CITY OF MONTCLAIR
Montclair Civic Center
5111 Benito Street
Montclair, CA 91763

January 24, 2013

TO: Honorable Mayor and City Council

FROM: Edward C. Starr, City Manager

SUBJECT: CITY MANAGER'S WEEKLY REPORT: January 18-24, 2013

➢ ***CITY MANAGER/ADMINISTRATIVE SERVICES DEPARTMENTS***

- The California Public Employee Retirement System (CalPERS) is reporting a gain of more than 13 percent on investment returns for calendar year 2012, most of it from stocks and real estate. Last year was the pension fund's best year on returns since 2006, when CalPERS posted a 15.7 percent gain. For the 2011 calendar year, CalPERS posted a meager 1.1 percent gain on investments. The 13 percent return for 2012 is comparable to Standard & Poor's 500-stock index performance. Analysts suggest nationwide improvements in pension funds are simply reflective of the return of the market, and are not attributable to smarter investment strategies.

  Investment returns for the first six months of fiscal year 2012-13 were, however, only 7.1 percent, slightly below the 7.5 percent actuarial rate used by CalPERS to project annual returns. CalPERS uses its annual performance on investments to determine future employer rate adjustments for agencies contracting with CalPERS.

  CalPERS, the nation's largest public employee pension fund, currently has an estimated $253.2 billion in assets—approximately 97 percent of its pre-recession high set in 2007, when CalPERS reported nearly $258 billion in its investment portfolio. In 2008, the pension fund lost more than 28 percent of its investment value, and has been struggling to regain lost ground despite changes to its investment portfolio.

> Even with posted gains, CalPERS unfunded liabilities have grown to an estimated $87 billion—or 74 percent below pension obligations. To address the shortfall, CalPERS has forced the state and cities to contribute significantly higher employer rates.

Obviously, a continuing problem for CalPERS and contracting agencies is the extent of unfunded liabilities. A 2011 Stanford University study placed CalPERS' unfunded pension liabilities in the range of $200 billion. However, CalPERS' actuaries balked at the estimate, providing a much lower estimate of approximately $60 billion in unfunded liabilities—now $87 billion. The dramatic discrepancy between the two unfunded liability estimates is primarily related to methodologies for calculating estimated rates of return: CalPERS projects a 7.5 percent annual return on investments; conversely, credit rating agencies, the Government Accounting Standards Board (GASB), educators, and financial institutions argue for what they define as a more "realistic" rate of return closer to 4 percent annually, but typically not higher than 6.2 percent.

Failure to accurately define unfunded public pension liabilities will ultimately result in severe economic, political, and social impacts when hidden costs emerge. In the end, costs are paid—but at what price to taxpayers, public services, public employees, annuitants, and the reputation and solvency of government agencies?

The conflict over the actual cost of public employee pensions may now come to a head as various credit rating firms and accounting boards push to impose new reporting standards that would ultimately reflect lower rates of return consistent with actual market performance.

In July 2012, Moody's Investors Service proposed adjustments to public sector pension data and is seeking comments on a proposal that would affect the pension liability, asset, and cost information reported by state and local governments and their pension plans. Moody's is taking the position that published public employee pension financial data greatly understates the credit risks created by unfunded pensions.

Moody's is one of the nation's major credit-rating agencies for state and local governments and, along with Standard and Poor's and Fitch, is a member of the nation's "big three credit rating agencies."

Moody's proposed adjustments are notable because they can have an impact on government credit-worthiness and, therefore, could lead to reductions in credit ratings, causing state and local governments to pay more in interest on loans and/or experience reduced access to credit and loans. While Moody's doesn't have authority to make governments change their financial statements or fund pensions differently, the credit-rating firm does control how it analyzes and reports government credit-worthiness.

Moody's adjustments would have two major impacts on most municipal governments:

1. Proposed adjustments would triple the amount of unfunded government pension debt across the United States, and this debt would be used to set credit rates;

2. Moody's analysis is expected to conclude that most governments need to pay far more into their pension funds than they currently are.

Moody's proposal clearly indicates there is a movement in credit markets to focus on the growing importance and inter-relation between public employee pension systems and state and local governments, with emphasis on discrepancies related to unfunded pension obligations and the potential economic threat to the economy by overburdening government structures and taxpayer households—the burden on this latter group is demonstrated by the Stanford University study, which reports the average California household's share of debt for unfunded public employee pensions is approximately $30,500.

Representatives for Moody's state their effort is to improve the comparability and transparency of pension information across governments, thereby facilitating the rating firm's ability to evaluate state and local government debt. Obviously, the demonstration of a larger debt ratio would have severe negative consequences related to the capacity of state and local governments to meet the full cost of pension obligations; it would also call into question the creditworthiness of state and local governments, thus increasing their cost to borrow funds.

