate the debt service that's associated with the modernization program. We look forward to seeing you mayor Thursday at our inaugural for our Maui service, and that's a plug. Please fly Maui, Kona, Spokane and the new Austin service.

>> Mayor Reed: I'm not going to Maui on Thursday, unfortunately. I'm just going to be there to send people off. Steve Frost, Lorraine Tellarillo, Clark Williams.

>> Mayor councilmembers thank you, Steve frost I've had an aircraft maintenance facility at the airport have sings 1986. I sympathize with your plight on financial issues at the airport. There's a small item touched on in a report recently received, and mentioned briefly, today regarding development of west side of the airport. I had met with airport commission, and the administration back in 2000, 2002. We pleaded for additional space on the west side. Since then we have seen some of the same plights the city has. Businesses down, we have excess capacity, and I would recommend that we look closely at the study that indicates that may be the salvation for the airport to put additional FPOs there because we've got more facilities than we can fill right now.

>> Mayor Reed: Lorraine Tellarillo, Clark Williams, Kibadi Kaba.

>> Good afternoon, my name is Lorraine Tellarillo, I'm the director of properties for Western United States for Avis and Budget rent a car. And we're here to support the report that Director Sherry submitted to you today. We think it's very important that all of the issues be examined, that nothing be off the table. We -- our business is completely derivative of the number of passengers that the airlines bring in. So anything that can bring San José in a more competitive position with the other Bay Area airports is extremely helpful and in fact essential. We have cars in Oakland we have cars in San Francisco. But we have a new rental car facility in San José that we're facing a very high debt on. And we desperately need more passengers to come to San José, as opposed to some of the other airports in the Bay Area to sustain that debt so we appreciate if each and every one of the councilmembers would keep an open mind on all of the issues, and make sure that San José is competitive with Oakland and San Francisco. Again we applaud director Sherry in his efforts and the courage it took to place some of these items before you. Thank you very much.

>> Mayor Reed: Clark Williams, Kibati Kaba, Sayum Asrat.

>> Thank you Mayor Reed I wanted to just give a little constructive feedback about the recommendations today and this is really about how the airport remains competitive and I think all we have to do is look to the airlines for some guidance on that. You know the airlines don't reject their values. In order to be competitive. They don't walk away from those values and I think the values of San José are pretty clear. We support the curfew. The residents of the city really believe in that curfew. As someone who lives in north Willow Glen right off the 87 corridor I just want to invite all the councilmembers to come to my backyard and you can hear the airplanes when they come in during the day and can you hear them at night and so I welcome you to come and check out my backyard to see what impact lifting the curfew would be. Our values are a living wage. We fought for those values in San José. Our values include a prevailing wage requirement for third party. Our values indicate a real concern about contracting out without making an appropriate business case so my recommendation to the city council is to look for some alternatives than the suggestions that have been made today.

>> Mayor Reed: Kabati Kaba, Saiu Masrat, Ross Signorino.

>> Thank you, mayor. We are here San José taxi drivers are here today again to give our opinion on the suggestion that the aviation director gave about the concession to go back to give back concession to one company or two companies the airport. We highly denounce these kinds of approach because the system is working very well for us. The city has spent a lot of time a lot of money to study this and we are appreciating the system. We have expressed our views last time on the transportation and T&E committee that the system is doing very well for us. This system going back means taking the drivers back to the slavery, killing the jobs of the small business, we need the small business to stand side by side to compete for the drivers. That helps drivers to cut the cost. Otherwise, this is going back again to the same system to abuse the system. So I would like to --

>> Mayor Reed: Sorry your time is up.

>> I would like to speak more if you give me time --

>> Mayor Reed: Sorry your time is up.

>> Thank you very much.

>> Mayor Reed: Sayu Masrat, Ross Signorino, Leonard Amalie.

>> Mr. Mayor, councilmembers, thank you for giving us the opportunity. I'm talking about on page 14 the last paragraph about taxi service administration. The airport is not recommending any change, that is good. Keep it the way it is. We know the challenge the airport face financially and we have specific recommendations and proposal to be part of the solution. And would like to ask Mr. Bill Sherry to open his office to us or assign one of his staff to us and to the take into consideration our specific proposal to eliminate or reduce staff time that is spent in regulating taxi at San José. Taxi San José is there. We have a very strong drivers association, which is willing to be part of the solution. Thank you. [applause]

>> Mayor Reed: Ross Signorino, then Leonard Almalec, followed by Robert lendly.

