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>>> On item D3 we noted to be distributed separately so we need a sunshine waiver if that's going to be heard today and I learned earlier today that item D1, all the pour point presentations were posted in the content of the reports were posted the actual cover letter did not get posted so we'll work on getting that posted to the internet today.

>> Okay, thank you. So if I could just get a motion now for the deferral. Any opposed? Wonderful. Our first item is the consent calendar, the redevelopment agency monthly financial statements, capital costs and cash flow projections.

>> Motion.

>> Second.

>> All in favor?

>> Aye.

>> Any opposed? Thank you. We will move to item D1, which is the fiscal year 2010-11 second quarter finance reports.

>> Good afternoon, Mr. Chair, members of the committee. I'm Scott Johnson, director of finance and here to present this report with me is Arne Andrews, division manager for our treasury division, in the finance department and Udiah, is flipping our slides here. First I just want to mention pursuant to the City Council's investment policy, we're required to provide an oral report to you twice a year, so this is our report for the second quarter of fiscal year 2010-11. I do also want to mention, unfortunately-- well, first, let me back up. We have a new chief investment officer that was appointed, you may recall our former chief investment officer left the city, and unfortunately, Maria Oberg, our new chief investment officer, is out ill today so I'm not able to actually introduce her in person but she worked for the city previously, worked in the finance department and we convinced her to

come back to us as our chief investment officer, so she started her career with the city of San Jose in 2001, and as a financial analyst, and she worked at our debt management program, then she eventually started working in our investment program. Previous to her reemployment with the city, she was the treasury debt financing officer through the Santa Clara water district. She is responsible for the day-to-day management-- she was responsible for the water district's \$500 million investment portfolio along with their \$387 million debt program. So on this next slide I just want to remind the committee of the investment objectives in reporting pursuant to our investment policy, so primarily we are managing these investments to meet the city's objectives, first and foremost, safety, liquidity and lastly yield. Our quarterly reports are online and they're also placed on the committee agenda and in addition as I mentioned we provide a semiannual presentation pursuant to our investment policy and I do also e-mail the reports to the council, to the city manager, to the city auditor and the city attorney and they're also available with the city clerks office if anyone is interested in seeing a copy at city hall. I turn it over to Arne to give you a brief overview of the investment performance, and recent changes related to our investment strategy with that, Arne Andrews.

>> Thanks, chair and committee members. If we go to the next slide, here's a summary of portfolio statistics for the quarter, the size of the portfolio is roughly \$1 billion, an increase of the last quarter from \$484 million, primarily due to the receipt of property taxes in the last quarter. The earned interest was 0.737, in addition the weighted average days to maturity was 161 days, fiscal year-to-date net earnings of all funds was roughly \$5 million. There were no sale of securities, therefore no gains or losses, and in addition, there were no exceptions to the city's investment policy during the second quarter. The external audit is also attached to this quarterly report and the city's external auditor they completed the report for the June 30th, 2010, period, no exceptions were found. This is just basically a breakdown of the portfolio as it stands in terms of the competition and the assets of the portfolio. Government agencies still comprise the largest segment of the portfolio. Some of the discussion we'll have later will address that, this might start to shift a little going forward. This is a standard table in the report and shows the cash balances by select funds. Here you can see that the general fund and the redevelopment agency, you start to see an increase in their cash balances and once again that's primarily attributable to the receipt of property taxes in the last quarter. The general fund cash balances and fund earnings for the quarter, the general fund balanced increased, as I mentioned, \$123 million from the last quarter to \$162 million, once again primarily due to

the receipt of property taxes. In addition we took the last piece of the T.R.A.N. issue \$35 million in that quarter, and the entire T.R.A.N. issuance has since been paid back. The general fund interest earnings roughly \$5 million on the previous slide is below budget and the below budget is a continuation of a low market interest rate, a structural reduction in the general cash balances and reduction in revenues as the economic environment and partial result of the retirement prefunding. Projection in investment maturities revenue report we have sufficient expenses and we do for the to cover the next six months. Then I wanted to turn the discussion away from the portfolio whereas to why the portfolio actually creates the types of yield that it does create. I want to have a brief discussion on the current economic environment as the next slide illustrates the federal reserve policy held rates for an extended period of time and sometimes we lose track in our busy schedules, now 26 months. We've actually been in this economic cycle for almost two and a half years at this point, and you can see that the fed policy is still maintaining that historically low threshold of the federal funds rate from zero to 0.25 basis points. What this means for us in terms of our investable universe is it means from December 31st, 2007 to December 31st, 2010 you can see a rather substantial parallel shift down in the entire yield curve and the yield curve here is represented three months to five years because our investable horizon isn't allowed to go beyond five years. So what that interest rate means in conjunction with some of the policy guidelines we have, the state of California has a five-year maximum maturity threshold for the portfolio. In addition the city investment policy has a two and a half year average maturity, so the duration of the low interest rates in conjunction why our policy requirements mean that the portfolio will continue to yield low interest rates for the foreseeable future. In addition to the external environment of the interest rates that we do not have control over, there's been some internal impacts that have also attributed to this. Currently the average day to maturity has decreased and average days to maturity means where we are in terms of the yield curve and the closer in we are on the yield curve, the lowest interest rates generally we'll earn further out the higher, that decline in average days to maturity is primarily the result of liquidity constraints, reduced fund balances and a structural change as a result of retirement prefunding. The retirement prefunding side, I would note that prefunding still provides substantial budgetary savings to the city so even though it does create a little bit of a structural change it's offset by the budgetary savings. Even with the environment that I just described, if you notice our comparison to our benchmarks which is the life has a short days to maturity, other benchmark is a two-year agency. Comparatively speaking we're still within the realm of our benchmarks. There's a little bit of an increase in the yield curve lately and that is reflected, you'll notice the

two-year agency is starting to perk up a little which is a good indicator for us going forward. So I've discussed a difficult environment that we've been in and now I'd like to discuss what we're doing to try and make sure that we still get the best yield for the portfolio maintaining safety and liquidity. Staff in the past indicated our investing horizon will be maintained to the 12 day and month period because of still feeling liquidity needs. With liquidity needs met we are started to match maturities to expenditures in the 18 to 36 month maturity range, that will present better yield opportunities for us and we'll start to see a corresponding rise in the average days to maturity. Based on the modified investment strategy, \$130 million of portfolio procedures was identified to be placed in that 18 to 36-month range. The current yields that we were able to get because of extending out was on average about 1.11% for that \$130 million. Going forward, we're going to continue to match maturities to known expenditures and we think we're going to be able to continue to extend to that 24 to 36-month range. All of this, once again, we always reiterate this, but it's something that we hold true so we're going to continue to maintain the focus on our core mandate of safety and liquidity and yield. I mentioned that the further out in time you go, you start to get a benefit from a normally sloped yield curve and as you can see, as you start to move out in time we are going to be able to get better yields for our investments and I think I mentioned earlier the \$130 million, you can see it represented here was able to get on average a yield of 1.11%, which should help to lift yields or at least maintain yields above our benchmarks. A few other areas of interest, just in terms of the treasury division, substantial revisions that you folks all approved recently to the investment policy, were completed in September. Those revisions will be able to help us to continue to diversify when appropriate and provide better yield enhancement to the portfolio when appropriate. The investment adviser that we've been working with, one of the areas we're going to focus on in the next quarter is credit analysis of medium term corporate notes, that's an area where, now that it appears as if the economy is starting to settle, spread the corporate notes to agencies and treasuries, are still beneficial and yet they're starting to be stability and so with the analysis our investor adviser will help us with we'll probably start make recommendations to decrease the agency sector a little. We are working towards a broker/dealer request for proposals that we hope to have out soon. It's just prudent to occasionally put out a request for proposal to evaluate the current broker dealers we have and see if we want to alter that mix. With that said, our recommendation would be to accept the investment report for the quarter ended December 31st, and Scott and I are also available for any questions if you have any.

