

**MAKING GOVERNMENT WORK BETTER COMMITTEE**

**Executive Summary  
December 16, 2004**

The meeting was convened at 1:30 PM

- a. Transport Vehicle Audit Follow-up to October's Meeting - (City Manager)

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

- b. Auditor's Semi-annual Recommendation Follow-up Report for the Six Months Ended June 30, 2004 - (Auditor)

**Upon motion of Councilmember Reed, seconded by Councilmember Cortese, the Committee accepted the Staff report with the direction to attach the Police department's comments to the Rules Committee meeting on January 12<sup>th</sup> for a recommendation.**

- c. Comprehensive Annual Financial Report - (Finance)

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

- d. Annual Debt Report - (Finance)

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

- e. Quarterly Debt Report - as Supplement to Annual Debt Report (Finance)

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- f. Oral Petitions

- g. Adjournment

The meeting was adjourned at 2:45 P.M.



Councilmember Nora Campos  
Making Government Work Better Committee





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**MAKING GOVERNMENT WORK BETTER COMMITTEE**

Meeting Report  
December 16, 2004

PRESENT: Chair Nora Campos, Councilmember Chuck Reed, Councilmember Linda J. LeZotte, Councilmember David Cortese

STAFF: Kay Winer, Jennifer Carlino, Christine Silva-Burnett, Jerry Silva, Jim McBride, Scott Johnson, Julia Cooper, Alex Gurza, Aracely Rodriguez, Danielle Kenealey, Mike Ryder, Larry Lisenbee, Carl Mosher, Anna Jatczak, Mike Edmonds

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a. Transport Vehicle Audit Follow-up to October's Meeting - (City Manager)

Alex Gurza, Director Employee Relations gave an update stating that the policy has been finalized and distributed to all departments. Over the next month, departments are being asked to go through a reauthorization process of every vehicle in the fleet based on the requirements of the new policy. There are three categories of vehicles: transport, special purpose, and police & fire. The primary task will be determining which of the transport vehicles meet the minimum utilization requirements (mile limits). The policy does allow for exceptions to be made via request to the CMO. The requests will be reviewed, determining whether it's warranted or not to keep vehicles that do not meet the minimum mileage requirements.

Chair Campos asked how it is determined. Kay Winer, Deputy City Manager replied that case-by-case criteria, using input from users and department directors, would be considered when making the decision. Alex stated that all requests for exceptions must be made in writing, documenting the extenuating circumstances for the request for exception. Kay added there would be no blanket exceptions. Alex noted that January 21<sup>st</sup> is the due date for departments to submit lists of categorized vehicles and any requests for exception. There are still concerns with labor representatives on the outcome and Staff will review the outcomes with them in late January/early February.

Councilmember Reed asked what the follow-up schedule would be. Jerry Silva, City Auditor replied that it would be in six months.

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

b. Auditor's Semi-annual Recommendation Follow-up Report for the Six Months Ended June 30, 2004 - (Auditor)

Jerry Silva, City Auditor gave an overview of the report on all outstanding recommendations. For the first half of the year, there were 131 outstanding recommendations of which 17 were implemented, 68 were partly implemented, 42 were not implemented, two were dropped and two were deferred. Of the 112 recommendations that remain open, four are priority one, 44 are priority two and 64 are priority three. All four priority one recommendations are in the process of being resolved.

One open audit recommendation has been outstanding for 16 years regarding documentation of overtime for the police department. Auditor's staff has been working with the police department on ways to implement this without success. The police department would like this dropped as they feel there are mitigating controls that have been put into place so that this is no longer necessary. He stated the suggestion is for the rules committee to put a re-review of police overtime on the audit workplan for next year. Councilmember Reed agreed that this should go to Rules for resolution.

Councilmember Reed stated that there was no mention of for-profit leases in the current report and recalled there were some commercial properties that appeared to be under market in the original audit. He wondered if there had been any new information on those. Jerry replied that that was part of the policy review to be done by Council, which has not yet occurred. Councilmember Reed asked when that was scheduled to take place. Kay replied it's scheduled for June '05. Councilmember Reed suggested this be referred to the Budget department to determine if there is any potential financial gain to be found. Councilmember Cortese would like to see the for-profit list incorporated with the non-profit list on the report for next June.

Chair Campos wanted to know the status of the safety index formula for school crossing guards. Jerry agreed to provide an informational memo on that.