>> Ross Signorino: Thank you, Mr. Mayor, members of the council. You're very fortunate to have experts speaking about this. But until we start getting some jobs in this valley the airport might not do so well and then you have to figure the price of gas that the airlines have to pay for. And then there is another competition that we're putting against the airport is the high speed rail, we're spending billions of dollars on to take passengers away from the airport. And then of course the question of living wage. Vice Mayor Chirco did a good job explaining that. And then there was southwest airlines said that they could live with that living wage and then there was a person up here in his red uniform who worked at the airport full time making way -- not making a living wage there and said he was homeless. Mind you he's homeless and working full time at our airport. Something you have to consider when you talk about a living wage. Thank you.

>> Mayor Reed: Leonard Almalec followed by Robert Lindley and Elizabeth Monley.

>> Mr. Mayor, members of council my name is Leonard Almalec, I'm the vice president with Enterprise Holdings. We operate Alamo, National and Enterprise Rent-a-car at the San José airport. We represent about 25% of the market share at the airport. First, I think it's important that we compliment Bill Sherry and his entire staff on the exemplary vision and service that he has provided in building this new airport along with the rental car facility. San José is now the only city that will have a rental car facility directly across the street from the terminal. And I think that is an incredible advantage to the business traveler coming into San José. Second, as you know, we have made a substantial investment in this new facility and I would urge the councilmembers to broaden Mr. Sherry's discretionary authority in trying attract new vendors and business into the San José airport. He has done a spectacular job. I think his leadership and vision will benefit this airport greatly if he's given those tools and the opportunity. Thank you.

>> Mayor Reed: Robert lendley, Elizabeth Monley, Wanda buck.

>> Thank you, Mr. Mayor, members of the council, I'm Robert lendley. I'm president of the federation of retired union members. I want to urge you very much to continue the minimum wage policy -- the living wage policy, excuse me. This is not, to me, an economic issue. This is a moral issue. That is, that a person that works for a living should be able to earn a living. And that, I think, is what the concept of minimum wage is, to earn enough to be able to eat, to have housing and to raise a family in San José. Another thing: We look at contracting out. I think we should think back about ten years. At the end of the last century, airport security and airline security was universally contracted out. Which means airlines which paid for the security were getting it at the cheapest rate. We learned the consequences of that on September 11th, 2001.

>> Mayor Reed: I'm sorry your time is up. Elizabeth Monley, Helen buck Terry Ballandra.

>> Good afternoon, mayor, city council members, I'm Elisabeth Monley speaking on behalf of college park neighborhood association. Our curfew was created to help the citizens of San José and it must be kept separate from the commercial interests of the airport. Whenever the two come in to conflict the well-being of the citizens should be considered first. That was nine years ago. Due to your efforts we now have a curfew that is today fair. It allows flights during the night that do not disrupt the comfort of the citizens. So you have before you a consideration to amend our curfew because lifting edges or all of it might generate some revenue for the financially struggling airport. But make no mistake about it, lifting the curfew would mean allowing and encouraging aircraft the freedom to operate in an mean we say today is abusive. We in college park recognize the difficulty that the airport faces now and in the near future but there must be no dilemma of this council that attaches a financial concern to a moral decision that has done its job.

>> Mayor Reed: Your time is up.

>> Thank you.

>> Mayor Reed: Wanda Buck, Terry Bellandra, Sharon Sweeney.

>> Hello, I'm Wanda buck. I've been working on this since '84. I'm for the curfew and for the noise being resolved. I was an original member on the airport master plan advisory committee. I came up through the homeowners group been a member of cap. When we're talk about goals the goals were to meet the demand and now it's to create it. It's an interesting switch and we need caution and concern to look at the financial considerations and the environmental situations. I'm also a real estate broker and it could affect property tax bases by reducing value in Real Estate. Thank you.

>> Mayor Reed: Terry bellandra, Sharon Sweeney ransom fields.

>> In director Sherry's March 3rd memorandum there is a mention of a previous analysis and a set of recommendation from staffer chamber of commerce and downtown association, by men downtown association in regards to the OEI. Shouldn't that be involved in this discussion? Where is this available for public view? Regarding the curfew, there will need to be a fiscal analysis completed on the decline of property values, if the curfew is lifted, and what would be the impact on city property taxes as well? Another question, where would the money come from to soundproof entire neighborhoods many filled with desirable homes? These are difficult times and with complex decisions and strong leadership needed to move us forward for a brighter future the OEI issue has been side stepped by previous administrations and city officials for long enough. On this OEI issue can you please put unions, lobbyists and developers aside and make important decisions based on the best interests of all citizens. Thank you.

