



January 29, 2015

**TO:** Honorable Mayor and City Council

**FROM:** Edward C. Starr, City Manager

**SUBJECT:** WEEKLY REPORT: January 22-29, 2015

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➤ ***CITY MANAGER/ADMINISTRATIVE SERVICES DEPARTMENTS***

- Earlier this month, Governor Jerry Brown released his much anticipated Fiscal Year 2015–16 budget. In brief, the Governor’s FY 2015–16 budget totals \$164.7 billion, of which \$113.3 billion is in General Fund spending, with \$2.8 billion reserved for the “rainy day” reserve fund in accordance with recently approved Proposition 2 “Rainy Day Budget Stabilization Fund Act.” The budget continues many of the policies enacted with the FY 2014–15 budget including allocations of Cap-and-Trade auction funds.

Governor Brown’s summary highlights that spending cuts enacted in previous budgets along with the temporary tax increases through Proposition 30 are responsible for the balanced budget. The temporary taxes will begin to decline following the upcoming budget year with the entire policy set to expire in 2018.

One of Governor Brown’s main concerns discussed in the budget is the increasing cost of retiree health care. Governor Brown’s office estimates that both state employee and University of California retirees have a combined health care liability totaling \$72 billion that is projected to grow to over \$90 billion in the next five years.

The following are a list of several of Governor Brown’s proposed budget expenditures.

## ***Environmental Quality***

**Cap and Trade Allocations:** The budget proposes to allocate \$1 billion from Cap-and-Trade revenues, continuing with the structure established in the FY 2014–15 budget:

- \$400 million for transportation
- \$150 million for transit
- \$250 million for High-Speed Rail
- \$202 million for energy efficiency and clean energy, natural resources, and waste diversion
- \$75 million for energy efficiency upgrades/weatherization and renewable energy projects in low income dwellings within disadvantaged communities
- \$20 million for the Energy Commission earmarked for energy efficiency upgrades and weatherization in public buildings
- \$15 million for the Department of Food and Agricultural earmarked for agricultural energy and operational efficiency
- \$25 million for the Department of Fish and Wildlife earmarked for wetlands and watershed restoration
- \$42 million for fire prevention and urban forestry projects
- \$25 million for the Department of Resources, Recycling, and Recovery earmarked for waste diversion.

**Flood Protection:** The budget proposes to allocate \$1.1 billion for the Department of Water Resources to support flood protection activities. This allocation appropriates all remaining Proposition 1E, of 2006, funds. These funds support flood protection efforts in the Central Valley, the Sacramento/San Joaquin Delta, and other flood prone areas of the state.

**Groundwater Management:** In addition to the \$21.3 million of Proposition 1 funds for grants for local groundwater plans, the budget proposal allocates \$6 million for the Department of Water Resources to provide technical assistance to local agencies on the development of the groundwater sustainability plans, as well as to implement specific requirements of the groundwater legislation such as the adoption of basin boundaries and regulations on best groundwater management practices.

**Other Water Action Plan Programs:** The budget proposal allocates \$6.7 million General Fund and \$2.6 million other funds for the Delta Stewardship Council to

implement the Delta Science Plan, incorporate the Bay Delta Conservation Plan into the Delta Plan, and coordinate federal approval of the Delta Plan.

The budget proposal allocates \$1.4 million for the Department of Water Resources to identify water management operation improvements during drought conditions and streamline water transfers.

### ***Public Safety***

**Rail Shipments of Oil:** \$10 million for Regional Railroad Accident Preparedness and Immediate Response Fund: This will allow the State Office of Emergency Services (OES) to coordinate with local agencies to enhance overall preparation for and responses to emergencies involving hazardous materials transported by railroad tank cars.

### ***Realignment–Related Expenditures***

#### **Recidivism Reduction Fund:**

- Re–appropriation of \$12.6 million for Community Re–entry Facility contracts: facilities to provide mental health and substance abuse disorder treatment
- \$15.6 million for expansion of substance abuse disorder treatment at non re–entry hub institutions.