>> Thank you, Arne. Any questions from the committee?

>> Thank you for the report and the good work of the finance department. On the \$130 million placed in the 18 to 36-month investment time range, is that all fixed on the return or should interest rates be risen and rates rise next year? Will some of that have the benefit?

>> All of it is fixed rate. There are products out there known as floating rate notes and things to that effect. We have stayed in the fixed rate motor. We do do some callable securities which is a little bit of a nuance on that. It does provide a little bit of a yield enhancement, but spreads have condensed so much there's not that much of a benefit to a callable anymore. They are all fixed.

>> The \$130 million, 100% of it is fixed?

>> Correct.

>> Okay, thank you.

>> Any other questions from the committee? We have a motion and a second. All in favor?

>> Aye.

>> Any opposed? None, okay.

>> Thank you.

>> I assume, are we havingá-- we're not having separate presentations on A and C, right?

>> No. Scott, are you doing thisá--

>> Are you doing separate presentations on this? No, we're available for any questions you may have on the other reports.

>> So just on item A and C, did we have any questions related to the debt report or the revenue, collection? We have one person from the public that would like to speak on one but any questions from the committee? Mr. Wahl?

>> In reference to the second quarter collection report, first of all, I stand in awe and appreciation for the efforts of our finance department in all matters connecting with money for our city. But with reference to this report, it would be more of a utility if the collection were to be broken down by who owes the money by sector, and referenced by fund. Also, I am of the opinion that perhaps the collection side of the ledger from finance should be transferred over to the attorneys, and our litigators be made to go after these people with extreme vigilance, and a bonus structure set up for the monies that they are able to capture within a certain specific period of time, this bonus structure to be determined by the association of legal professionals, should be a cash bonus, in addition to their salary, tax-free bonus. I also would like to include a bonus for the finance folks on their investment prowess and whatnot. That has not been discussed and I believe an exceptional performance should be rewarded and not with a thank you or a pat on the back but also for our finance experts, if they return more money than was forecast, we should say thank you with a cash bonus, tax-free, to them as well. After all, we're not communists. Thank you.

>> Thank you. With that, I'd like to get a combined motion on A and C.

>> So moved.

>> Second.

>> All in favor?

>> Aye.

>> Any opposed? Thank you both. We'll move on now to item D2, which is a status report on the alternative delivery evaluation for Workmens' Compensation Administration and Employee Health Services.

>> Chairpersons, Councilmembers I'm pleased to join you today presenting the results of two alternative service delivery evaluations. The first being Workers' Comp. Administration and the second being the employee health services program. If you don't mind I'll take them one at a time and stop at the conclusion of the first one in case there are questions and then proceed to the second one. The important thing to recognize only the Workers' Comp. Alternative service delivery evaluation is that it's not an evaluation of the entire program. The entire program is over \$30 million. This was the analysis of administering the program, which is about a \$3 million program. As a result of this evaluation process where we received eight responses to a request for information, it was determined that the cost for the city to provide the administration costs was actually lower by at least a couple million dollars, compared to the other firms. Now, one of the things we do have to consider is that these firms were given an assumption of about 3,500 cases to handle, and so everybody would have a level playing field to look at what they would charge to actually administer the claims. What they did do was to use what it are considered industry standards of caseload per adjuster, which is roughly 125 to 180, and then calculate the number of employees they would then need to process about 3,500 claims and then would come up with a cost. The city's costs are different. It is a fixed budget of about \$3 million, with so many adjusters, with so many dollars for personnel costs and so many dollars for non-personal expenditures. The caseload, and I know you've heard this before, is much, much higher in the industry standards, it's about 285 cases, and so when you look at the number of staff, it's substantially less. That's actually one of the driving forces for the costs being lower than it is. So in summary, with just that part of the analysis, the cost issue is basically has concluded with the understanding that the cost for the city to provide these services is lower. Now that's not the end of it as far as we're concerned, because the Workers' Comp. Program really needs to be considered in its totality. It's like we spend \$32 million, so we spend \$3 million on administrative costs, but whatá-- if we were actually to look at the entire costs of the program itself, are there ways in which the costs could be drawn down where we could be more efficient and I

think we're always interested in being more efficient with the way in which we administer programs. So in addition to concluding that our administrative costs are lower, it's like what else do we need to do? So there are some structural changes that really need to be worked on, if we're going to drive the costs on, and they're actually identified in our report, there are three of them. The first one is to reduce the disability leave supplemental pay for non-sworn employees. Three of the bargaining units already agreed to reduce that from nine months to six months, so we have a meet and cover challenge with the rest of the bargaining units. The second one is some structural changes to police and fire that would provide an offset. Right now you get 100% of your disability and 100% of your Workers' Comp. Retirement benefits. That's not true with our non-sworn. There is an offset, and in many jurisdictions, there is an offset, but our MOAs provide for full payment of both, so you can see that if we were to reduce that and have an offset, there would be some reduction in our costs. Thirdly, there is the notion of pursuing a 30-day medical, where the city would control the claims by controlling the physicians the claimants would use. That was, that's not a new issue. I remember when I was here starting many years ago, that was an issue that actually didn't go very far but the idea is that, where you assign a physician, one that we, everybody used to be competent and that will actually take care of the employee, not to say that they wouldn't, we would then control some of the medical costs to determine what the injury is, how quickly we can get people back to work. So those are three structural changes that really should be considered and I know that Alex has got that on his plate in terms of negotiating with a bargaining unit. Another idea was to develop a pilot program and consider this during the '11-'12 budget process that would do a third party, have a third party provide not just the claims administration but take care of the entire process, including the legal costs, and it could be a department, a division of one of the five departments that generate a significant amount of claims. So that is a pilot program that if we were to do this, would help perhaps answer a lot of questions that we would really need to pursue, which is looking at the entire Workers' Comp. Program, not just of the costs of administering the claims but the whole thing, how quickly can you close claims, whatever the claimed value is, how much does the city actually pay out so we can do a full evaluation of Workers' Comp. In its entirety. Finally. There are things to do to look at increased effectiveness of the Workers' Comp. Program. Both the city auditor as well as the study done by an outside consultant, ArmáTech recommended a cost allocation program, in other words that instead of budgeting the claims cost in a city-wide pot, they would actually be budgeted and appropriated to a department, and then the department would then be held accountable for its costs. Now short of that, what is being done is there is that

model, the money is still budgeted city wide, but it's Workers' Comp. Staff working with the five major departments to look at their claims activity on a quarterly basis, and then determine whether if we're meeting budget projections or not. One of the reasons why your quarterly report on workers' comp. Is being deferred until march is for that very reason where we start reporting out that kind of information in a much more graphic manner than in the past because I think the accountability is a very important piece of controlling the cost, that it is not the Workers' Comp. Staff's responsibility only to deal with the claims. It is the department's responsibility to try to control their costs. So those are the recommendations from the report that go beyond just looking at the administrative costs, that there are other things that we really need to consider in order to drive down a very large part of the city's budget over \$32 million for the current year. I'll be happy to take any questions and Ed Chicot is here also.