>> Mayor Reed: Sorry your time is up. Sharon Sweeney ransom fields Yolanda Reynolds.

>> Good afternoon I'm Sharon Sweeney and I served on the airport commission during the development of the master plan. The development of the plan was based on the curfew. We've lost long haul flights but there were other market conditions that affected the loss of those flights. Though Sherry has already mentioned additional costs that would be incurred if we relax the curfew for a few night flights, but we should also consider that lawsuits will be filed. And I'm certainly not afraid of lawsuits however they will delay any possible new flights anyway so it's sort of a -- it's really a push. The recession will end so why should we mess with the curfew right now when in fact we had long haul flights a long time ago, to Tokyo, East Coast and Paris even and that's when the curfew was in place. So I think things are going to come back and I see a beautiful airport and thank thank you.

>> Mayor Reed: Ransom fields, Yolanda Reynolds Ed Hodges.

>> Thank you mayor and council. My name is ransom fields. I live in Rosemary gardens which is less than a mile away from the airport. And my particular location is one to two blocks outside of the act -- the airport acoustical control zone. During the week, especially during the raining season, curfew violations have awakened me at night. So what I want to propose is that the airport bring the number of curfew violators and the noise measurements which they've been taking for many, many years as part of this study for -- that they're going to present to council. Finally, the airlines, and the TSA have been doing a lot to destroy the fun of flying. Thank you.

>> Mayor Reed: Yolanda Reynolds. Ed Hodges, Linda didis.

>> Good afternoon, Yolanda Reynolds. I want to confirm very strongly the comments of mayor Janet Gray Hayes and Wanda Buck that deals with the curfew and then the issue of the devaluation of the real estate if the quality of life is destroyed and that isn't only for San José. That's for City of Santa Clara. I have a son who lives there and I had a friend who had to sell a home in Santa Clara because of the noise from the airport. The other thing that I'm very concerned that hasn't been mentioned yet is the suggestion that we start having private planes at the San José airport. Especially jets. I live on the street Shasta where a plane crashed. That experience was really quite frightening. And I've had experience of having a huge private jet fly right over my house when I was on a ladder. And I was lucky not to fall off that ladder. And the other thing --

>> Mayor Reed: I'm sorry your time is up.

>> Oh, okay, well I'll tell you by e-mail. Thank you.

>> Mayor Reed: That would be fine, we do get e-mail. Ed Hodges Linda didis David Wall.

>> Congratulations Bill Sherry you surprised us, thank you. When Janet Gray Hayes was mayor in the '70s she and her husband spearheaded the effort to establish cooperation between the airport and the neighbors surrounding it. The city council approved the first nighttime curfew in 1984 and it's stood ever since. In 1993, most of you don't know this, the airport managers pushed through an expansion plan

which continued today. That part you were aware of. But the Santa Clara city mayor Everett Sousa at the time was so worried that the expansion might affect the quality of life in his neighborhood that he wrote a letter to San José mayor Susan Hammer. It said, our support for the San José plan is based on our confidence that the city will continue its good faith effort to expedite measures which will contribute to a quieter airport environment including a legally enforceable curfew.

>> Mayor Reed: Your time is up or Eddie Sousa's time is up. Linda didis, David Wall, Gregory Ramirez.

>> Hi I'm Linda didis, I'm a business agent for AFSCME local 101 which represents all of the 54 custodians that are being considered for contracting out. The proposal to contract out these employees seems grossly overestimated. The estimate savings is \$3 million. Yet the 54 custodians total cost to the city in wages and benefits is \$3.4 million. Of these 54 workers 48 of them live in the City of San José. These employees can not be redeployed into vacant positions if they are laid off because there are no position he for them that they can qualify for and meet about minimum qualifications. As another solution for savings we ask that the airport, if they're going to lay off employees as they did before and they are continuing to do, look at some of the vacancies in the budget. On their first round of layoffs they did look at vacancies and only laid off the employees where there was redeployment opportunities. Presently the last number I heard was 180 vacancies in the city. I realize that 80 of those are sworn but there's another 100 some vacancies. This idea will not help to stimulate San José's economy but just the opposite.

>> Mayor Reed: David Wall Gregory Ramirez Sylvia Ruiz.