Deputy Chief Pete Oliver and Lieutenant Gary Kirby, SJPD spoke regarding the overtime controls that have been put into place at the Police department. Lieutenant Kirby stated that the overtime budget for this year is about \$6.7M, rather than \$11M as stated in the report. The majority of that is in pre-set patrol overtime in Airport, Council-mandated projects and things of that nature. The remaining amount is left to the uncontrolled nature such as arrests, court time, etc. The monitoring process currently in place is supervisory approval and time sheet submittal. There is agreement with the Auditor on the point that the occurrence of every piece of incremental overtime performed be signed at the time of occurrence, done on a two-week basis; and this process is in place. Currently, the police department should be at approximately 39% utilization for the year and is actually at 31%. Last year ('03-'04 budget), there was a savings of \$1.5M in overtime, with a utilization of only 79% of the total. During the '02-'03 budget, when the war with Iraq necessitated security of strategic points within the city mandating overtime, the department went over by \$2.4M on a \$7.9M budget. Some of that was recovered from the federal government. The department feels there have been fair and accurate monitoring devices put in place that have been successful. The department, through

budgetary contracts, is allowed to put three hours of paid overtime into each officer per pay period. If each officer used that amount, the budget would not cover it. The department is counting on the officers not using it; or putting it into another method, such as comp. time. The department also has a position in place that monitors and controls the comp. time in that officers are only allowed to accrue 240 hours. Once an officer is approaching that 240 hour mark, an officer is told to go home to keep the balance in alignment so as not to affect the City's bond rating. The department feels that appropriate monitoring controls are in place for the time spent in monitoring, balanced with the time in savings, to negate the need for further audit. Deputy Chief Oliver added that the process regarding the 240 hours of comp. time is part of the MOA with the labor union wherein every October the department runs the comp. time balance of every officer to determine if any have exceeded the 240 hours. Then that officer must submit a plan on comp. time reduction. Between that time and the end of the year, another run is done to determine if there have been any additional officers that have gone over the 240 mark. During the following 90 days, Staff must reduce those that have gone over the 240 mark by the end of the 90 days. Each bureau chief receives a bi-weekly report in order to plan for staff reductions. This plan has been successful over the last 16 years, with the exception of the years during the Iraq war.

Mike Edmonds, Supervising Auditor clarified that the \$10.8M figure used in the audit report reflects the estimated value of hours actually worked, including regular pay and comp. time.

**Upon motion of Councilmember Reed, seconded by Councilmember Cortese, the Committee accepted the Staff report with the direction to attach the Police department's comments to the Rules Committee meeting on January 12<sup>th</sup> for a recommendation.**

c. Comprehensive Annual Financial Report (Finance)

Jerry Silva stated that this report was a collaborative effort with Macias Gini & Company as well as the Auditor's office and Finance department to get the financial statements completed on a timely basis and that they have done an outstanding job.

Scott Johnson, Director Finance introduced Kevin O'Connell, Macias Gini & Company for comments. Kevin stated that this is the third year using the new reporting model. There has been a significant effort to maintain this level of work performed for that model. GASB has made new rules, including one for retiree health care benefits. In '07-'08, many cities will need to make either significantly higher health care benefit contributions or report a liability to the extent that they are not made. This year the City issued approximately \$860M of new debt. A common theme being observed with a lot of the larger local governments is that there is a tremendous amount of pressure in an environment being created to do more with less. The Finance department and Auditor's office have done well keeping up with this. He recognized Jose Garcia, Senior Accountant Finance for stepping up into the lead role on this. There are some items that are still in progress and the plan is to return in February to the committee with an update.

Scott gave an overview of the report stating the report is growing in size as the requirements increase. He recognized everyone for the excellent work that was done, particularly in light of limited resources available in staffing. Under the new reporting model, the City's financial statement is required to disclose everything, consistent with how it's done with any business. This is the third year in a row that Finance, along with the City Manager, have taken notarized oaths related to the information and is contained in the report. San Jose is the first city to have done this. He gave highlights of goals and accomplishments:

- 16<sup>th</sup> consecutive year for Government Finance Officers Association Award (GFOA)
- 10<sup>th</sup> consecutive year for California Society of Municipal Finance Officers Award (CSMFO)
- CAFR on the Internet ([www.csjfinance.org](http://www.csjfinance.org))
- Statement under oath

There are two reports useful for users of this document. One is the transmittal letter; and the other is the management discussion and analysis. He emphasized that the document is very important regarding disclosure relating to bond issues.

Chair Campos stated that the bar has been set very high and Staff has done a great job. Councilmember Reed asked how contingent liabilities, loans and guarantees are handled in this reporting process and wanted to verify they were being picked up. Scott replied that they were. Councilmember Reed wanted to know if the guarantee posted for the Silicon Valley Bowl was booked as a liability or if money was budgeted for it. Scott replied that there was an approved reserve for that. Councilmember Reed asked how the contingent liabilities such as tax litigation issues are handled. Kevin replied that it depends on the classification of the item whether they are disclosed or not. Scott added that the CAO has determined that these are being handled properly and there is no contingency. Councilmember Reed stated that the courts do not always agree, so there is always that possibility and this should be kept in mind. Scott noted that there is a process undertaken (called "Incurred but not Reported") that Staff goes through, in conjunction with the CAO, whereby an assessment is done on potential for claims against the City, how much it might be; and is then placed in the reserve.