>> As you're aware this is an area near and dear to my heart, having been through the system one too many times. The concern I have is nowhere in the discussion has been the objective of treating workers' injuries. That kind of seems to get completely ignored by the whole process, and it seems like the treatment is just something that goes along with paying the bills and I think that's where we have one of our biggest problems in Workmen's Compensation in the city and if you look at how other agencies have addressed their Workmen's Compensation, like Denver metro rural fire department who has taken a stance it's about the treatment of the employees, and they treat their employees like professional sports teams treat their athletes and say the sooner we get this person seen, treated, repaired, rehabilitated and back to work is the best thing for the worker and it's the best thing for the agency, because the costs are kept low, and we seem to do, I guess we didn't pay the bills again-- and we seem to do the opposite, we drag cases out much long sore that people's recovery takes longer and one of the concerns, and I know I'm getting to the overall issue of workmen's comp. As a whole but one of the deficiencies is when we look at the budget we don't look at how much of an impact there is on the budget of a time off that the departments are absorbing on the time sheets, and there are many cases and I got several specific examples from employees who contacted me where over \$1,000 or \$2,000 treatment plan they're delayed two or three months and getting full salary, and maybe they're a \$140,000 a year employee. So we're paying \$20,000 to save \$2,000, and that takes not only the extra money that we're paying but it also takes them longer to get their treatment, which means it takes longer for rehabilitation, takes longer for them to get to, more

likely they'll get a disability retirement. So I think we have to change the way we're looking at it as far as looking for a solution, and we need to be really concentrating on what do we do to help employees recover from their injuries, and seek wellness, and get them fixed, and get them working, and that will drive down the costs, and I think looking at rural metro right outside of Denver, at their fire department you will see that they've dropped their costs for workmen's compensation between 70% and 80% by taking that approach. In regards to this specific report, I think we've basically set up this request for information in a way that there's no way that we could come up with anything that we do cheaper, because we're comparing apples and apricots or apples andá--

>> Usually it's oranges, right?

>> But it's further away than apples and oranges in my mind, not even in the same part of the refrigerator. If you were to look at this on a cost per case, every single one of the vendors would probably be cheaper if you gave them the same caseload. You can't compare ten vendors doing 50% of the caseload and how much that costs compared to one existing department that has double the caseload, because either we would have to set up the RFI so it's based on this is the caseload, bill as if you were doing this caseload or adjusting our costs to the appropriate caseload level.

>> If I'm not incorrect, I wasn't here when the RFI was developed, I was under the impression that we used 3,500 as a caseload for everybody. That was our caseload as well at the city so we used that as sort of the common base of the number of cases and so they were each to give us our costs for administering 3,500 caseload, cases, which is the same alleges the city's. Now what this only does the cost of processing the claims. It doesn't get at the issues that you've expressed around getting people back to work dealing with the injuries in an efficient manner, all of those things are, I think where the recommendation for looking at a pilot program in its entirety, not just looking at the first or a piece of the program, which is looking at its entirety is what I think this was the objective and maybe Ed can answer that better.

>> That's correct, absolutely. I think that you hit all the points. The only one area, element that I would add is on the safety program, so again, looking at opportunities in which the claims management can be incorporated with the safety program in order to avoid the accidents all together.

>> Well, I just don't think it would be appropriate for us to even accept a report that doesn't really give us any information, other than the fact that we overwork our employees by a factor of two, and then complain because it takes longer for them to get the work done, and we're not doing it efficiently. So I don't see any value really to this report unless we're to figure out how we compare apples and apples, and I'd like to hear from my colleagues, but for the only thing I got out of this report quite frankly is that we don'tá-- twice the caseload and costs us more because we can't keep up with the work. That's what I got out of it.

>> I think we have to go back to the RFI and what its intent was, and I think the intent was very generally about what does it cost to administer 3,500 cases.

>> I don'tá--

>> And that may not have been an adequate sort of parameter, if you will, for the RFI, but that was the RFI, as I understand it.

>> And it also did, as noted on recommendation number two, point out the structural issues that drive the costs and the, basically the system as it currently exists. So should the committee be inclined to accept the report, this would reinforce the importance of addressing those structural issues.

>> I'd like to hear from some of my colleagues.

>> Thank you, Mr. Chairman. I agree with council member constant to an extent but perhaps after the discussion we can give further direction in terms of how to approach this. I just had a question on Page 4 of the memo. Obviously there are a lot of factors that contributed to the increase in the costs as Councilmember Constant

indicated. One of the factors has to do with the increased number of claims, so if you're looking on Page 4 is talks about the average number of claims at the city versus the county and the county has three times the number of employees. I'm just curious, what are some of the factors that contributed to the higher increased number of claims?

>> My understanding is that we had discussions with the county, because it was held as a model for us to look at. Well, maybe Ed can answer.

>> Sure.

>> I have one sort of thought in mind, which is pretty fundamental, is that they have fewer claims, and they have, per number of employees, I think you have to calculate things such as safety and prevention as part of that.

>> And frankly, what we refer to as the culture and the culture of, one in which perhaps encourages the filing of the claims throughout a career as opposed to, and again not to suggest that the county has the answers, it was primarily to get a peer review on our conclusions, but again, recognizing the structural changes that are really necessary in order to address the cultural issue.

>> So Kay, when you mentioned safety as one of the components, I assume you're talking the fact that, you know, we have 1,300, approximately 1,300 police officers come here to the sheriff, the lower number of sheriffsá--

>> No, I'm actually talking about the culture safety and it's important on the emphasis we put on it. There was a time we had safety officers for all of our major departments. We've now squeezed that to the point where we've got one safety officer for most of the major departments and then police has a designated person and fire basically has a bat chief on rotation that serves his purpose but you know, we try, from our department, to work with everybody about prevention, and look at accidents and determine whether they were preventable or not but it's like there's not as much activity on that and in addition to safety there's also the wellness initiative that I know we all consider to be very important and it's like we don't have a lot of resources. We just sort of like burned the

edges of a really strong wellness program. All of those things have to come into play if we're going to reduce costs.

>> If I could just, one more commentary and example of the safety dimension as Kay pointed out, when accidents or incidents occur the classification of preventable or non-preventable and should there be a preventable accident how that's handled from disciplinary or accountability from a supervisor's standpoint and incorporating those kinds of follow-up actions into the cultural safety as opposed to one-off and leaving the issues as they stand.

>> Thank you.

>> Just following up on that, how can we compare ourselves to the county if we don't compare the type of workers in each class? Because they don't have a fire department, so they don't have that class at all. As Madison pointed out our police department is I think triple the size of the sheriff's department so if we don't compare percent of injuries or cases per capita or per employee within classifications, I don't think we can have an accurate preparation, because I think when you look at the county, they have many more people in lower risk jobs than we do in the city, so I think that would be a critical component for us to look at before we jump to the conclusion they have a better or lower rate of injuries than we do. Pierluigi, did you have your hand up?

>> Thanks, chair. I defer to you on Workers' Comp. Issues since you've been through the process and not all of us are experts on topics. If you feel there's a need to be done I am generally supportive. I'm not sure if the direction would be to have it come back to the committee or council discussion on it? I'll choose what you do. I do appreciate the work on the RFI showing the cost differential between our cost and external provider and that's beneficial to see. This may be not conclusive but might be in your experience, is there a portion or percentage of these Workers' Comp. Issues that are really due to someone not being in as good physical condition? So for example, when you graduate from the firefighter academy or the police academy there's never a requirement after you graduate of any physical test at all?

