September 17, 2015

TO: Honorable Mayor and City Council

FROM: Edward C. Starr, City Manager

SUBJECT: WEEKLY REPORT: September 11-17, 2015

CITY MANAGER/ADMINISTRATIVE SERVICES DEPARTMENTS

- Last month, the California Public Employee Retirement System (CalPERS) heard a proposal from its Chief Actuary to lower the fund's annual projected earning rate for the second time in three years. If the action is approved, it would represent the fourth in a series of recent rate increases imposed on contracting agencies, including the following:

    1. Employer rates increased in 2012 when CalPERS lowered the fund's annual earnings forecast from 7.75 percent to 7.5 percent.

    2. In 2013, rates increased related to revisions to mortality tables that projected longer life spans for annuitants.

    3. In 2015, CalPERS, in an effort to achieve a fully funded pension system within 30 years, obligated cities to pay down unfunded liabilities by assessing annual rate increases through 2020, and assessing the higher rates for 25 years. The average local agency will see an average increase of 50 percent over 5 years. Some local government agencies, like Montclair, can anticipate experiencing significantly higher increases over the same period.

    The series of employer rate increases are contemplated as a move to lower the risk of big investment losses as the maturing pension system enters a new era: According to CalPERS officials, retirees will soon outnumber active workers; concurrently, pension payments to retirees are no longer covered by employer-employee contributions and investment income. Instead, negative cash flow forces the sale of some investments to cover annual pension costs. This new need to routinely sell some investments is one of the reasons CalPERS is expected to have greater difficulty recovering from investment losses in the future.

After a loss of $100 billion during the Great Recession, CalPERS' funding level dropped from 100 percent in 2007 to 61 percent in 2009. Effectively, the CalPERS investment portfolio dropped from about $260 billion in the fall of 2007 to $160 billion in March 2009, before climbing to just above $300 billion by August 2015.

Disappointingly, the pension fund has not fully recovered and continues carrying significant unfunded liabilities despite a major bull market in which the S&P 500 index of large stocks tripled. With some analysts now suggesting Wall Street is entering a bull market, CalPERS' funding crisis, and thus the cost to local governments, will only be compounded.

The funding level of CalPERS in Fiscal Year 2013-14 was 77 percent of projected assets needed to pay pensions promised in the future; but investment returns last year were below the 7.5 percent forecast (coming in at 2.4 percent), causing the funding level to fall again to a range of 73 percent to 75 percent, where it currently remains.

Despite current gloomy forecasts regarding growth in the pension fund's assets, there is no immediate projection that CalPERS will soon run out of funds. Its main fund paid $18 billion last year to 594,842 annuitants, up from $11 billion in 2007 paid to 462,370 annuitants. Long-term, however, the funding problem is reflected in the earnings: In 2014, employers directly contributed $8.8 billion on the employer rate, up from $7.2 billion in 2007; the member contribution (which includes employee and employer contributions) was $3.8 billion, up by only $300 million from $3.5 billion in 2007. Coupled with weak performance on its investments, it is apparent that CalPERS will push more and more of its costs to its contract agencies.

Thus, the stage has been set for the current plan to lower the annual earnings forecast. Critics argue that CalPERS' annual earnings forecast of 7.5 percent remains too optimistic and conceals an even larger funding gap. In response, CalPERS is working on a risk mitigation strategy that could slowly lower the forecast to 6.5 percent over 20 years, imposing new, long-term increases to employer rates.

Governor Brown has urged the CalPERS board to consider using existing policy to speed up the lowering of the earnings forecast, phasing it in over 5 years instead of the 20 years proposed by CalPERS. However, CalPERS maintains the proposed strategy to drop earning forecasts over 20 years would balance the need to lower investment risk with its concern of the impact on the budgets of 3,000 local governments, some in better financial condition than others.

When the earnings forecast is adjusted downward, CalPERS is expected to shift some assets to less risky bond-like investments. The yield would be lower, but so too, CalPERS argues, is the chance of big losses in an economic downturn.

Under the proposed risk mitigation strategy, CalPERS would consider steadily lowering the earnings forecast in good years, when the annual investment return is well above the current earnings target of 7.5 percent, until it ultimately achieves the lower 6.5 percent projected target on investment earnings.

In the past, CalPERS rate increases only hit employers; but now employees are generally included. The Public Employee Pension Reform Act (PEPRA) calls for employees to pay half of the pension system's normal cost, excluding the unfunded liability from previous years.

The CalPERS staff recommended a blended path with check points, perhaps every four years, when a lower earnings forecast would be considered. Under this scenario, CalPERS suggests rate increases would be more certain and predictable.

Union representatives argued for a flexible path when a lower earnings forecast would only be considered after a year with great investment returns. Rate increases would not be on autopilot and would be less likely to happen after a year of bad returns.

The League of California Cities told the board that cities generally supported action by CalPERS to reduce investment volatility risk, but that there was no consensus on whether CalPERS should use the Flexible Glide Path or Blended Glide Path.

The CalPERS board directed that a flexible plan be presented in October 2015, with a final vote on the risk mitigation strategy due in November 2015.

- The California building industry has asked the U.S. Supreme Court to hear its legal challenge to a San Jose affordable housing law upheld earlier this year by the state Supreme Court.

  In a petition filed Tuesday in the U.S. Supreme Court, lawyers for the industry argue that San Jose's law and others like it across California violate federal constitutional protections against the "taking" of private property.

  The California Supreme Court, in a unanimous ruling in June written by the Court's Chief Justice, determined that San Jose's affordable housing program is within the law, observing: "These problems have become more and more severe and have reached what may be described as epic proportions in many of the state's localities."

