

MAKING GOVERNMENT WORK BETTER COMMITTEE

**Executive Summary
August 19, 2004**

The meeting was convened at 1:30 PM

a. Investment Report (Finance)

Upon motion of Councilmember Reed, seconded by Councilmember LeZotte, the Committee accepted the Staff report.

b. Cell Phone Utilization (Phase I) (Auditor)

The Committee accepted the Staff report with the direction to bring back to the Committee in October a follow-up to today's report along with the scheduled report on cell phone usage.

c. Airport Concessions (Phase II) (Auditor)

Upon motion of Councilmember Reed, seconded by Councilmember LeZotte, the Committee accepted the Staff report with the direction to provide the Committee with an informational memo along with the report that is going to the Airport.

d. Transport Vehicle Audit Follow-up (General Services) – Deferred until September

e. Oral Petitions

None

f. Adjournment

The Committee was adjourned at 2:45 P.M



Councilmember Nora Campos, Chair,
Making Government Work Better Committee

MAKING GOVERNMENT WORK BETTER COMMITTEE

Meeting Report
August 19, 2004

PRESENT Chair Nora Campos, Councilmember Chuck Reed, Councilmember Linda J. Le Zotte, Councilmember David Cortese

STAFF Danielle Kenealey, Kay Winer, Jennifer Carlino, Christine Silva-Burnett, Jerry Silva, Chris Constantin, Scott Johnson, Andy Heath, Jennifer Callaway, Albert Balagso, Katy Allen, Jennifer Maguire, Jim Helmer

The meeting was convened at 3:30 PM

a. Investment Report (Finance)

Scott Johnson, Finance Director gave an overview of the quarterly investment report for the period ending June 2004. The total portfolio value as of June 30th was \$1.403 billion and the effective yield was 2.251% and the weighted days to maturity was 529 days. He noted that days to maturity has risen over the past year and Staff has been focusing on cash flow needs and looking at opportunities to extend newer investments to the one and two-year range since rates have been low. Scott highlighted the total portfolio investment composition, noting that about 61% of the total was invested in US government securities and an investment increase was made to LAIF, mainly due to the issuance of airport revenue bonds. He showed the breakdown by funds of which about half of the airport amount of \$313,658,471 was relevant to the airport bonds issued.

Andy Heath, Finance Deputy Director went over how the portfolio compares with six month, one and two year moving average yields on two-year US Treasury securities that showed a portfolio yield of 2.387%. He also showed how the rate at which new purchase investment yields were below the one and two-year treasuries primarily due to the speculation that the federal interest rates would be raised in the near future. There has been a 50 basis point increase in the federal funds rate since this report so the reinvestment yield at the end of June was 1.275%, but should begin to go up consistent with the recent interest rates.

Scott stated that Staff has been very successful regarding the direction from the Mayor's office to recruit and get private sector members on the investment committee. The Mayor has appointed three members and Staff has already met with one and is scheduled for meetings with the other two.

Councilmember Reed wanted to know if the reason the trend line on new purchases was below the one and two-year treasuries and were above it in 2003 is because there were more short-term purchases relative to the size of the portfolio than before and are therefore at a much lower rate. Scott replied that the trend line was just for the month and that there was an anomaly in that the rates showed for the one and two-year is not an average for the month, but what it was at month's end. Andy explained that in late 2003 an analysis was done when new purchase rates were at or below the

one and two-year treasuries and cash on hand in the investment pool was taken to be extended causing the trend line to go up slightly at that time. Many of the securities purchased were callable and have been called, explaining the dip in the trend line. Scott added that there would be a lag due to longer duration maturities being reinvested at a lower interest rate.

Councilmember Reed stated that he believed there would always be somewhat of a lag, but wants to know if there is a lot more currently invested in the short term than usual, explaining the size of the lag. Scott said that was correct and that has been part of the challenge and part of the reason for purchasing more of the callable securities because of the premium that could be obtained. Investment advisors predicted two years ago and last year that rates would go up and they did not. Therefore, the decision was made to make investments based on cash flow needs and not on 'hedging the market'.

Councilmember Reed wanted to know if our cash flow needs were such that that's what is driving this short-term activity and why cash flow needs are substantially different than they were six months ago. Scott replied that the actual cash amount in the general fund has been going down over the last couple of years so that there is no cushion. He added that a large amount is being held in LAIF until a guaranteed investment can be secured. He also noted that the chart on new purchases is misleading in that it doesn't reflect volume and stated that Staff will include that comparison on the next report.

Upon motion of Councilmember Reed, seconded by Councilmember LeZotte, the Committee accepted the Staff report.

b. Cell Phone Utilization (Phase I) (Auditor)

Jerry Silva, City Auditor gave an overview of the report stating that there were 1600 cell phones used by City Staff and that usage is about 5,200,000 minutes, using two providers: AT&T and Nextel at a cost last year of \$930,000. Staff looked at alternative service providers/rate plans that could be taken advantage of:

- Change the rates
- Change the method of payment (currently de-centralized)

Jerry stated that his office believes that savings can be increased (from the proposed budget rate plan adjustment/discount amount of \$254,000) by an additional \$250,000. Vendors were surveyed and the results were tested and evaluated as far as the different options for service quality and durability, etc. Changing carriers would involve getting all new phones and another advantage would be that the new phones would have improved technologies making it more compatible with the expected telephony technology at the new City Hall.