>> I think you answered your own question.

>> What's that.

>> I think you've answered your own question here, because I think there hasá-- the people who have worked very closely with public safety recognizeá-- I'm sorry Alex isn't here. They're in an uphill battle with Ron Fitness and what conditions you can impose on making sure that people are physically fit that their cholesterol level is appropriate level and blood pressure and all that stuff. It's all part and parcel of the whole employee and so we take one piece of it only and not the whole thing, we're just not there yet. I mean the whole issueá-- and it's not just our public safety employees who cause a lot of our claims, because of threeá-- five departments are, hopefully I don't forget anybody, there's police, fire, publicá-- is it public works? Parks and rec. And general services and what's the fifth one?

>> Transportation.

>> D.O.T., and so it is true that police and fire are the bulk of it but these other three departments are also a contributing factor as well, so what we have been doing for a number of years is really working with them to see if we can get them to embrace and really dedicate effort towards wellness and prevention. Because it can't all just be, you know, claims. It requires some commitment on the part of the departments to actually engage employees and really changing the way in which they eat and live and everything else.

>> So on the top five you describe the jobs of a physical nature?

>> That's right. They are the field people.

>> Not desk jobs.

>> They are the field people.

>> Ed maybe you can answer this because there's no one from employee relations here but does the city have the ability to require a certain level of fitness for-- because I think in the end, if you're in good shape for a physical job you have less risk to yourself, let's say on the public safety side to be hurt but on the passive side to do the job injury free but my guess is-- my guess and you can confirm it, we do not have the right to tell someone every year you should be able to do five push-ups or run half a mile in 20 minutes?

>> Right. I believe we do not currently certainly have that within our prerogative. There are fitness facilities that are provided as an availability as well as time for the employees but I believe as far as we're currently able to take it.

>> That becomes a meet and confer item?

>> Certainly.

>> You want to propose any type of--

>> I believe so, yes.

>> Thank you.

>> Hansen, anything?

>> No, thank you. I can understand your analogy on the apples and apricot, and also I see there's a lot of improvement opportunities on the second part of this report, so I'd like to understand why you want to defer to improve on the report?

>> I didn't necessarily say defer but I think that the information that we received as a result of the RFI really doesn't tell us anything other than we're understaffed, which we know. So I just think that if that's all we do, and I

know there's the other recommendations, but just saying that we can provide the claims cheaper, more cost-effectively, I think simply is inaccurate. It's not true, because we can do it only because we double the caseload, and if we had asked the people who are responding to match our caseload and say how they could provide those services, we would have a better comparison, but simply saying-- it's like with our parks maintenance, if we're to say we can maintain our parks better because we know them once every other month versus a contractor that's going to mow them every two weeks that doesn't tell us much other than we can do an inferior job cheaper.

>> I understand that part but not to approve the report, what did we accomplish? If we approve the report, what did we not accomplish?

>> Well, I think we could give direction to look in other directions or to work with these vendors to see how the cost would be compared, so they could be compared side by side. I think that we could give direction to have, when the relationship of injuries from the county compared to us and other municipalities around us by classification and type of work, not just overall gross employment numbers, you know, there's things like that, that we could do. I don't know if you have any other questions.

>> I guess my question is, can we accept the report and give them the directions to continue doing that?

>> I think that would be helpful if the committee would accept the report and then we have recommendations for these actions. Alex is here and can answer the labor questions. The recommendations that we have in the report and any others that you may have that the chairperson has already recommended and we could report back to you on a regular basis because we do have quarterly reports back to you on the progress of Workers' Comp. And I would suggest we use that vehicle to report back on the specific areas that you want us to investigate further.

>> Chair, that would be my motion if I can get a second to accept the report with your recommendations.

>> Second.

>> Okay, I did have a question on the 30-day treatment. We used to have that, because I remember filling the form out. Why did we get away from that?

>> You know, I remember that. That was one of the recommendations and I thought we didn't actually pursue that. Dave Wong is here. He can probably answer that question, because I recall that.

>> I know we did at least in the time frame of '96ish because I remember specifically filling it out.

>> We actually didn't have a 30-day medical control. I've been here since 1991, and we did ask for employees to fill out a predesignation form to have it on record. At that time, I think you were here, Kay.

>> Yes, I was if.

>> We were looking into the possibility of doing that with employee relations and the way that it turned out is that we decided it was not going to be a feasible way to go at that time, so we never had really implemented the 30-day control.

>> Okay, so we had the employees fill out the forms. We just didn't do anything with them?

>> We anticipated that we would put this program together, and if they had a form in place, they would not be to follow the 30-day control because they would bypass that and that was the reason for that. At this point, and for the last several years, more than several years we don't require employees to fill out that form. You're right, that was the case in 1995.

>> Okay. Thank you and we do have one speaker, Yolanda Cruz.

>> Mr. Chair, do you want Alex Gurza to respond to the question about fitness?

>> Sure. Alex, did you hear the question, it was whether we can, what are the hurdles between us in actually requiring employees to have ongoing fitness tests?

>> Good afternoon, Alex Gurza, Director of Employee Relations. I heard my name, sorry I wasn't here, I ran downstairs. There are-- it depends really is the answer. On a wellness program you can accomplish the wellness program and don't necessarily need to meet and confer over it. It depends to the extent you're going to make things mandatory as an example or if there are consequences that could be. I know that the city auditor had a report made recommendations about a wellness program. I know that the fire department is looking at a wellness program. There are some models in the international association of firefighters that have on wellness and again whether if we can confer on the type of wellness program and so we can, we're going to be looking at that and we can provide updates as we look at that, for that department, and others as well.

>> Great, and I can tell you, there are at least two agencies that I know of that require fitness training for continued employment. So, yes. So Yolanda, this is the item you want to speak on, right?

>> Yes. Okay, so I'm actually Lear to speak on behalf of workman's comp. Claim adjuster not able to come here. I'm going to read what she would have said. I would like to say i find it a duplicitous approach to say in one breath that we have repeatedly been placed for our performance in the California state division of workers' compensation audits especially given the fact our caseloads are just about double industry standards and best practices yet in the next breath this memo suggests due to these exact same caseloads, exact same standards and best practices, some caseloads we are unable to perform at efficient capacity when we have repeatedly proven to the contrary. In effect, we are being blamed for doing more and more accurately again according to the state audits. With the higher caseload than any of the outside vendors being considered for this pilot program yet it is still being proposed some claims be outsourced. Not only is this highly insulting to all of us doing this work but it does not make any fiscal sense, given our track record. In conclusion, I would like to say that before you agree to recommending opening the door to any amount of outsourcing of workers' compensation department, you consider that it is an unnecessary step as shown in the RFI. There is not one adjuster who does not now nor is not capable of handling any type of claims. We do it every day. Besides being a city of San Jose employee, we

are also city of San Jose taxpayers, and are as vested in the welfare of this city as anyone else. There are some things that simply cannot be measured, such as the relationships and rapport we develop with injured workers, making them feel valuable, which is something you will never get from an outside vendor, and something that the city of San Jose is certainly not doing for me right now. Thank you. Susan Covich.

>> Thank you, next we have Charles Allen, then Rochelle Atgude, is how you pronounce Your last name?