>> David Wall: Good afternoon. The crushing debt that taxpayers did not ask for, is looming. The bigger issue that is not discussed anywhere in this city is bankruptcy for the City of San José and possible multiple municipalities throughout the state. As far as the airport goes, in my opinion the CPE needs to be reformulated. The director has put forth an outstanding planning but it relies on a current model and there has to be a new fund construct that separates out overhead cost and the debt service. Airlines shouldn't have to pay for this. How you can go about doing this lies for debate. Another issue you should consider is the formulation of a joint powers authority and a two-tiered system for the prevailing wage. Eliminate this office of economic development. Eliminate that ordinance in which you fund the arts program, from that as a mandatory tax. These are things that the director impliedly mentioned. Thank you.

>> Mayor Reed: Gregory Ramirez, Sylvia Ruiz, Tiffany menindez.

>> Good afternoon, Gregory Ramirez with AFSCME local 101 MEF. The proposal before you today to contract out airport janitorial services is short sighted. I worry about any idea that pushes local wages down and middle income families out of the city. Of the 54 AFSCME families that would be affected by this contracting out of janitorial services proposal, 48 of those families live in the City of San José. Outsourcing is a risky pseudo solution. Poor quality of service cost overruns contract oversight issues and potential security issues are but a few of the problems that any prudent decision America could foresee. One alternatively proposal in staff's memo deserves your consideration and that is to pay down debt by using excess reserves from the terminal area improvement program. Thank you.

>> Mayor Reed: Sylvia Ruiz, Tiffany Menindez, Sosita Cardoza.

>> Good afternoon, Mayor and City Council, my name is Sylvia Ruiz. I represent workers at the airport with SEIU local united service workers west. Three workers will shortly testify about what their experience has been. And what it has meant to have a living wage policy extended at the airport and it was great to hear so many councilmembers saying that you know that is something that you're not considering shouldn't be on the table. We've worked at other airports in the area to pass living wage policies as well as other cities to really raise standards for workers. SFO is actually moving to a system with quality services program where they would be doing audits at all contractors at the airport. So versus the director's proposal to actually look to, you know, at the complaint based system SFO is looking to overturn that system and I think rather than moving backwards we as a city should continue to move forward, supporting wages for our lowest wages workers and the City's values should not be to affect our lowest paid workers in the city.

>> Mayor Reed: Tiffany melendez Sesita followed by Duane.

>> My name is Tiffany melendez. I work as a baggage service agent for G2 secure staff at the San José airport. I have been working there for three years. I'm also a single mother of a three-year-old daughter. Before the living wage went into effect I was moving house to house. I didn't have a stable living environment for me and my daughter. When the living wage went into effect I was able to get a studio for me and my daughter. My income is the only one coming in to me and my family. If the living wage was reduced, to minimum wage, I will not be able to live where I live now. I will not be able to keep

my car, without my car I have no job. I have no way of getting there. I don't want to be in a position where I don't have food to take care of my daughter. I don't want to lose my daughter because of this. So I'm asking you put yourself in my shoes.

>> Mayor Reed: I'm sorry your time is up. Susita Cardoza .

>> And drop this consideration.

>> Mayor Reed: Followed by Duane and then Chuck Andrew.

>> My name is Sasita Cardoza and I work as a wheelchair ambassador at San José airport. I've been work there for five years. The new living wage policy that was implemented in 2009 has made a big difference in my life. I can say the rent of my apartment and by groceries. My partner lose hi job so my paycheck are keeping us afloat during this difficult economic conditions. I understand the airport is going through, however, minimum wage job do not support working families in San José, if it reduce the living wage policy it will hurt me my family and our community. I urge the city council to drop consideration for proposal to cut the airport living wage policy. Thank you.

>> Mayor Reed: Duane. Then Chuck Andrew and Bill Guthrie.

>> Thank you, mayor city council, my name is Duane Green and I work as a wheelchair ambassador at the San José airport and I've been there for three years. And with the new living wage policy implemented in are 2009 I was one of the workers that that gentleman was talking about me. I was homeless, and I couldn't pay my bills. But now that we have the living wage, I feel more secure now. And I'm so proud to be one of the workers at the San José airport and all my co-workers we've worked very hard and we deserve to have the living wage. So I urge the city council to drop the consideration for proposals to cut the airport living wage policy. Thank you. [applause]

>> Mayor Reed: Chuck Andrew Bill Guthrie and then Sara muller.

>> Good afternoon councilmembers Your Honor Mayor Reed my name is Chuck Andrew, I'm a business agent with Teamsters local 665. Our local represents about 300 members at San José airport. Most of them are in the rent a car sector. These members were employees at the airport before the living wage was extended to them by the city council in 2005. These members experience directly the benefits of a living wage, significant majority of them prior to the implementation of the living wage found it an economic imperative to work two jobs, one full time and one part time just to sustain themselves. Since the extension of the living wage these worker were able to forgo the second job and enhance their ability to become full members of the community. Rolling back the living wage at the airport will negatively impact our members who are least able to afford it and we ask to you consider not rolling back the living wage. Thank you for your time.

