



CITY OF MONTCLAIR

Montclair Civic Center
5111 Benito Street
Montclair, CA 91763

March 14, 2013

TO: Honorable Mayor and City Council

FROM: Edward C. Starr, City Manager

SUBJECT: CITY MANAGER'S WEEKLY REPORT: March 7-14, 2013

➤ **CITY MANAGER/ADMINISTRATIVE SERVICES DEPARTMENTS**

- Last month, CalPERS gave local governments a small increase in their annual pension costs. The increase stems from a decision in March 2012 to lower CalPERS' earnings forecast from 7.75 percent annually to 7.5 percent. Resulting increases of 1 to 2 percent of pay are being phased in over 2 years, with the remaining adjustment due in 2014. Under the local government rate for fiscal year 2013-14, the average employer contribution for miscellaneous workers increases 0.4 percent of pay to 15.3 percent of pay, and for average safety workers, 0.8 percent of pay to 32 percent of pay.

Local governments have already seen significant employer rate increases over the past several years, due in large part to the steep losses in CalPERS' investment portfolio. The CalPERS investment fund peaked at \$260 billion in the fall of 2007, fell to \$160 billion in March 2009, and was \$253 billion in late February 2013.

Prior to the start of the Great Recession, CalPERS put a lid on employer rates in 2005 by adopting a 15-year smoothing period, well beyond the usual 3 to 5 years adjustment period. But after investments tumbled in 2008, many employers, including Montclair, faced significant rate increases.

Now, citing a slowly improving economy, CalPERS is considering changes in investment and actuarial policies that could require employers to put even more money into the pension fund over the next several years. The primary factor motivating proposed changes is CalPERS' low funding levels—

currently estimated at around 70 percent. CalPERS officials fear another big investment loss could require extraordinary employer rate hikes to achieve 100 percent funding. Accordingly, a risk-based investment policy is being considered to cut losses in future downturns.

Proposed actuarial changes would allegedly boost CalPERS' funding levels, avoid conflicting debt (unfunded liability) reports, and make employer rates more predictable. Concurrently, the changes would shift a larger share of pension funding to employers to ensure an economic safety net against losses to the pension fund's investment portfolio.

Paradoxically, despite significant employer rate increases over the past decade, CalPERS argues it maintained minimal rate adjustments through smoothing policies—policies designed to avoid rate shocks and stay pension reform efforts.

In the months ahead, CalPERS' Board of Directors is scheduled to consider "capital market assumptions" in May and a risk-based "decision framework" for investments in July. Apparently, the goal is to adopt a new asset allocation plan while the economy is showing improvement. The effort is designed to address the potential of another major loss to CalPERS' investment portfolio—a loss that could only be resolved by introducing punishingly high employer contributions.

Concurrently, CalPERS' Chief Actuary is proposing a conservative "direct" smoothing policy that would determine the rate increase needed to reach a funding level of 100 percent in 30 or 35 years, then phase in the rate increase over 5 years. This approach would eliminate the current "smoothing" process that instead spreads investment gains and losses over a 15-year period; it would also eliminate other practices that often create sharply different estimates related to unfunded liability.

Under the current smoothing policy, if the current employer contribution is 20 percent of pay, the employer rate is expected to increase to 23 or 24 percent of pay over the next 2 decades before dropping sharply to 12 or 13 percent. However, with direct smoothing for full funding in 30 years, the employer contribution would increase to a peak of 28 percent of pay within 5 years, decline gradually over the following 15 years to 23 percent, fall sharply to 15 percent, and fall again to 5 percent after 30 years. These comparisons assume CalPERS annual investment earnings average 7.5 percent. CalPERS anticipates receiving two-thirds of revenue from investment earnings. However, CalPERS investment performance over the past decade clearly demonstrates investments are unpredictable—during this period, the pension fund gained or lost 20 percent or more in a single year.

The Board has been advised there is a better than 50-50 chance CalPERS will fall below 50 percent funding at some point in the future. The probability is 59 percent under current policy and 52 to 56 percent under 4 alternative methods under consideration. Obviously, increases in unfunded liability produce dramatic increases in employer contributions.

According to CalPERS' Chief Actuary, the probability of the employer rate going above 40 percent of pay is 13 percent under current policy, 31 percent under the proposal to reach full funding in 30 years. The big difference is in rate shock, including the potential for a single-year rate increase of more than 5 percent of pay.