>> I'm Charles Allen and speaking on behalf of Brenda Harrington and I'm going to read her name. My name is Brenda Harrington, I'm a Workers' Compensation claims adjuster, too, for the City of San Jose. I've worked for the city for almost four years in this capacity. I lo of my job, most days, and I have serious concerns regarding this proposed spending of precious city resources on a pilot program using an out of site third party WC vendor. I think it would be a better use of current resources to gather a committee of adjusters and safety and HR personnel and a few other non-HR and non-WC members from other city departments to look at what they see as wasteful in the way WC is administered here. I bet many great suggestions might come from such a committee. I feel there are ways the city of San Jose Workers' Comp. has to do business that to an outsider are excessive and wasteful. I realize many are part of union contracts and not easily removed like one, the city having a salary continuation policy. It is very possible that many of the injured workers don't have much of an incentive to return to work when the city pays an additional 18% above what the state pays. Two, they have up to 350 and 60 hours of disability time they can use which equates to about nine months of time off work. This could be cut in half or more and when they have to integrate into their own time on the books they might think harder about the cost of being off Bork. They might be a negotiating factor trying to do some sort of two-tiered disability system for those injured employees more seriously injured and have to have surgeries which may need more time to recover. The city Workers' Comp. Being done in-house and the atmosphere of employees taking care of fellow comps is a huge advantage. I came from several years at State fund and much of the adjuster culture was negative in regards to the clientele we had to deal with. You had a feel of they were being dishonest and trying to cheat the system.

>> Thank you your time is up.

>> I'll leave the statement.

>> Please just hand it to the clerk. Rachel and then Quinn Din.

>> Good afternoon. I am here to speak on behalf of my co-employees at the Workers' Compensation Department who I believe deserve more than a pat on their back for a job well done through all these years. That's why it is beyond our comprehension it is being recommended that to contract out with a third party Administrator. The rationale given for this move is that a cost savings for contracting out claims administration, are difficult to quantify with the information available at this time. The RFI on the other hand is very clear. The city's cost to administer the program is definitely lower than the RFI respondents. For someone who has a clearer understanding of how the system works, this is a real test to quantify the cost savings. Even if you contract out they will have to follow the same law and implement the same rules and policies in terms of disability and medical benefits. The unit already lost two people and two people are scheduled to be laid off in June and there will likely be further reductions. However, despite all this, the unit has continued to provide an excellent customer service. This is another aspect which the TPA may not be able to provide. This is the aspect which is difficult to quantify, because as it is, the unit is composed of employees who have deep concerns and great care to the city and to its co-employees. Just like you, we also have the responsibility to help the city overcome its biggest challenge, hence do we urge you to seriously look at the recommendations in the joint memorandum, and ask yourselves, will this really benefit the city in the long run or will this further contribute to our current structural deficit? Thank you.

>> Thank you. Quinn Din? And correct me if I pronounced your name wrong.

>> I'm Cheri Chen speaking on behalf of Quinn Din, my co-workers in the unit. She raised additional information regarding the joint memorandum that was presented to you. First in the memo it was mentioned the workers' compensation unit had eliminated two positions last year and will be cutting two more adjusters by June of this year. That's reducing the personnel cost by \$310,000. At the present time, each adjuster already handles on the

average 285 planes almost double the industry standard for best practices. By eliminating this position it drives up the numbers of claims handled by each adjuster. It is humanly impossible for each adjuster to efficiently adjust more than 300 claims. This might result in errors and penalties that would cost more than the \$310,000 savings. One of the recommendations made in the memo is also to contract a portion of the city's overall Workers' Comp. Claims to a third party Administrator on a pilot basis. Initial estimates of cost is \$1,000 per claim, referred to paragraph 3, page 7. On the average the city has 17 claims per 100 employees. It would cost the city \$70,000 to file 17 claims for 100 employees. In light of the current budget deficit, can the city afford to pilot a program that we already know is being handled effectively by the in-house program as proven by the result of the RFI? Wouldn't the city rather spend money saving the city employee's job than spending it on a pilot program with a known outcome? I urge you to do the math carefully and as you consider the recommendations made in the memo and thank you for your time.

>> Thank you. So question I have on recommendation three, and I know you guys all know that I'm a fan of contracting out, but if we're showing that it costs more to contract out, but then we're saying we're going to try contracting out, is the goal to see if having a lower caseload makes it more efficient and cheaper to handle claims or what is actually the goal then?

>> I think the goal, and I think Ed will add to that, my view of it is that the RFI only looked at one portion of the workers' comp. Program. It looked at processing the claims. If you're going to look at the entirety of the Workers' Comp. Program by taking a piece of it, like a department to carry all the way from beginning to the end, how much time does it take to close the case, how much were the claims worth in terms of what was filed and what was actually settled at or given, that's the way you need to evaluate, looking at everything from the beginning to the end, not just that one piece because we know the answer to that one piece already through the RFI that was already computed.

>> Exactly in terms of a metric driving down the number of claims as opposed to again the claims per adjuster.

>> Well I think if you're going to do that there's a couple things you have to account for in that, and number one is starting to track and calculate the amount of time off that, were the expenses borne by the department instead of workmen's comp. The incent of moving people to their treatments and getting them back to Bork and emphasizing the treatment of the worker versus the handling of the claim which I think is our biggest problem right now, and I think that has to be an integral part of that because if you're not going to do that and you're not going to capture the times it costs more to have people off waiting for treatment than it does to provide the treatment, I don't think we're getting anywhere. Any other comments from the committee? So we have a motion to accept the recommendations with the additions that I had requested, which was comparing the injuries per capita of employees based on the type of jobs or the risk of jobs to include the calculation of the costs borne by departments for time off and at looking specifically at programs like the one that I mentioned in Denver rural metro fire and how they approached the treatment of employees versus the management of claims.

>> I just want to note this item requires a cross-reference.

>> So it would be cross-reference to the City Council. All in favor?

>> Aye.

>> Any opposed? Thank you. Motion carries. So with that, we are going to move.

>> We have the other one with the employee health services.

>> Oh, employee health services, I almost forgot about that one.

>> It's a much shorter report. The purpose of this RFI was to compare the delivery cost for the services that are currently provided by our employee health services unit of the HR department, which housed in the old annex of the city hall, the old city hall. I remember we had another name for it.

>> The health building.

>> The health building in the attorney's office was there, and the services that are provided by Dr. Dawson and his staff include police and fire, physical exams, random drug testing, wellness screening and so forth. There were two responses to the RFI, the first was from Kaiser and the second was from U.S. health works. The comparative costs for the services delivered and I'll get to the differentiation between, you know, our costs and then their costs, the city's fixed budget cost is about \$750,000 a year. The costs that we received from Kaiser were like \$933,000, and from U.S. health works \$1.1 million. So it could be basically concluded that our costs are lower. There's some caveats here, however, because we do not have a medical record system that really tracks the number of transactions. We still have the old-fashioned, if you will, folders so if you go into the offices of the physician and his staff, you still have the file folders, and every time you go in, you pull the folder out and you add whatever the new procedure was or the test. So it's really hard to count, whereas the two providers that did respond, they do it based on transaction so we, for example, if you go in for a TB test for example, it was the one that was done in the report, and we will show, we will not know how many times you came in, if there's a follow-up, we'd have to go pull the file. Their records, on the other hand, will show how many times you came in related to that particular procedure. So I think that what we can say comfortably right now is that the cost to deliver the services of the physicals and the wellness screenings and the random drug testing are being done at about three quarters of a million dollars and if we were to contract out for similar services it would cost significantly more, between \$933,000 and a little over \$1 million. I think in order for us to really manage this well and really know exactly what the real facts are, eventually we need to get a records management system for our medical services. I know that this has been a request from the time I can remember, a \$60,000 expense and about an \$8,000 annual maintenance cost and I think until we actually get that under our belt, we don't have a really, really clear picture about the actual comparative cost, and then throwing that into it is also another underlying concern, which we have heard already discussed today, which is the need for not only investment in a medical records system but in a real genuine investment in follow-up fitness programs to reduce the usages and some of the incidents that the doctor and his staff have to deal with on a consistent basis. So the recommendation is just to receive this report.