>> Mayor Reed: Bill Guthrie Sarah muller and then Dennis Zekin.

>> Honorable members of the city council my name is Bill Guthrie, I'm an elected member of the plumbers and pipe fitters also a member of the Councilmember Liccardo's district. I come today not to passively act but demand on behalf of working people of this city that any discussion of the moratorium of the airport's living wage and or prevailing wage provisions be taken out of consideration. Too often institutions seek to balance their budgets on the backs of those that are the most vulnerable and the most disenfranchised, in spite of the severe budget constraints facing our city we collectively have a moral imperative am cannot stand for slashing the wages of people who live on the brink of poverty who are but a few paychecks away from hopelessness. As I said I know these are unprecedented budgetary challenges in front of you I believe collectively we can develop real solutions but we cannot accept that it be done on the backs backs of the living poor. Do not remove living wage and prevailing wage from the airport. We can find other ways. Thank you.

>> Mayor Reed: Sarah Muller, Dennis Ezekin, Marshall Vasquez.

>> Good afternoon. My name is Sarah Muller. I'm the director of health and community development at working partnerships. Less than 18 months ago this council voted to enact a living wage ordinance and job training program for all workers at the airport which sought to adjust the safety and security concerns that were found particularly among our subcontracted workers. These policies were put in place to improve our sustainability and help us compete against other Bay Area airports that already had such policies in place. And already found no negative impact to airport activity and improvements to security and employee productivity. However, the discussion of the options proposed today really seek to move us backward and they're based on facts that I would argue are inaccurate. The airport's memo states that San José's wage is above that of San Francisco. San Francisco's living wage is 15.33 an hour, well above that of San José. In addition the memo proposes to save \$3 million by contracting out our city

janitors. These janitors are in a wage and benefit package of \$30 an hour which means 54 of them would cost \$3.4 million. So how --

>> Mayor Reed: Sorry your time is up.

>> Thank you.

>> Mayor Reed: Dennis Zekin, Marshall Vasquez, Rudy Carrasco.

>> Hello mayor thank you to Kansen Chu Judy Chirco Madison Nguyen and Nora Campos for acknowledging prevailing wages, excuse me I'm nervous. The airport director's memo proposes a number of changes which goes directly against what the city stands for promoting local job creation with basic wage standards. Specifically, the proposal to waive prevailing wages for a third party contractors will encourage contractors to be in poor quality, poor trained workers. Waiving prevailing wages, wage standards will encourage contractors to go outside San José to hire low wage staff. At a time when unemployment in the construction industry is over 30% in our community, we cannot afford to create construction jobs for residents in other communities. We need to take care of San José first. We cannot balance the budget or improve long term stability by --

>> Mayor Reed: Sorry your time is up.

>> Okay thank you.

>> Mayor Reed: Marshall Vasquez, Rudy Carrasco, Josué Garcia. [applause]

>> Mr. Mayor, city council members, my name is Rudy Carrasco, I represent plumbers steam fitters local 393. We have 2200 members and I'm here to speak against any dropping or lifting of the prevailing wage or the living wage ordinance. I believe this will be a race to the bottom, even outsourcing is a another form of race to the bottom. When we have prevailing wage lifted we see out of town contractors from the valley, from Southern California and even out of state. They're hiring their employees to come over here in San José, work, and they are paid a substandard wages. And a lot of these people who are paid substandard wages they don't even get medical or any kind of dental plan whatsoever. When they get medical needs when they're working here in our valley they go to the county hospital. And us the taxpayer

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>> Mayor Reed: Your time is up.

>> Thank you.

>> Mayor Reed: Josué Garcia, Carl Simino, Daniel Garcia.

>> Josué Garcia with building trades council. I'm here to speak against a recommendation from the director to cut the living wage and prevailing wage at the airport project. In June the airport is going to be open to the public, going to be open on time and on budget. You very apt having the councilmembers speak, when in private sector, when you do a good job they give you a bonus for completing on time and on budget. In this case we are telling the workers you finish that project on time and on budget, as guess what, as a reward we want to cut your wages. Worst time to cut wages. Construction workers are barely making it. We don't work 40 hours a week like most people. We are only working two othree days a week so we do not think it's appropriate right now to cut any type of wages especially at the airport. A lot of the money that we make on prevailing wages we use it for training and for safety and that's why we -- you have a beautiful project this building and the airport on time and on budget because of the training and the safety that we provide to our workers. Thank you.