Councilmember Reed asked how we are ensuring that the San Diego problem of finding approximately \$2B to cover pension liabilities doesn't happen in San Jose. Scott replied that the methodology used by San Diego is not the same as that used by the City. Councilmember Reed wondered how it could possibly get to that point without anyone noticing. Kevin replied that the new rules require that the retiree health care liabilities are treated the same as pension liabilities and that is how it's being avoided. Traditionally, retiree health care has been on a pay-as-you-go basis. In '07-'08 this large unfunded liability will be recognized and start off at \$0 at transition. Once it's determined what those unfunded contributions are and it's decided not to fund those increased contributions that liability will have to be reported; and thereby begin to grow and show up. Scott clarified that currently the City is using a five-year rolling method of funding. Jerry added that it is a guessing game as far as how long an employee will live after retirement, but that the City is far ahead of many other jurisdictions due to exercising prudence and conservatism and capturing this in the financial statements. Councilmember Reed wants to ensure that, during the audit process, Auditor's staff and the outside auditors are

looking at what has happened in San Diego and remain cognizant that things can go wrong such as those listed in the report (for San Diego). Kevin replied that they were looking at the documentation and oversight and recognizing what the risk areas are as they go through this process each year.

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

d. Annual Debt Report (Finance)

Scott gave an overview of the report:

- Debt Management Program - Debt Issuance and Debt Administration Policy Objectives
- Overview – 10 Year History of Debt Issuance
- Outstanding Bonds Issued by All Agencies
- FY 2003-04 Debt Issues
- Debt Administration Activities
- Special Project Highlights
- Credit Rating

In summary, for the third year in a row, this is the highest volume, with the most activities, debt issuance that the City has had in its history. This is accomplished with limited resources due to the budget. Next year it's anticipated to be equally challenging. Finally, the City's credit rating is the highest in the state of California for large cities; and is rated higher than the State and the County of Santa Clara. Scott stated he believes this is due, in part, to the direction of the Mayor, City Council, City Manager and members of the administration. For general obligation bonds issued to date, the City is saving over \$4M over the duration of the life of those bonds because of our credit rating.

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

e. Quarterly Debt Report – as Supplement to Annual Debt Report (Finance)

Julia Cooper, Deputy Director Finance gave an overview of the report. The volume this year is expected to be down from last year. However, about 75% of the workload for Staff is to manage the activity of the portfolio. As of September 30<sup>th</sup>, there is about \$3.6B of debt outstanding; excluding multi-family housing, which is approaching \$600M. The portfolio changed from the year end June 30<sup>th</sup> to September 30<sup>th</sup> by about \$78M. There have been two series of bonds issued for the multi-family housing project. Staff is currently working on the land acquisition for FMC (about \$80M) scheduled to go to Council and the Financing Authority Board on January 25<sup>th</sup>. There is also another multi-family housing project going to Council at the end of January. The City has, just yesterday, received an allocation through the State Treasurer's Office for \$75M for issuing tax exempt, tax allocation bonds to fund the loans for multi-family housing projects. Scott added that the Housing Department staff and

Julia should be commended for being proactive in meeting with the Executive Director of the State's treasury department to obtain those funds.

Julia gave highlights of where the City stands with interest rates. Currently, long-term interest rates are below the historical 10-year average. Interest rates are continuing to rise so that our taxable and tax-exempt interest rates are rising correspondingly. Staff is monitoring this on a weekly basis and budgeting conservatively to ensure there is enough to pay those debt service payments.

Chair Campos thanked Scott and Julia for their leadership and monitoring of the finances and stated that there is a lot for them to be proud of. Councilmember LeZotte added that she agreed and mentioned that the aggressiveness with the refunding that is being done is exceptional. Scott added that Danielle Kenealey, Senior Deputy City Attorney, as the representative for the CAO, has spent a lot of time and done a lot to help keep Staff focused. Councilmember Reed added that he agreed the work of the Finance department is phenomenal and wanted to know how they do it. When considering the City's (10-year) debt portfolio and debt issuance history increases, he asked how much the Finance department's staffing increased since 1999. Scott replied that staffing has not increased; and over the last couple of years has actually decreased by about 25%. The challenge for next year is there is another 21.8% decrease scheduled. Staff is working on how to preserve the mission critical issues in light of that.