>> Is there any opportunity for us in the future to bundle this with our health care bids? Because we have our health care providers that provide our medical benefits that already do wellness screenings, that already do physicals, and is there not a way, because every one of us who have city health insurance, you get a physical as part of your plan that you can go to on an interval, is there a reason that, is there a way that we can just bundle that in and say, we need a physical of one of our employees, we can send them to the health insurance we're already paying for, they're entitled to that.

>> I think we can look at that. What we get from but shield and Kaiser combined each year \$500,000 dedicated to wellness and we have structured our wellness program around that, so if you're talking about using your private physician, if you will, either through Kaiser or through Blue Shield, to do your medical exams, either your pre-employment physical or whatever the follow-up type, is that the question? Can you offset those costs?

>> I think that's--

>>-- with the private insurance?

>> I think that's one way. The other way would be next time we go out for an RFP for health care, we say as an organization, we average "X" number of physicals and "X" number of this and "X" number of that per year. We do an RFP with an add-on. This is the RFP for health care and to provide these additional services, this is what it would cost, and maybe all three bid on that, or four, or maybe just one does it and says, as part of we wanting to become the health care provider for the city of San Jose employees and a choice, we are going to do these physicals at this rate or whatever. Because it's their business.

>> I don't think we've considered this in the past, but it's worthy of consideration.

>> Any questions from the committee? I don't think I have any cards from the general public. Did anyone want to speak on this item? With that I'll take a motion.

>> Move to approve.

>> Second.

>> Okay we have a motion and a second. All in favor?

>> Aye.

>> Any opposed? The motion carries. Does this need to be cross-referenced in.

>> I suggest we cross-reference it since the other service delivery item.

>> I believe that was part of the motion, was that correct?

>> Yes.

>> Just to clarify. I thought I heard that. All right, so we'll be moving on to our next item which is number D3, the Team San Jose quarterly performance and incentive measure report for fiscal year '10-'11.

>> Thank you, chair. In December of last year the city auditor released her 2009-2010 annual performance audit of Team San Jose. One of the reasons was that team San Jose present quarterly performance reports to the committee. Here today is Team San Jose's chief operations officer, Dave Costain and Chief Financial Officer Janette Divoll. This report is our first attempt to meet that objective, we'll be doing this on a quarterly basis. The first go-through in addition to questions related to performance or aberrations we'd like the feedback on the format of the report and moving forward what you guys would like to see. With that I turn it over to team San Jose.

>> Welcome, Dave. Got to pull it close because they're not too sensitive.

>> Thank you, Mr. Chairman, members of the council and members of the committee. First of all thank you for allowing us the opportunity to report on our performance measures year-to-date. This is a report in response to the representations to increase reports to the City Council on a quarterly basis. We've divided this report into four sections first is the economic drivers, the operating drivers, the customer service and theater performance report and then the new bookings and calendar of events. So I'll turn it over first to our CFO Janette to talk about the operating drivers.

>> First talking about operating revenue, our first report covers six months from July to December. We are operating close to our budget, coming slightly below by \$16,000, partly due to the fact that our holiday parties in December were lower than anticipated. We're seeing that the market hasn't picked up for us yet. However the good news is that the corporate market is starting to rebound, starting to see a lot of success there. Our building revenue was 116% higher than our budget so that's really good news. Moving on to our expenses, on our knob-personal appropriation expenses were lower by budget by 452,000 through December. That can primarily be contributed to us moving to the variable model of labor which is basically scheduling based on demand. So when we're busy, we have more labor and when we're not, you know, we reduce our labor accordingly and that contributed to the 452,000 by 269,000. Another area is our food and beverage cost. We've been able to bring that margin down and have been able to reduce that expense by almost 89,000. Also basically in every area we have a higher level of approval processes for all of our expenses so as I mentioned, it has been very successful for us in bringing that particular line item, below budget by 452,000. One area that we are every budget we're looking closely with the budget office and city oversight office is the personnel expense and that is the shared city employee wages. We are, through December, over budget by 73,500, and that is related to the fact that in our budget process, we didn't account for the vacation pay-outs in our reduction in force which was about 139,000. So as you can see even though we paid out 139,000 we've been able to minimize that to some extent and bring the variance down to 73,000. Another area is the workers' comp. Related to the city employees. Right now we're over budget by 46,100. As we mentioned that's something that we're working closely with city oversight to determine whether we need to do a formal mid year or year-end budget adjustment related to those two items. Going on to gross operating profit or loss, just you know for those that are not similar with Team San Jose I kind of have a little bit of explanation. Team San Jose being a not-for-profit organization that manages the convention

center, with the mission to spur economic development, team San Jose operates as an operating loss, so in our budget, we're granted an operating loss budget, which through December was a little bit over \$2.3 million. However, with the cost reductions and the fact that we are very close on budget as far as a revenue, our operating loss actually was slightly over 2 million, so we had a favorable variance of a little over 300,000 to that gross operating loss, and basically what that means is that we impacted the fund less by 300,000 than expected. Going on to transient occupancy or transit occupancy tax and how that affects the fund, since Team San Jose operations is funded by the hotel tax as well as our operating revenue that's generated by Team San Jose, team San Jose works very closely with 14 of the downtown hotels and we actually collect data so that we can keep a close eye and monitor the transient tax as well as the revenue for the 14 hotels. In 2007 and '08, the occupancy for those 14 hotels was about 61%, and which because of the fact that it was, you know, 2007-08 it was a higher market, we were able to grow the fund to over \$10,000. In 2009 occupancy declined to 51% and had a dramatic impact on the fund. The good news is, is that closing December 2012, our occupancy average for those 14 hotels was actually 58.5% so much closer to what we were returning in 2007 and '08 so we're seeing a very positive impact on the fund. What we do with that analysis is we take a measure on how much we've impacted the fund and that's what you see in this first box about the estimated fund balance, and based on our projections of the budget for the T.O.T., as well as the projections for operating budget we anticipated utilizing 136,000 of the reserves to conduct our business through December. However, with the improved T.O.T. collections, based on the improved occupancy, as well as the fact that we have our GOP loss with less than 300,000, we actually have improved the fund by 600,000 and overall, it came in better than our overall projection, our budget by 739,000.

>> Great. Questions on the operating side of it? Any questions from the committee? Start with vice chair and then Mr. Oliverio.

>> Thank you, that's passive news. Was it what you did right that helped, you know, accumulate a little bit more than what you have traditionally done in the past?