>> Mayor Reed: Carl Semeno followed by Daniel Garcia and then Warren Barry.

>> Hi I'm Carl Semeno, I'm director of the pipe trades training center. This is a world-class training facility that's right here in San José for training plumbers, steam fitters and air conditioning mechanics. By lifting or proposing to lift the prevailing wage you are now opening the door to allowing your tax money to walk out of San José in the pockets of employees and contractors from out of town, you're employing people that are less committed to the projects, and are less trained, and therefore, not as safe. And when these people are hurt as you've heard before they go to and use our facilities, our county hospitals, so we're bearing more of the burden. I believe that the prevailing wage is there for a reason. And we need to respective the spirit of that law that the money that's earned here and spent here, from the taxpayer, should stay here. [applause]

>> Mayor Reed: Daniel Garcia, Warren Berry, Fred Hirsh, Sam Bayada. Come on sir, give me your name so I know where you are in the lineup.

>> Mayor, city council and staff, Warren Berry, business agent local 393 plumbers steam fitters. I represent over 2,000 members in this county, I urge you to keep the prevailing wage. It cost a lot to live in this town. And our members are like to live in this town they need a prevailing wage. Thank you.

>> Mayor Reed: Fred Hirsh. Samuel Bayetta, Ruby Cruz.

>> Good afternoon, members of the council and Mr. Mayor, I think you have to keep the airport competitive through business and technological expertise or cost reductions at the executive level not on the backs of workers who are struggling to keep a roof and sufficient food on the table for their families. I think you have an absolute moral imperative to maintain living wage and the prevailing wage at any cost. Would you, yourselves, be willing to suffer the wages and the unemployment that would result from an economizing on the backs of the airport workers? Touch the airport workers and you touch us all. [applause]

>> Mayor Reed: Samuel Bayeda, Ruby Cruz, Calvin Mien, Katherine Reyes.

>> Honorable mayor, city council members and airport commissioners, thank you very much, I'm very much honored to hear that city council always resent the issue of taxi San José. As part of the body of taxi San José the driver I am here to object the proposal sent by the airport commissioner because the existing system is really working. We really appreciate that the city council is helping us in improving, and further, and we're really look for to continue with this progress. Thank you.

>> Mayor Reed: Ruby Cruz, Calvin Mien, Katherine Reyes.

>> Good afternoon, Mayor Reed and members of this August body. I am Ruby Cruz. And thank you very much for giving me this opportunity to speak before you. I work at the airport for the last six years at the foot and Bay Bridge and now at the retail. My husband also worked for 23 hours at the said airport. I like working at the airport because I am able to support myself while having access to quality health care. Together, my husband and I earn barely enough money to rent an apartment in San José and make both ends meet. By the way, I live just off the Tully road at 101. Every year, the rent goes up, and I struggle to pay it on my monthly salary as well as my husband. If my wage and my husband's wage --

>> Mayor Reed: I'm sorry your time is up.

>> Won't get cut it is impossible for us to pay.

>> Mayor Reed: Your time is up ma'am. Our next speaker is Calvin Mien, Katherine Reyes, Neil Struthers.

>> Good afternoon my name is Calvin Mein. I'm a represent for local 19. We represent the concession workers at the airport. These are workers that are proud not to just represent their company but the empire City of San José. I believe that some of the proposals in the airport's director's memo would be harmful to these very workers and I want to discuss one which hasn't received a whole lot of attention today, that's the proposal to move from active enforcement to complaints only for the living wage policy. Now I wish that active enforcement were not necessary. But I believe it is. The living wage policy is applied to concessionaires at the airport not just for 18 months but for ten years. And just this year a violation was found which is highlighted in Mr. Sherry's memo. My experience working in the industry is that workers are often scared to report employer violations out of fear for retaliation.

>> Mayor Reed: Sorry your time is up.

>> Thank you.

>> Mayor Reed: Katherine Reyes, Neil Struthers, Rebecca Keiker, Stefano Perez.