Councilmember Reed asked what the Administration's viewpoint was on this. Kay Winer, Deputy City Manager responded that Staff would like to spend some time going over the recommendations and looking at the current contract agreement to see what the benefits might be of changing plans. Staff will complete an evaluation and come back with a full recommendation within the next 60 days. The cell phone services were de-centralized two years ago in the interest of saving money. However, since improvements and discounts are being offered with cell phone services at a rapid rate, it would be a good idea to look at what options are available. Jerry added that another report would be forthcoming in a couple of months that deals with cell phone usage and how the City is

processing reimbursements when the employees pay for personal calls made on City issued cell phones.

Councilmember Reed stated that since changes do occur so quickly with cell phones and services, it should be looked at on a yearly basis. Chris Constantin, Program Performance Auditor explained that after this audit was initiated, AT&T conducted a rate usage analysis using the last three months of data prior to May and evaluated what rate plan could be changed for each of the users for a savings and recommended to the departments, who in most cases, implemented the changes. This is where the Rule 405 from the budget came from. The issue is, if a rate plan is changed today, tomorrow the usage can change which can fall outside of, or below the original plan (minutes) and incur charges. Kay stated that is why it's important to look at the usage levels since different departments have different requirements.

Councilmember Reed asked how the 5M minutes would be broken out at a budget level. Chris replied that the City would be on one plan with one check being cut to the vendor and each department figuring out how to pay, through Finance. Kay added that, right now, it is completely de-centralized. Each department receives a bill and then works with the employees for the reimbursements. If pooling everything citywide turns out to generate enough of a cost savings, there is probably enough funding to engage the services of an employee to coordinate all of the phone bills. Chris added that in terms of oversight, IT might be in the best position for this to ensure that overall minutes or budget is not exceeded.

Councilmember Reed noted that there may be a perception by the users, regarding the 5M minute pot, that those minutes are free; and is concerned there would be no incentive at the departmental level to minimize the use of minutes. Chris replied that would be addressed in the next report.

Chair Campos wanted to know if the aspect of personal calls would be addressed in that report. Chris replied that it would. Kay added that there is a city policy that requires an employee reimburse the City at a certain rate for personal calls. Jerry noted that part of the report is going to address whether the number of employees that have a phone actually need it. Chris stated that Staff is working with General Services in terms of addressing these issues of usage and to draw up a better policy. Jerry noted Staff is finding that there is no standard procedure for handling reimbursements. Chris added that individuals are handling reimbursements and that the Auditor's office will be making recommendations regarding controls to prevent cash from disappearing in the process of getting into the financial management system.

Chair Campos wanted to know what the boundary is for the Evergreen area regarding dropped signals. Chris replied that the analysis was, by no means, scientific. It basically involved driving around, making calls, then noting on a map where a call would drop off. He drove through freeway corridors, downtown, all around the outskirts of the city and then moved inwards. Councilmember Reed mentioned that the providers would never give the information as to where the holes in service were. Chris stated that every vendor has a different hole somewhere, and Staff will need to work with the vendors to address the issue. Councilmember Reed stated that once a vendor has been selected, Staff should work with Planning to ensure that vendors are addressing the issue (with additional towers). Chris replied that part of the problem is the speed at which they can get authority to build the towers and the placement location. Chair Campos stated that it was crucial to keep watch on this.

Chris stated that there are three levels of coverage and another issue is that AT&T and Cingular have merged and there is T-Mobile in the mix, so it is an unknown factor what vendor will have what coverage. Also, some vendors have penalties for leaving their service, whereas some are on a month-to-month basis. Danielle Kenealey, Sr. Deputy City Attorney mentioned that General Services would also need to look at the provisions regarding penalties for canceling or switching plans and Kay agreed.

The Committee accepted the Staff report with the direction to bring back to the Committee in October a follow-up to today's report along with the scheduled report on cell phone usage.

c. Airport Concessions (Phase II) (Auditor)

Jerry gave an overview of the report stating that the Airport director had asked Staff to look at information that the shuttle port service had provided regarding workers compensation claims. The claim was that these costs had risen over 300% over a three-year period and that during that period of contract with the City; they had lost \$3.25M and were requesting that their rates be increased significantly. Staff looked at the information and estimated their costs were about \$2.9M and their costs had risen by about 108%. Staff determined that worker's compensation costs were underestimated, partly due to the fact that these costs had been combined in several locales. Staff provided results to Airport personnel for use in negotiations, which have been concluded and Airport Staff has provided the information that they will be able to reduce the next contract by about \$250K. He added that Staff could provide a more complete report at a future date if desired.

Another review that was conducted and submitted to the Airport was on a rental car concession (Vanguard) and Staff found that, in general, things were being paid in accordance with the agreement. He added that Staff could provide a follow-up, more complete report to the Committee on this as well.

Upon motion of Councilmember Reed, seconded by Councilmember LeZotte, the Committee accepted the Staff report with the direction to provide the Committee with an informational memo along with the report that is going to the Airport.

d. Transport Vehicle Audit Follow-up (General Services) – Deferred until September

e. Oral Petitions

f. Adjournment

The Committee was adjourned at 2:15 P.M.



Councilmember Nora Campos, Chair,
Making Government Work Better Committee