#### **Community Corrections Performance Incentive Grant:**

- \$125 million to county probation departments in response to reductions in the number of adult probationers returned to prison (SB 678 funding)

#### **Post Community Release Supervision (PRCS) funding:**

- \$16 million increase to county probation departments to supervise temporary increase in average daily population of offenders under PRCS due to prison population reduction measures.

#### **Proposition 47–Reduced Penalties for Some Crimes Initiative:**

- No allocations for Corrections or local law enforcement, but references 132 inmates having been re–sentenced and released from prison as of December 4, 2014.
- Budget estimates that average daily prison population in FY 2015–16 will be reduced by 1,900 inmates due to combination of re–sentencing and avoidance of new admissions due to Proposition 47.

## ***State Retiree Health and Pension Costs***

Governor Brown is looking to address the \$72 billion unfunded liability in state retiree health. His proposal includes revamping the “pay-as-you-go” system and turns to a prefunded model, similar to that of pensions. He wants employees to share equally in prefunding retiree health benefits and will look to phase this in as labor contracts are renegotiated.

**CalPERS Retiree Obligations:** \$5 billion is proposed for state contributions to CalPERS for state pension costs and reflects the 2014 demographic presumptions.

**CalSTRS Retiree Obligations:** The budget proposal includes \$1.4 billion to implement into the second year of the teacher pension funding plan. This is part of the 2014 funding plan to close the expected shortfall over the next 30 years.

- The Ontario Reign (Reign), four-time Pacific Division Champions and proud affiliate of the NHL’s 2014 Stanley Cup Champion Los Angeles Kings will be hosting the Stanley Cup at the Citizens Business Bank Arena on Friday, January 30, 2015.

The event, sponsored by the LA/Ontario International Airport (ONT), will allow the Reign to share the iconic championship trophy with all of the fans in attendance throughout the game. The Reign will face the Idaho Steelheads at 7 p.m.

The Reign and ONT have partnered to raise funds for the Bob Hope United Services Organization of Ontario (USO). Before taking photos with the Stanley Cup, fans will be asked to help “Fill the Cup” with donations to the USO, one of the Inland Empire’s most important military organizations.

The USO, located at ONT, offers a variety of programs and services that support the morale, welfare, social and entertainment needs of American service men and women and their families in transit through ONT. With the help of its supporters, the USO continues to provide a home away from home to service men and women around the world.

The Reign’s NHL affiliate, the Los Angeles Kings, captured the Stanley Cup for the second time in three seasons this past year, going 16–10 through the Stanley Cup Playoffs. On the way, the team became the first in NHL history to win three game sevens on the road in a single postseason. The Kings were able to hoist the trophy after winning Game 5 at home in a 3–2 overtime thriller over the New York Rangers.

ONT will also have the Stanley Cup on display before it is taken to the Citizens Business Bank Arena. The Stanley Cup will be on display at ONT on Friday, January 30, 2015 from 2:45 p.m. to 3:45 p.m. at Terminal 4, Baggage Claim.

ONT is located at 2900 Airport Drive Ontario, California 91761 and the Citizens Business Bank Arena is located at 901 Via Piemonte, Suite 370 Ontario, CA 91764.

➤ ***HUMAN SERVICES DEPARTMENT***

- Yesterday, the Montclair Senior Center held its monthly birthday party, "Fun in the Snow," at the Community Center. More than 240 seniors enjoyed a delicious grilled chicken meal, birthday cake, hot chocolate, and games. Seniors were entertained by Senior Center volunteer and pianist Josie Arroyo. A photo collage of the event is included on page 10.
- The Montclair Community Action Committee will be honoring deceased Montclair veterans by taking submissions for its Veteran's Memorial Wall. The new plaques will be dedicated on Memorial Day 2015. The Veteran's Memorial Wall, located in Memorial Garden, pays tribute to individual Montclair veterans from all branches of service who are deceased and remains as an ongoing dedication to those who served our country during any war or peacetime.

Bronze plaques on the wall cost \$325 per veteran. Veterans must have been a resident of Montclair. All applications and payment are due February 20, 2015. Applications are available from the Recreation Center, Senior Center and on the City's website. For more information, contact 625-9451.