For Montclair, the reality of rate shock set in earlier last decade. For premium public safety tiers, Montclair's Fiscal Year 2013-14 employer rates are well above 40 percent of pay, including employer rates of approximately 45.5 percent and 60.7 percent, respectively, for top tier police and fire employees. Under alternative asset allocation strategies proposed by the Chief Actuary, Montclair would potentially realize a new round of unacceptable employer rate increases.

The Board of Directors is scheduled to hear the proposed actuarial changes in March, followed by adoption in April. Any adopted changes would not affect rates until fiscal year 2015-16 for local governments.

Another factor likely to raise rates (in addition to changes in investment and actuarial policy): people are expected to live longer. The average female under 30 is now expected to live to be 100. Under one example, a female employee could work for 30 years, retire at age 55, and for the following 45 years collect a pension equal to 81 percent of final pay, adjusted for inflation. Accordingly, by February 2014, the CalPERS Board is expected to consider a mortality projection in actuarial assumptions.

➤ **COMMUNITY DEVELOPMENT DEPARTMENT**

- Be sure to reserve Saturday, March 30 from 9 a.m. to 11 .m. on your calendars for the City's Easter Eggstravaganza and Pancake Breakfast. The event will be held at the Montclair Community Center and adjacent Starlite Patio. There will be games and activities, plus Easter eggs and candy for children ten years of age and younger.

Children are invited to bring their own baskets to hold all the candy-filled eggs they win from games. The Easter Bunny will be available for photos (\$3 per photo or \$1 to take your own photo). The pancake breakfast, offered for \$3 per breakfast, will include pancakes, sausage, orange juice, and coffee.

This annual event is sponsored by the City of Montclair, Montclair Kiwanis Club, Montclair Fire Fighters Association, Montclair Police Officers Association, and Montclair-Ontario Junior Women's Club.

For additional information, please call (909) 625-9479.

- This Saturday, the City will be hosting eight Division B (5th and 6th grade) basketball teams from the cities of Fontana, Riverside, Moreno Valley, Chino, Rancho Cucamonga, and Montclair, as part of the Southern California Municipal Athletic Association—Inland Valley annual tournament. Teams will participate in a double-elimination tournament, with championship games on Sunday in Fontana.

The Human Services Division is excited to have Montclair as a host city—in the past we have been unable to host because our gym has always been closed for renovations during the month of March.

Three other teams from the City's Youth Basketball Program will also participate in the tournament, with games in Perris, Norco, and Fontana.

- On Tuesday, City Hall staff celebrated the retirement of their buddy, John Clayden, as Building Inspector. They enjoyed an "open counter" with an abundance of snacks, drinks, and decorations.

John joined the Montclair family in July 1986, initially working at the City Yard. In 1992, John transitioned into his role as Building Inspector. During his 21 years in the Building Division, John was responsible for inspecting countless residential, commercial, and industrial projects; making acquaintances with builders, contractors, and other professionals along the way.

John could always be counted on for his friendly exchanges with the public, often peppered with humorous one-liners. His institutional memory of long-forgotten projects and their respective "players" will be missed by Community Development staff. In response to a question this week by Building Official Merry Westerlin, John said his favorite projects to inspect during his tenure in Montclair were the three affordable housing developments constructed by National Community Renaissance: San Antonio Vista Apartments, San Marino Senior Apartments, and Vista del Cielo.

John is looking forward to relaxing, spending more time with his wife, Frannie, playing a little more bingo and golf, and possibly joining a bowling league with friends.

A photo of John is featured below, with coworkers Robin MacKay, Xavier Mendez, and Liz Lew. Fare thee well, John!



➤ **POLICE DEPARTMENT**

- Recently, throughout the southern end of the City, the Police Department has been recovering stolen vehicles with stripped body and interior parts. Last Saturday, Officer Scott Jones encountered a stolen vehicle occupied by two people in a driveway of a residence. One of the vehicle occupants resided at the location. A cursory search of the residence revealed evidence of a chop shop. The Detective Bureau responded and a search warrant was obtained for the residence. Several miscellaneous auto body parts were located with missing vehicle identification numbers. Some of the vehicle parts were identified as parts to stolen vehicles that had been previously recovered in the general area.

The resident was arrested for being in the stolen vehicle recovered by Officer Jones and for operating a chop shop.

- On March 6, Reserve Captain Ron Foss and Reserve Officer Keith Dow responded to Montclair Library's request for Officers to read to children at the Dr. Seuss event, "Read Across America." Ron and Keith happily volunteered to read and had a great time with the kids. Ron did mention that the book he chose to read, *One Fish Two Fish Red Fish Blue Fish*, "seemed to go on forever!"