Moody's would rely on its current approach to rating government debt that includes an analysis of pension obligations based on reported data and key underlying assumptions, coupled with four major adjustments Moody's is planning for pension information:

- ✓ Multiple-employer cost-sharing plan liabilities would be allocated to specific government employers based on proportionate shares of total plan contributions

- ✓ Accrued actuarial liabilities would be adjusted based on a high-grade, long-term corporate bond index discount rate

- ✓ Where possible, asset smoothing would be eliminated in favor of market or fair value as of the actuarial reporting date

- ✓ Annual pension contributions would be adjusted to reflect the foregoing changes as well as a common amortization period.

Analysts predict the proposed changes would clarify, elucidate, and triple the amount of unfunded government pension debt, thus supporting Moody's claim that most state and local governments are paying far less to their pension funds than they should.

Furthermore, if federal and/or state regulators mandate public employee pension funds accurately reflect liabilities and use rates of return based on actual market performance, the impact would impose significant and deleterious economic costs to many state and local governments.

At the local level, if CalPERS imposed significantly higher employer rates, thereby requiring local governments, including Montclair, to increase annual pension contributions, it is possible the change would produce a dramatic increase in the number of local governments filing for bankruptcy and/or defaulting on pension contributions.

➢ *COMMUNITY DEVELOPMENT DEPARTMENT*

- At Tuesday's City Council meeting, military banners were presented to seven recently discharged veterans from Montclair whose banners were displayed in 2012.

  Tuesday night's honorees were:

John Mark Lokka	U. S. Navy	1996-2012
Alex Pattison	U. S. Army	2007-2012
Robert Ascencio	U. S. Marines	2008-2013
Valerie Varela	U. S. Army	2008-2012
Robert McKinney	U. S. Navy	2009-2012
Joseph Rogers	U.S. Army	2009-2012
Victor E. Alaniz	U. S. Army	2008-2012

  New banner applications are accepted in the fall, and new banners are displayed February through November along with the banners of those still in active duty. The banners of discharged veterans are presented to the veterans and/or their families every January.

  The City once again thanks the above-mentioned veterans for their service to our country.

  Photos are featured on Page 8.

➢ *POLICE DEPARTMENT*

- There is no new information to report this week.

➢ *FIRE DEPARTMENT*

- Crews from Station 152 attended a drill on January 18-19 at Scripps College in Claremont to simulate an "Active Shooter" response. The drill was a "live incident-type" event with role players and included incident command, multi-casualty incident response, and hazardous situations training.

Recent tragedies have brought to light the need for new techniques and training in dealing with these types of incidents.

LA County Fire Department coordinated the training for Montclair, Upland, and La Verne Fire Departments, as well as for law enforcement agencies, ambulance companies, and college Community Emergency Response Teams.

Photos are featured on Page 9.

➢ ***PUBLIC WORKS/SUCCESSOR REDEVELOPMENT AGENCY***

- After decades of retail construction, the era of new mall development in the U.S. is drawing to a close, according to the online publication *Commercial Real Estate.* Much of the country is overbuilt with retail, and online shopping has stunted many retailers' store-opening plans. For example, after a dismal Christmas quarter, it is reported that Barnes and Noble will be looking to close certain stores and downsize others because of competition from online retailer Amazon.

  In an attempt to keep shoppers coming and squeeze more revenue out of established locations, mall owners and retailers are shifting to renovations. According to Rick Sokolov, President of Simon, the country's largest mall owner, "There are very few markets that aren't already served by sophisticated retail, and making what you already have as good as it can be is the best way to go." If overhauls are done right, their returns can be higher than from new development. Landlords and analysts say the improvements can generate annual income of as much as 10 percent to 12 percent of the cost of the upgrades. By comparison, new development typically yields returns in the high single-digit range.

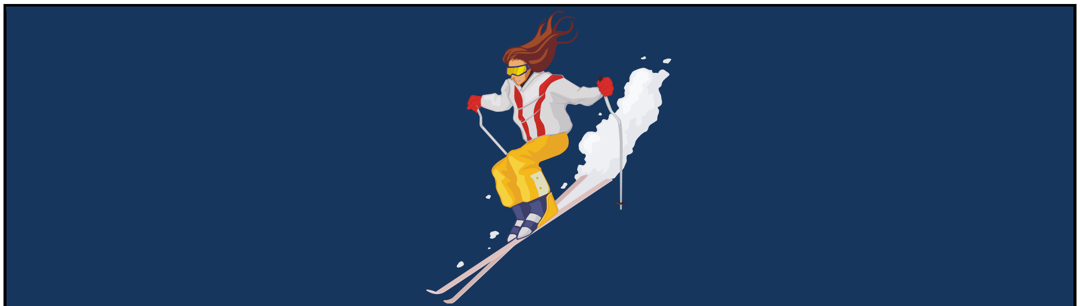
  As mall owners renovate, they are incorporating lessons learned about how to succeed amid the explosion of online shopping. As retail sales are lost online, mall owners are figuring out ways to exploit the natural advantages that stores have over computers. Mall owners are adding more restaurants, upscale movie theaters, supermarkets, and other tenants that offer goods and experiences that cannot be found online. In some renovations, mall owners are reconfiguring stores to have direct access to parking lots so shoppers can easily access stores rather than having to traverse the entire shopping center.