➤ ***PUBLIC WORKS DEPARTMENT***

- On January 26, 2015, a Notice to Proceed was issued to Rasmussen Brothers Construction, Inc., to begin construction of the Human Services/Recreation Building Improvement Project.

The current men's and women's locker rooms located in the Human Services and Recreation Building have become outdated and noncompliant with Americans with Disabilities Act (ADA) guidelines. The new improvements will include new flooring, showers, lockers, sinks, partitions, and lighting. Other improvements include a new employee restroom, widening of one racquetball court door, a drinking fountain, and a new reception counter, all ADA compliant.

Following the completion of this project and the availability of additional Community Development Block Grant funding, a second phase of construction is hopeful for 2016. The second phase of work would include an expansion of the existing weight room that would nearly triple the size allowing for modern ADA compliant exercise equipment.

The \$390,000 project is fully funded with Community Development Block Grant funds and is expected to be completed by June 1, 2015. Following are before/after photos.



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

- *Shopping Centers Today Newsbrief* reports that 130-year old retailer Sears is deconstructing parts of its imposing real estate portfolio in ways that could make a profound impact on the U.S. retail landscape.

Sears Holdings Corp., formed from a merger with Kmart a decade ago that consolidated some 3,500 stores across the two banners, operates fewer than half that many stores today, following a few waves of closures. Chairman, CEO and controlling shareholder Edward S. Lampert says the company is cashing in part of its real estate treasure trove as a means of helping support the remaining stores. Lampert dismisses critics who say the move is too little, too late. Meanwhile, industry experts mull over the value of the remaining properties and their potential reuses. “Sears real estate is a valuable asset, with tremendous potential for the right tenant in the right location,” said Matt Hammond, director of retail brokerage at Tustin, Calif.–based Coreland Cos. But “only 25 percent of Sears locations are in ‘A’ markets.”

The company, which closed roughly 200 Sears and Kmart stores last year, is also adjusting store sizes. In a December letter to Sears employees, Lampert called the company’s remaining properties “a flexible real estate portfolio which gives us time to try to turn around underperforming locations without the potential burden of long-term losses that would otherwise prevent us from taking these risks.”

In markets like Southern California, Sears holds a strong position. In fact, several deals Hammond tried to forge with the retailer there dissolved “because Sears

didn't want to give up a space when they're paying incredibly low rents on long-term leases," he said. One high-profile grocery chain was willing to pay market rent to sublease a Southern California location, but Sears declined, choosing instead to continue paying rent that is one-third of the market average, noted Hammond. Sears has also been reluctant to offer the tenant-improvement dollars that today's more-viable replacement tenants such as gyms and health care users would need to make deals work, he says.

Malls that have managed to pry prime leases out of Sears' hands anticipate significant upside. Sears sold its stake in the former Laguna Hills Mall in 2014 to Merlone Geier Partners, which had bought the other portion of the 40-year-old mall from Simon the previous year for renovation. The department store's leasehold was tying up 15 acres of the 68-acre property, and when Merlone Geier finally nabbed that, it shifted gears to build what project manager Jeremy Meredith calls a "promenade-style urban village." Nordstrom, too, has emerged as a player in the Sears scramble, taking over a couple of empty Sears stores.

But carving up Sears stores into smaller spaces can present a challenge, given their two-story heights and 130,000 square-foot expanses, says Hammond. Some have already been effectively subdivided to accommodate the trio of Dick's Sporting Goods, Forever 21 and Nordstrom Rack. "The key is to be able to repurpose the spaces in a strategic manner," Hammond said. By contrast, the retailer's portfolio of former Sears Auto Center shops, which typically measure about 11,000 square feet, is being marketed as dividable into 2,000-to-5,000-square-foot spaces, he says.

The book value of Sears Holdings' portfolio is about \$5 billion, according to Alan Shaw Sears Holdings' vice president of real estate, development, and leasing. Matt McGinley, an analyst at New York City-based International Strategy & Investment Group estimated the value of Sears Holdings real estate at about \$4 billion.