Keith and Ron are pictured below in their red hats:



➤ **FIRE DEPARTMENT**

- Firefighter/Paramedic Stan Boehm and his wife, Amy, are the proud new parents of a baby girl, Olivia Grace, born Monday, March 4. Olivia weighed 7 lbs 15 oz at birth and measured 20 inches in length.

Congratulations to the Boehm family!

- Captain Chris Younggren, Firefighter/Paramedic Carlos Becerril, and Firefighter Rusty Vidal also participated in "Read Across America" at Montclair Library's Dr. Seuss event on March 6. The Library staff expressed their appreciation to them for helping to make the event fun and successful. Check out the photo below of Carlos, Chris, and Rusty with characters from *The Cat in the Hat*.



➤ **PUBLIC WORKS DEPARTMENT**

- City Yard staff recently replaced the staircase located at the south side of Saratoga Park's baseball tower. The stairs had rotted due to weather and termite damage.

Reconstruction took a bit longer than originally anticipated due to weather delays and other scheduling conflicts, but the work is now completed. Building Maintenance Technician John Conley gave the staircase a finishing coat of brown paint, voilà! See for yourself—two "work in progress" photos and a photo of the finished product are featured on the next page.

This project was managed by Streets crew Leadworker Jeff Flanders, with help from Maintenance Workers Alex Cardona, Kirk Haymore, and Tommy Sierra.



➤ **SUCCESSOR REDEVELOPMENT AGENCY/MONTCLAIR HOUSING CORPORATION**

- Four years ago, new car buyers looking for auto financing were shunned by lenders. Now, benefitting from historically low interest rates and more available credit, new car buyers are finding ample financing opportunities. This is pushing new car and truck purchases to their highest level since 2007. Credit availability and low interest rates were "top of the list" of reasons why U.S. auto sales rose 13 percent last year, the biggest annual increase since 1984.

BusinessWeek.com reports U.S. light-vehicle sales climbed 3.7 percent in February to 1.9 million sales and the annualized industry sales rate, which is adjusted for seasonal trends, may have reached 15.3 million sales. "No industry has benefitted more from the unfreezing of the credit markets than new and used vehicles," Tom Webb, chief economist of Manheim Consulting, said this month. "Although the immediate goal of Federal Reserve actions was to lower long-term interest rates and support the mortgage market, it was auto financing that enjoyed the first boosts."

Ford Motor Company probably boosted sales of its cars and light trucks in February more than any major automaker, with an increase of 9.8 percent. Deliveries of Ford's Explorer sport utility vehicle will increase more than 50 percent from a year ago, according to Angie Kozleski, a spokesman for Ford. Volkswagen may post the second biggest increase among the largest automakers with a 9.2 percent gain for February in combined sales for Volkswagen and Audi brands. Toyota Motor Corporation deliveries are estimated to have risen 8.5 percent in February. General Motors probably sold 4.0 percent more vehicles than a year earlier.

Rising demand is leading automakers to invest and add workers at U.S. plants. Ford said this month it will spend \$200 million to boost production at an Ohio plant of a four-cylinder engine that goes into vehicles, including the Explorer. The factory will start production of the engine in late 2014 and add 450 jobs. The number of people employed in motor-vehicle and parts manufacturing climbed to 786,500 at the end of 2012, from 653,400 3 years earlier, according to the U. S. Labor Department. "Credit availability is a big part of supporting the growth of the auto industry," Joe Hinrichs, Ford's president of the Americas, told reporters recently. "Dealers are feeling more optimistic about leasing and credit availability for consumers."

ECS:spa

*"A wish that every day for you will be happy from
the start and may you always have good luck
and a song within your heart."
~ Irish Quote*

MARCH 2013



14	League of California Cities General Membership Inland Empire Division Dinner Meeting Sierra Lakes Golf Club, Fontana	6:00 p.m.
17	St. Patrick's Day	
18	Code Enforcement Committee Meeting City Hall Conference Room	6:00 p.m.
18	City Council Meeting Council Chambers	7:00 p.m.
20	Spring Begins	
21	Safety Committee Meeting City Hall Conference Room	9:00 a.m.
21	2013 City-County Conference, March 21-22 Lake Arrowhead Resort	
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.
27	Soroptimist International of Montclair/Inland Valley 22nd Annual Prism Award Luncheon Ontario Convention Center	11:30 a.m.
30	Easter Eggstravaganza and Pancake Breakfast Montclair Community Center	9:00 a.m. - 11:00 a.m.
31	Easter Sunday	