>> Look like I might be next, Honorable. Mayor, councilmembers, Neil Struthers, building trades council. It's no surprize we have this many workers today speaking on this issue. We're not insensitive to the issues that Mr. Sherry faces at the airport and I also believe Mr. Sherry is not insensitive to the issues that are dear to working people. As you know and as you've heard our industry, the construction industry has 30% unemployment. People's homes are being foreclosed, marriages are breaking apart, families are being torn apart. Now Mr. Sherry's proposal includes a lot of things. I'm not sure he really wants to go after workers but let's be clear he needs your direction to let him know that that's not how we're going to solve this problem. And I'll point out a couple of examples. For example prevailing wage. Staff recognizes in the memo that there is no excavation. There is no guaranteed savings, it is speculative. I will guarantee you however though if you get rid of prevailing wage at the airport I will guarantee you that you will not create as many local jobs as you will do now, you will not generate tax income that we hear a lot about tax leakage. All those things will go away. Additionally I think you put suspect quality on what's otherwise a world class facility. I'm not sure long term that's what we want to do. I would ask that you look more at things that we haven't heard today. One is public private partnership. We got to build a park garage, let's talk about public private partnership so we can use part of that money to help balance that debt. Remember this project is \$75 million under budget based on a prevailing wage workforce. Thank you.

>> Mayor Reed: Rebecca Keiken, followed by Stefano Perez and then Ben Field.

>> Hi, I'm Reverend Rebecca Keiken, director of the interfaith council on economics and justice. And a Presbyterian clergywoman. Last year over 6,000 people of faith signed the statement of principle cards supporting dignity in justice for workers. These are people of all faiths, all ethnicities, affluent middle class and poor as we depressed the values of our sacred text and our concern for a living wage and for workers that are treated with respect. We are very concerned as a faith community about the loss of the middle class, that jeopardize our democratic principles, threatens the sustainability of community life and financial insecurity that erodes family life. The airport proposal would like to replace 54 city janitors who now earn middle class incomes and through contracting out these workers become poverty wage citizens earning well below the living wage. We urge the council to reject it, thank you.

>> Mayor Reed: Your time is up. Stefano Perez, Ben field, Sandy Perry.

>> Hello, I'm Stefano Perez, I'm with ATU executive board member. I'd like to thank Councilmember Campos for saying that VTA does have the smaller shuttle service and please support the living wage and -- the living wage and also to remind the city council that ATU, as it has done in the past will aggressively protect its work with the outsourcing. Thank you.

>> Mayor Reed: Ben field, Sandy Perry, William Leidel.

>> Mr. Mayor, members of the council my name is Ben field with the South Bay labor council. The city should not change our living wage or prevailing wage policies and should not start outsourcing janitorial or airport flier services. There is no evidence so far that the benefits of these proposals outweigh the costs which have not even been estimated yet. In fact there is evidence to the contrary, fringes we heard today, that SFO has no decrease in flight departures and living wage in San Francisco is actually higher than ours. Cutting the level or quality of service at our airport can undermine the airport's competitiveness. Fortunately we do not need to undermine competitiveness to reduce costs. As a number of councilmembers have said today, using the 78.5 million dollars in excess funds to reduce the airport's debt service should be the first step towards controlling costs. That strategy can reduce the CPE five to \$7. Addressing the airport's cost issue while at the same time keeping the airport competitive with our main rival SFO. Thank you.

>> Mayor Reed: Sandy perry, William Lidle, Terry Eosino.

>> Good afternoon. I'm Sandy perry, I'm from CHAM deliverance ministry and two or three years ago I came out to speak for living wage for airport workers and I'm here to support it again. Every time we have a budget crisis it seems there are some people who want to target the poorest people in our society to bear the burden of our cuts. We are seeing this on the state level where the governor the only solution he can think of in our budget crisis is to starve women and little children. It's unacceptable that as America grows richer and richer, that banks and corporations insurance companies and oil companies earn record profits and our people and our workers become poorer and poorer every year. CHAM is a Christian ministry. We believe in the Book of Proverbs where it points out that those who oppress the poor insult their maker and those who treat them justly honor God. I'd like to commend you for the living wage follow you've had in the past and ask to you please continue and support living wage and all the policies that are in place to protect the livelihoods of poor and working people. Thank you.

>> Mayor Reed: William lidle, followed by Terry lasino, Kerry Hamilton and David Collins.

>> Mr. Mayor, councilpeople, William lidle, Presbyterian pastor. Representing the interfaith council as well. We're concerned that a number of the proposed reductions seem to inflict significant harm upon the folks in the community who are the lowest paid. The question about the living wage, waiving the wage requirements, contracting out services we would urge the council to find ways to meet the financial needs of the airport without putting an extra burden on the backs of the working people. Thank you.

>> Mayor Reed: Terry Eosino, Carey Hamilton David Collins.