Analysts say it is unlikely that Sears will fold up soon and dump all its real estate, an act that would depress the market, as Sears' property still represents about 2 percent of total U.S. retail space. While the average strip-center vacancy rate at year-end 2014 was 10.2 percent, the lowest since 2008, the mall vacancy rate edged up to 8 percent in the fourth quarter of 2014, from 7.9 percent in the third quarter, attributable mainly to Sears and Kmart closures, according to real estate research firm Reis.

- Apple Inc. unveiled a slew of new products from larger-screened iPhones to refreshed Macs late last year to rev up growth. The move paid off last quarter with record sales and profit reported.

Apple shares rose as much as 6.7 percent in extended trading on Tuesday after the company reported that sales of iPhones during the quarter that ended December 27 rose 46 percent to 74.5 million units, topping analysts' average estimate of 64.9 million.

The sales helped push Apple's fiscal first-quarter profit to a record \$18 billion, or \$3.06 a share, on sales of \$74.6 billion. Analysts had predicted profit of \$2.60 a share, and revenue of \$67.5 billion.

Demand for Apple products soared "to an all-time high," Chief Executive Officer Tim Cook said in the statement.

The quarter that ends in December is typically the most lucrative period for the Cupertino, California-based company because of the holiday shopping season. This year, the scrutiny is even higher since the results provide the first official indicator of how the new products, which debuted in September and October, have performed.

Apple forecasts that the momentum would continue with revenue projected to rise to \$52 billion to \$55 billion, an increase from \$45.6 billion during the same period a year ago. Gross margins could widen from 38.5 percent to 39.5 percent compared with 39.3 percent a year earlier. Analysts had predicted revenue would rise in the current quarter to \$53.7 billion, with margins at 38.6 percent.

Investor enthusiasm for Apple's new products helped push shares to a new high last year, briefly boosting the company's market capitalization to more than \$700 billion, a first for a U.S. company.

For the just-ended fiscal first quarter, net income rose 38 percent from \$13.072 billion a year earlier, while revenue increased 30 percent from \$57.6 billion a year ago. The previous profit record of \$13.078 billion was set in the fiscal first quarter of 2013.

The larger-screened iPhone 6 and 6 Plus, which debuted in September in the U.S. and arrived in other major markets in October, helped boost margins to 39.9 percent. That topped Apple's forecast in October of 37.5 percent to 38.5 percent and exceeded the average prediction of analysts for 38.5 percent.

The strength of the U.S. dollar posed a challenge for Apple in places such as Russia, where the company briefly halted online sales during the quarter.

Sales were particularly robust in the final quarter in China, where revenue rose 70 percent. Cook has said Apple will open 25 new stores in that country within two years. In the Americas, sales rose 23 percent, while revenue from Europe increased 20 percent. Apple predicts continued growth in the

beginning quarter of 2015 as sales are expected to rise in China during the Lunar New Year holiday.

The holiday, which falls on February 19 this year, is regarded as the most important holiday in China and is traditionally celebrated with luxury gifts.

ECS:snh

*“No one's ever achieved financial fitness with a January resolution that's abandoned by February.”  
~ Suze Orman*

		
2	City Council Workshop – Quach Appeal Hearing Council Chambers	5:45 p.m.
2	City Council Meeting Council Chambers	7:00 p.m.
4	Community Action Committee Council Chambers	7:00 p.m.
9	Planning Commission Meeting Council Chambers	7:00 p.m.
10	City Manager’s Staff Meeting City Hall Conference Room	9:00 a.m.
11	Oversight Board Meeting Council Chambers	6:00 p.m.
12	Special City Council Meeting – Midyear Budget Review City Council Chambers	5:45 p.m.
<b>16</b>	<b>Presidents’ Day – City Hall Closed</b>	
17	Code Enforcement/Public Safety Committee Meeting City Hall Conference Room	6:00 p.m.
17	City Council Meeting Council Chambers	7:00 p.m.
23	Planning Commission Meeting Council Chambers	7:00 p.m.
24	City Manager’s Staff Meeting City Hall Conference Room	9:00 a.m.



# Senior Center January Birthday Party