>>Le with, one of the things that we're really focused on is making sure that we're bringing in the right type of business that fills the hotel rooms, which they're, you know, increases the T.O.T. tax so that's one of the things

that's changing our focus to that, as well as making sure that we have policies and procedures in place to control our costs. One of the biggest, like I said, major factors is the scheduling on demand, so having that flexible schedule, you know, makes it much easier to control the cost.

>> Thank you.

>> Mr. Oliverio?

>> Thank you for the update. Welcome to Team San Jose. I understand you have a new CFO. I want to point out one of the larger negatives you had something totally out of your control the reduction force of the civil service employees you had, created this large payout for vacations, and it had nothing to do with Team San Jose but legacy civil service for the city of San Jose so thanks for the work.

>> Thank you.

>> Thank you. And you have more on your report?

>> Yes, then I'd like to go through the economic drivers, if you go to Page 3 of the report you can see there's four economic drivers that we look at attend ants, that's all of them and all facilities, estimated visitor spending, hotel room nights city-wide and return on investment. As you can see on balance they're all trending pretty favorable with the exception of attendance and I'll kind of talk about that in a minute. You can see advisor spending is up 9% Yee-to-date through December, hotel room nights 5.7% and return on investment up 7.5. December saw attendance at 97 of the goal and the shortfall was primarily due to the canceled film series, the Packard film series of California theater which was deferred and we had pretty soft holiday theater events. Even though attendance was slightly lower the economic impact finished slightly above projections on 102% of goal. As I mention attendance is down year-to-date and lagging behind about 77% or 93,000, and if you look at it on balance at Broadway San Jose, all of our theater partners really are having less events and pretty soft attendance, public dances have been way off I think the last three dances have been very soft. Obviously Genghis Kahn and the

conditioned construction at the civic and Montgomery impacted all of that. Good news there, January brought that up to about a 10% gap, and I think as the year goes on we'll see a little business more of an uptick in that but year-to-date it's been a challenge. Out-of-town attendees and visitors visiting San Jose trend at a higher rate, indicative of the short-term strengthening and conventions and meeting market and the number of out of town attendees to visitor spending, we're well above the goal about \$2.4 million or about 9% over 100% goal, and obviously out of town advisors spend at a significantly higher rate and impact the economy through hotel room nights, tax and tax revenue generation. Hotel room nights Team San Jose generated 44,000 definite rooms in the month for December, so we're at a total of 105,000 mid year, and that's trending about 5% or 6% ahead of pace, so I think the annual goal of 200,000 will be exceeded. And for the sales team, they've issued 239 leads representing almost 300,000 potential room nights. Another bright spot is customer service and theater performance, as you can see the customer satisfaction rate is still at 97%. 12% increase from the number of clients who said they will positively rebook. In fact 100% of clients answered the question positively, 100% to return, customer surveys then management staff tends to trend very high with 100% rating, and then the operations and the service rating was up by 12%, and positive results for food and beverage, and AV. I think another bright spot here is that our return in our response rate is up 20%, we're almost getting a 56% to 60% response rate. We've got new procedures in place we're trying to get the meeting planners before they leave the city, before they leave the building post-convention types of report we've been able to take that up from a 30% to 60% response and still holding at a 97% satisfaction, so we think that's very positive. Some testimonials there to kind of go through. I might just highlight a couple of them if you look down under the 2010 body building championships that's a long-term client, been here 31 years, and you can see they considered changing several times but always came back to San Jose so it's a very positive, and a new client, excuse me, the VTA B.A.R.T., pleasure to work with Terry Ledbetter and positive and privileged to work with good professionals so I think we are trending very positive there. A couple final comments on theater performance, as I mentioned, the downtown theaters are an important part of our operations, and you can see on occupied days we're runningá-- let me look back at my report hereá-- occupied days just slightly almost right at plan, 266 versus 269, and performance days 135 to 132, so slightly lower than projected, but I think are trending positive towards the year-end. Any questions?

>> Any questions from the committee? Mr. Oliverio?

>> On Page 4 you allude to your forecast and sales saying you have leads that represent potential room nights. Do you have some barometer of what you can convert a lead to a sale? Do you have a 10% turnout, success rate? What is it?

>> Well, we get about a 25%, so we'llá-- of the forecast out there on the books, with he take about 25% of that, because there's some loss and other things.

>> It's essentially then a truer forecast would be about 75,000 room nights?

>> These are already washed, these are already washed.

>> Got it, okay. And since you said Genghis Kahn, did you ever resolved what perceived conflicts there were with that vendor?

>> It has been all settled.

>> Okay, thank you. Anybody else on the committee? Any member of the public? I don't have any cards. Mr. Wahl, you threw me off. I'll take a motion.

>> Motion.

>> Second.

>> All in favor?

>> Aye.

>> Any opposed? Motion carries thank you very much.

>> Thank you very much.

>> Our next item is our city auditor and our monthly report of activities.

>> Sharon Erickson, City Auditor. As Team San Jose is leaving the room I want to thank them for the quick turnaround on the implementation of that recommendation and an excellent report. It seemed very thorough, elicited the right kind of questions and it's the right conversation to have when the city is investing that kind of money into a convention facility.

>> Thank you.

>> So thank you. My report is pretty brief. We issued two reports in the month of January, the service efforts and accomplishments report for 2009-'10. We did distribute almost 100 copies at the neighborhood association youth commission budget priority setting session, and we have been discussing the report in more depth with senior staff on an ongoing basis. The second report we issued was the parks and recreation bond projects fund audit and report in that case was clean as well, that the report found that the bond funds were in compliance with voter approved language. Just other activities during the month of January, I did want to point out that we continue to do a few presentations of the pension sustainability audit, just the basic facts for city staff, we provided that to the Department of Transportation senior managers this week and I'm open to providing more of those. The city staff has appreciated hearing the facts of how we got into this predicament directly from the city auditor, I think. In terms of assignments in process, we're working on audits. You can see them listed there, disability retirement, personnel costs, we're working on the second annual financial scan of CBOs, scare city's association should be out quickly, a quick review and supplemental military pay. And that's the status of our projects to date. I'm happy to answer any questions.

>> Any questions from Mr. Oliverio?

>> Thank you. On assignments and process, number one, disability retirements would your report entail something we talked about earlier about having some level of fitness or someone out of shape, does that lead to their higher probability of disability?

>> I was taking notes during your conversation, yes.

>> Thank you.

>> Mr. Wahl, now you're up.

>> Yes, sir.

>> Anyone else?

>> This will be in reference to the annual financial scan of CBOs. First of all, we all applaud the auditors and everything that they do, and only wish that the rest of the administration could even fractionally keep pace. One issue, the \$250,000 level should be significantly reduced. The auditor is going to be under incredible pressures from these CBOs for lobby, and so therefore, I would like it to, the mayor's program for disclosure is outstanding, but it needs to include all CBOs, all non-profits as registered lobbyists to present their plan to the auditor. Now, I am in deference with the mayor. I believe a fee should be charged for this analysis, because there's overlapping, first of all there's poor business plans from these entities to begin with, there's overlapping services, and above all, there's the culture of entitlement. The CBOs and what have you seem to think they are entitled to taxpayers' money, when in reality they are business entities that are just one step above a street beggar, and they need to have their required financial house in shape. Now, this fee, I want to be, in addition to, because I want to have a bonus program for the auditors as well. Not as far as going through the regular city operations and finding out how screwed up the administration does, but when they capture money, they should have a cash bonus because

we need to retain expertise. We do not need our auditors to start looking around for other agencies to work for, and this is fair. And this fee structure, too, for the CBOs and non-profits could also be part and parcel to this bonus structure and I want this to be thought of but also the reduction is 250,000, no. It has to be far lower than that. Thank you.