Councilmember Reed stated that there is a risk in over tasking and under funding the department and wants to ensure that this does not happen when going through the budget process. He encouraged Staff to keep this in front of the administration. Kay added that making another 20% cut presents an enormous challenge.

Chair Campos asked how many employees were in the Finance department. Scott replied there are currently 107. He explained that what Staff is doing is prioritizing financial activities throughout the departments to determine what is mission critical through the CSA.

Councilmember Cortese wanted to know, if on future reports, more information can be given regarding what assets are liquid enough in a worst-case scenario to enable a continuing feeling of comfort to issue debt at these levels. Scott replied that it is a case-by-case issue and dependent on how it's categorized. Councilmember Cortese requested that this information be captured on a pie chart or graph. Scott agreed and noted that in the current report this is broken out by category. Julia added that this can be expanded on in the next quarterly report. Councilmember Cortese said he would also like to see the same thing for the debt coverage ratio as it relates to the rest of the report.

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

f. Oral Petitions

William Garbett stated that he would like the committee to take into account how land is secured and how it has escaped a number of things in the report and are not detailed. The SNI districts have been used as leverage for financing from the RDA. General obligation bonds have been financed against the same properties. There is multiple financing. The statement continuing to be used is that the City owes nothing for RDA financing. There is multiple bonding being done against the same lands. The Director of Finance has not detailed the losses (due to data losses) in the IT section [of the report] to the City. It has not been reflected in the CAFR's. He suggested that this type of information be included in the CAFR.

g. Adjournment

The meeting was adjourned at 2:45 P.M.



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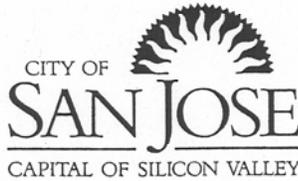
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Julia should be commended for being proactive in meeting with the Executive Director of the State's treasury department to obtain those funds.

Julia gave highlights of where the City stands with interest rates. Currently, long-term interest rates are below the historical 10-year average. Interest rates are continuing to rise so that our taxable and tax-exempt interest rates are rising correspondingly. Staff is monitoring this on a weekly basis and budgeting conservatively to ensure there is enough to pay those debt service payments.

Chair Campos thanked Scott and Julia for their leadership and monitoring of the finances and stated that there is a lot for them to be proud of. Councilmember LeZotte added that she agreed and mentioned that the aggressiveness with the refunding that is being done is exceptional. Scott added that Danielle Kenealey, Senior Deputy City Attorney, as the representative for the CAO, has spent a lot of time and done a lot to help keep Staff focused. Councilmember Reed added that he agreed the work of the Finance department is phenomenal and wanted to know how they do it. When considering the City's (10-year) debt portfolio and debt issuance history increases, he asked how much the Finance department's staffing increased since 1999. Scott replied that staffing has not increased; and over the last couple of years has actually decreased by about 25%. The challenge for next year is there is another 21.8% decrease scheduled. Staff is working on how to preserve the mission critical issues in light of that.

Councilmember Reed stated that there is a risk in over tasking and under funding the department and wants to ensure that this does not happen when going through the budget process. He encouraged Staff to keep this in front of the administration. Kay added that making another 20% cut presents an enormous challenge.

Chair Campos asked how many employees were in the Finance department. Scott replied there are currently 107. He explained that what Staff is doing is prioritizing financial activities throughout the departments to determine what is mission critical through the CSA.

Councilmember Cortese wanted to know, if on future reports, more information can be given regarding what assets are liquid enough in a worst-case scenario to enable a continuing feeling of comfort to issue debt at these levels. Scott replied that it is a case-by-case issue and dependent on how it's categorized. Councilmember Cortese requested that this information be captured on a pie chart or graph. Scott agreed and noted that in the current report this is broken out by category. Julia added that this can be expanded on in the next quarterly report. Councilmember Cortese said he would also like to see the same thing for the debt coverage ratio as it relates to the rest of the report.

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

f. Oral Petitions

William Garbett stated that he would like the committee to take into account how land is secured and how it has escaped a number of things in the report and are not detailed. The SNI districts have been used as leverage for financing from the RDA. General obligation bonds have been financed against the same properties. There is multiple financing. The statement continuing to be used is that the City owes nothing for RDA financing. There is multiple bonding being done against the same lands. The Director of Finance has not detailed the losses (due to data losses) in the IT section [of the report] to the City. It has not been reflected in the CAFR's. He suggested that this type of information be included in the CAFR.

g. Adjournment

The meeting was adjourned at 2:45 P.M.



Councilmember Nora Campos  
Making Government Work Better Committee