>> Good afternoon, I'm Terry losino. I'm the director of step up Silicon Valley, the campaign to cut poverty. To cut poverty. And we want city contracted workers or employees working in our public facilities to earn wages sufficient to live in our community and pay for their basic necessities. I urge you the council to reject the two proposals that would reduce the current living wage or the waivers prevailing wage requirement. Remember step up Silicon Valley.

>> Mayor Reed: Carey Hamilton David Collins.

>> Good afternoon, marry and city council members. Carey Hamilton for citizens for environmental and economic justice. First of all we weren't part of the living wage discussions so before we looked at it we asked ourselves is it extraordinarily high, the answer is no. \$14.08 an hour unbenefited amounts to about \$29,000 a year or 12.83 per hour with benefits. So we think that that particular item definitely needs to be protected. Paying down debt service seems like a reasonable thing to do in a fiscally responsible thing to

do if possible. You rarely have the opportunity to do that in these difficult times and we appreciate the difficult situation that you're in. Also, parking was barely touched upon I believe in the memo and benchmarking was done to other airports and I don't know that that's the best way to really analyze what we should be charging for parking because it wouldn't change my choice to go to our airport versus another if parking rates were higher. And at some point people might decide to shuttle in but I think more analysis needs to be done in that area. Thank you.

>> Mayor Reed: Sorry your time is up. David Collins. That's the last card I have. Did anyone else want to speak? Last call.

>> David Collins, I'm a field representative for carpenters local 405. I would like to point out, construction workers we don't have guaranteed job. We basically work at the job that's happening at the moment. We may not even work the whole job. We're there -- we're really kind of glorified day workers, organized. What that does do is give us benefits on top of our wages. You take away that prevailing wage you guarantee those guys will be working for below average wages without benefits. That means those people are forced back onto your system, city and county services for family benefits. These are all covered under prevailing wage. Family benefits, medical benefits so you're going to find that it's false economy as this stuff gets shoved back into the city and county systems you're going to find your costs rising elsewhere. Not at the airport but elsewhere within your system. So does that really save the city money? And before, it was the ethical thing to do a few years ago, that hasn't changed. The ethic hasn't change.

>> Mayor Reed: Sorry your time is up. Darani Icqval and then Farhan.

>> Good evening, gentlemen. Mr. Mayor, city councilmembers. And Bill Sherry. I'm surprised, Mr. Mayor, I'm going to remind you of one thing, providing having medallion you said at that time we had enough time to suffer to make this monopoly away. I'm surprised, the man sitting in front of me accepting this memo. I appreciate it. Just eye to eye. Please, consider what you're asking and ask you and ready. And if you want to cut the budget, I want to ask these people to take their money out also. We as drivers pay a lot of money to recollect cities, pay \$3 almost \$3 each time to give it to the airport. Where the money is going? We paying \$253 a month also. Where that money is going? We're not the only one working over there. The airport taxpayers people also paying tax too. Where that money is going?

>> Mayor Reed: Your money is up.

>> Appreciate it.

>> Mayor Reed: Farhan is our last speaker.

>> Thank you, mayor. The Bill Sherry proposal is number 7, please reject it. And if you say the CPE is higher, the performance of the city is we are paying our portion of the CPE and the system is work very well. Please we always know Bill shear is against the poor people, please reject it, thank you.

>> Mayor Reed: Thank you. That concludes the public testimony. I think we're about done but I wanted to talk about the next steps. We know what the schedule is for this year's budget process because it is what it is. How long do you think tell take you to begin to put together a plan with some recommendations, and when could you come to Rules Committee to sort of lay out the schedule for getting it to the council? You can't do it this week obviously, but next week would you be ready to start talking about a plan next week or do you need longer than that and can you do all this work with existing staff and resources or do we need to bring in consultants?

>> Bill Sherry: Mr. Mayor, I'd say yes, I think we can do it with existing staff but let me have the time to go through, figure out digest what we've learned today and come back to Rules with a work program. And I would ask two weeks is probably not enough time. Give me three to four weeks to put that plan together. The items that will be addressed in the plan and if we need to supplement staffing we'll make the recommendation at that time.

>> Mayor Reed: Okay. I think that concludes our study session. City Manager gets the last word.

>> City Manager Figone: Not quite the last but I would add to that Bill, correct me if I'm wrong that some proposals may find their way into the budget process and that might be parallel with the work plan that we would bring forward. I would just want to make sure mayor that the council's aware of that.

>> Bill Sherry: That's correct.

>> Mayor Reed: All right, I think we're going to quit. We're done, we're adjourned. Thank you. You can come back at 1:30 tomorrow, we'll do it all over again.