>> Thank you, sir. Any questions, Mr. Oliverio?

>> Just to comment on the speaker's comments to the city's auditor and mayor's latest proposal on I forget what the correct terminology is for non-profit executives to disclosure is at \$100,000 and there's probably a person amount of CBOs that receive between 50 and 100. Is that a higher level of workload or what that might be?

>> Adding any number of CBOs to our project would obviously add workload and a rough guess it would double, double the workload in that case.

>> But in the event the sampling you'll take will certainly have recommendations based on that sampling, which is substantial?

>> Right. We're looking at all CBOs, so we're looking at the financial statements, we're providing comparisons and data. The financial statements of all CBOs who receive 250,000 or more. If we were to expand that review to all CBOs receiving 100,000 or more, it would be a lot more work.

>> Okay, thank you for your comments.

>> Thank you very much for the continued good work. Do we have a motion?

>> Motion to approve.

>> Second.

>> All in favor?

>> Aye.

>> Any opposed? Thank you, Sharon. So we're our last item, annual report on asset management. Welcome.

>> Good afternoon.

>> Good afternoon. Matt Morell, General Director of Services. One, start with the accomplishments from the last year.

>> Can you pull the mike closer?

>> Yeah, sorry. I should know these things. We did, made some amendments to the municipal code and council policy over the last year, these amendments were intended to help us streamline the processes that were in place previously from property sale perspective to move those along a little bit better, so some of the things we did was made using the use of brokers a little bit easier and change the process for the sale of properties so that we can use the sale of property other than through an auction. Important things to help us get the best value for the properties as we look forward. We also per an audit recommendation developed and implemented some lease management procedures. We have the city has a large nun of leases with various groups that are mangled through many different departments, so we brought those departments together, talked through some procedures so that everybody was on the same page on what that looked like. And at the further cleanup item, we did an assessment of leases to get those in order and get the payments and information that we needed from an insurance perspective, up to date on those leases. So that was a significant workload for us over the past year, getting it cleaned up. We also undertook an assessment of city properties which was something we agreed to in the past. We have a list of properties that's well over 1,000áAPNs so we started going through those. We have a rotating five-year process that will be looking at those properties and we took the first 200 this year, did an

assessment of the properties and categorized them and that information is in the report. The idea there is to fully understand what we have in our property assets and so we've got a good jump on that. In the process we also identified about seven properties that need a little further research on sort of the reason behind owning them or if we should own them and are they good candidates for surplus. From the budget side of things, we had the forecast revenue last fiscal year of \$2 million in sales and \$1.2 million in leases. We were able to exceed those amounts just slightly in last fiscal year. This year our combined revenue target's about \$3 million. We're tracking well over that on leases, the telecom market has been really good to us and we're leasing a lot of property for telecom attendants so that's been a plus. On the property sales it hasn't been quite as profitable as we'd hoped, hopefully we're looking forward at some of these adjustments in the code and policies to facilitate growth there in the future. So we've got some changes coming forward, and with that I'll turn it over to Nancy to talk to those changes over the next year.

>> Good afternoon. Nancy Klein, economic development. As you know, real estate is moving to the office of economic development and with that what it we are planning to do is continue the good work that general service had done and apply a lens of economic development, so that as we're looking both from the manager's office and economic development, how to maximize the value in the big picture and in individual transactions for the city's real estate. As part of that, we'll be looking to refine the work again that has been begun with regard to asset classes and how the city can work more and more as having a portfolio approach to the city's real estate, so that will certainly be coming back to you as we think through a strategic approach to real estate, and partnering with agencies like VTA and B.A.R.T. or other private developers as we move forward. We will also be very much continuing the work that Matt and his team has begun in coordination about CBOs, and the auditor. Part of that work is being done and looked at with Jeff Ruster in the office of development on the strategic nonprofit platform so bringing those considerations together so that we're trying to, at a time when demands are high and resources are low, looking how to centralize the information to provide as much oversight as possible. Also looking for opportunities for technology to benefit real estate. We believe that there are applications, because we have in particular John Lang and others who are particular adept at technology within the office of economic development that can apply a lens of database and other software tools that either the city already has or would be low cost that will provide more oversight capability, so that we're more ready to hand and more knowledgeable about what

we have in our own database. With that, we will certainly be reporting back in on the work plan and then you're also aware of a list of very high profile city properties which we continue to move forward and look at to see how best to work with other entities and/or our own work to either occupy or sell.

>> Very good. Any questions from the committee? Mr. Oliverio?

>> I know we have the high profile Hayes mansion coming up and the topic came up Monday during our budget study session and I held myá-- bit my lip because of the thing I keep hearing about that senior assisted living won't be a viable option because of the retrofitting necessary and clearly as it is, is a public open facility it is ADA compliant, and so I'm really going to be suspect if we're not having a full, true dialogue because the ability to sell this with the intention of assisted living will allow us to pay off the mortgage and get rid of the \$5.9 million a year so I know, part of the assessment will look at hey, let's sell it as a convention or a hotel slash its current use, let's be honest it's in a terrible location. We need people to come to the city center and I can't continue to subsidize that facility so I'm really looking for, you know, staff to make a really best effort at a true senior assisted living. I'm hoping the report will contain us contacting senior assisted living corporations that would be the ones thatá-- because Mary and Bob aren't going to open their own senior assisted living in San Jose. It's usually some type of corporation that owns them. We had one open recently at meridian avenue. If you want to talk to it, you can you don't have to but I'm hoping that will come through on the final report.

>> A quick comment. Most of what you said will come forward as you asked on the ADA compliance because the mansion portion itself is historic, there are areas that aren't serviced by an elevator because of the various levels in there so they make it a little bit challenging from that perspective, some of the rooms in the mansion but overall, yes.

>> Thank you. Any other comments? There's one comment I'm glad to see the Hayes mansion and rancho del Pueblo are still on the list, I think we should pursue these, too. Motion?

>> Motion to approve.

>> Second.

>> All in favor?

>> Aye.

>> All opposed? Item approved. Open forum, Mr. Wahl?

>> This is in reference to an item that was on Tuesday's agenda, item 2.8, this environmental innovation center must be scrutinized. I have yet to see a business plan about how they're going to generate money from this. There's a lot of pie-in-the-sky stuff about this, but there's no operational details or costs for employees for this. In addition, the city is pumping out fund 423, waste fund, 6,635,000. The funding for the sold hazardous waste side of the ledger is about \$3.5 million, and then we're supposed to get \$4 million from this new market's tax credit. Personally, I think that this whole program is for another day. What that day is, who knows, and really who cares because it's not too well thought out. There's a lot of hidden city employment costs in this thing. You'd be well off to just consider doing business with the county for the household hazardous waste program instead of duplication of efforts and I don't believe by any stretch of the imagination that this is ever going to be successful. But the issue is, a business plan for performance-based and ask for scrutiny about it before you go ahead and allocate these funds because they have that much fun balancing integrated waste that's a neat little possible bank account for use for bridge funding for some other type of problem, but this is not even worth the paper it's written on.

>> Time's up unless you have accolades for the committee.

>> Ohá-- by the way, I do. I have to go home and hopefully get it before the public record closes. Outstanding questions today. Thank you very much.

>> Thank you, sir. We're adjourned.