  In discussing the redevelopment of Montclair Plaza with representatives of the owners, Cushman Wakefield, it is anticipated they will be forthcoming with renovation concepts by this spring.

ECS:spa

"Lend yourself to others, but give yourself to yourself."
~ Michael de Montaigne

JANUARY 2013

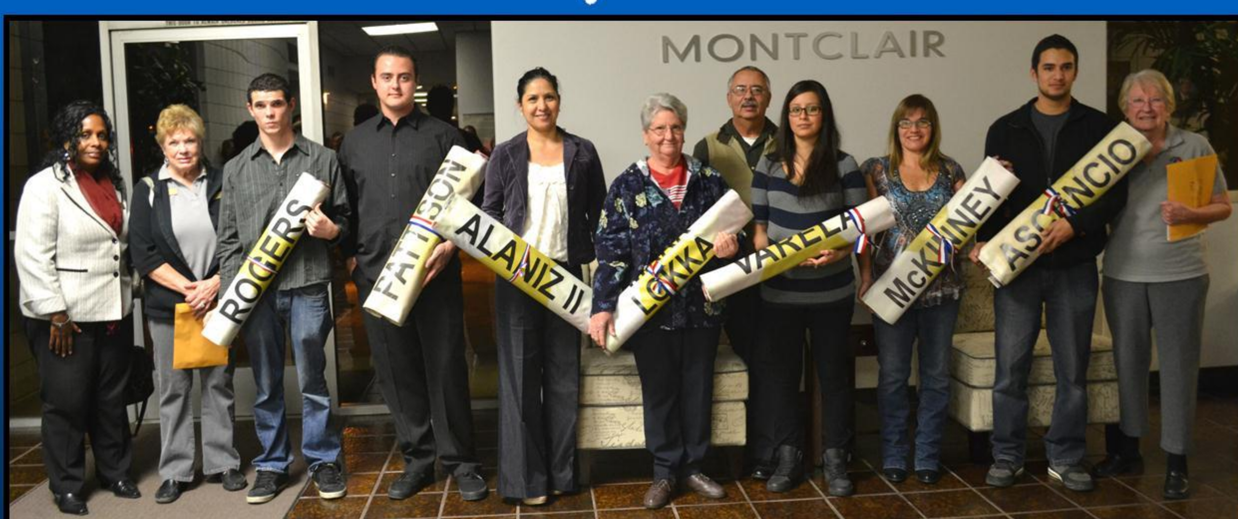


24	League of California Cities General Membership Inland Empire Division Dinner Meeting The Event Center at San Manuel Village, 27923 Highland Avenue, Highland	6:00 p.m. - 9:00 p.m.
28	Planning Commission Meeting Council Chambers	7:00 p.m.
29	City Manager's Staff Meeting City Hall Conference Room	9:00 a.m.

FEBRUARY 2013

04	City Council Meeting Council Chambers	7:00 p.m.
06	Community Action Committee Meeting Council Chambers	7:00 p.m.
11	Planning Commission Meeting Council Chambers	7:00 p.m.
12	City Manager’s Staff Meeting City Hall Conference Room	9:00 a.m.
12	Midyear Budget Review Council Chambers	6:00 p.m.
13	Oversight Board Meeting Council Chambers	6:00 p.m.
18	Presidents’ Day – City Hall Closed	
19	Code Enforcement Committee Meeting City Hall Conference Room	6:00 p.m.
19	City Council Meeting Council Chambers	7:00 p.m.
21	Safety Committee Meeting City Hall Conference Room	9:00 a.m.
21	Public Works Committee Meeting City Hall Conference Room	2:00 p.m.
25	Planning Commission Meeting Council Chambers	7:00 p.m.
26	City Manager’s Staff Meeting City Hall Conference Room	9:00 a.m.

City of Montclair
Military Banner Program Presentation
January 22, 2013



Fire Department Active Shooter Incident Training

January 18 & 19, 2013