  The case involves a legal challenge to a San Jose law that would require housing developers to include affordable, below-market priced units for low-income buyers on any new projects within the city. The building industry sued to block enforcement of the so-called "inclusionary housing" law several years ago.

  San Jose city officials expressed confidence the high court would uphold the housing law. City officials are confident that the U.S. Supreme Court will agree that inclusionary ordinances are a lawful and effective means to create affordable housing.

The League of California Cities and California State Association of Counties, which back San Jose in the case, estimate about 170 local governments have put versions of the law in place to deal with the state's shortage of affordable housing, considered an acute problem in Silicon Valley and around the Bay Area.

The state building industry considers such legislation a strong-arm tactic that, in the long run, will drive up already exorbitant housing prices. They maintain such laws will force developers to simply pass along the cost of subsidizing below-market units to new homebuyers.

In particular, the industry argues the law is an unconstitutional taking of property, and San Jose has not established a connection between the building of new housing and the affordable housing problem. Cities, they argue, make that case in forcing developers to pay fees to cover the impact of new housing developments on things such as local schools and parks, but have not done so for affordable housing.

San Jose's law would require developers to offer 15 percent of units in new projects of 20 or more units at below-market rates. Developers could opt out of building affordable units by paying a fee, which the housing industry estimates could run about $122,000 per house.

Housing advocates warn of dire consequences, if the Supreme Court strikes down San Jose's affordable housing regulation. California has been considered a model for such laws, designed not only to provide more low-income housing, but also to get it built in a larger cross-section of neighborhoods.

FIRE DEPARTMENT

- On September 11, Captain Chris Jackson, Acting Engineer Brian Ciszek, Firefighter Mike Matheson, and Firefighter-Paramedic Nathan Brooks responded to the Butte Fire Incident as part of a California Office of Emergency Services (OES) Strike Team. Over 4,500 firefighters are working to combat the fire. So far, the fire has burned more than 71,700 acres and has destroyed more than 200 homes. There have been no injuries to firefighters battling the blaze.

  Fire behavior remained moderate early in the week, allowing crews to be more effective in perimeter control. Firefighters continue to fight the fire aggressively; but critical fuel moisture levels, steep terrain, and limited fire access continue to provide challenges. At this point, the fire has approximately 45 percent containment.

  The Montclair crew members have been working 24-hour shifts followed by a 24-hour shift rest period. Their primary assignments have been structure triage and structure protection.

Further, mandatory evacuations throughout Amador and Calaveras counties are being lifted and are now under evacuation advisories. Residents and the public are being urged to use caution, as emergency vehicles and personnel remain working in the area. All are advised to remain alert to any changes in fire and weather conditions.

- Governor Jerry Brown has authorized $12.4 million in additional spending, as follows, to help fight the massive wildfires raging through California:

  - ✓ $1.5 million for additional firefighter staffing. This will pay for 100-150 more firefighters through December, along with their equipment.
  - ✓ $8.7 million for the use of six firefighting helicopters.
  - ✓ $1.6 million to replace outdated water buckets on California National Guard helicopters being used to fight the wildfires. The new buckets will allow the helicopters to retrieve water from shallow water sources, essential because the drought has dropped water levels in many lakes and reservoirs.
  - ✓ $600,000 for staffing at a facility for reloading firefighting planes at the former McClellan Air Force Base near Sacramento.

  The money, which comes from the state's special fund for wildfire suppression, will help state firefighters battling two of California's most treacherous blazes: the Valley fire in Lake and Napa counties, which has burned more than 61,000 acres and led to one death; and the Butte fire in Amador and Calaveras counties that has burned more than 71,000 acres.

  The Governor and Legislature had budgeted $392 million for the state's Emergency Wildland Fire Suppression fund for the current fiscal year. As of September 7, the state already has spent $212.6 million to battle fires.

  Once all that money is gone, the state can dip into its $1.1 billion reserve fund for economic uncertainties. The state has the money to ensure that state firefighters will have all the resources they need to battle each and every wildfire in California, if need be.

  The Obama administration on Tuesday directed an additional $250 million in federal funds to fight wildfires raging in California and other western states.

  The funding is in addition to $450 million already transferred from different sectors of the federal budget to fight the fires. The additional funds accompany an admonition from the Obama administration to Congress to begin treating wildfires as emergencies exempt from spending thresholds as hurricanes, tornadoes, and other natural disasters are considered.

It has not been reported as of yet how the distribution of federal funds will occur or what percentage of funds California will receive.

HUMAN SERVICES DEPARTMENT

- On Tuesday, Mayor Paul Eaton and I joined 150 City employees for a festive End of Summer Employees' Barbecue, compliments of Montclair business Global Link Distribution Inc. in appreciation of Montclair City employees' service to the community. The delicious lunch was catered by Wood Ranch Bar B.B.Q. & Grill.

  A photo collage of the event is included on Page 12.

- Montclair Day at the Fair was held last Friday at the L.A. County Fair. The day's activities included a parade featuring Montclair groups, including our Fire, Police, and Public Works Departments; Senior Center and Youth Center; plus a special ceremony for Montclair's Community Heroes—Senior Community Hero Irene Norquist and Adult Community Hero Emma Casillas.

  Awards were presented to the heroes by Council Members John Dutrey, Bill Ruh, and Trisha Martinez on behalf of the City; Montclair Chamber of Commerce Executive Director Darleen Curley; County Supervisor Curt Hagman; representatives from the offices of Senator Connie Leyva and Assembly Member Freddie Rodriguez; and Ontario-Montclair School Board representatives. Community Hero Norquist volunteers at the Senior Nutrition Program and the Senior Center's Needle Craft Class, and Community Hero Casillas volunteers with the City's Por La Vida Program and special events.

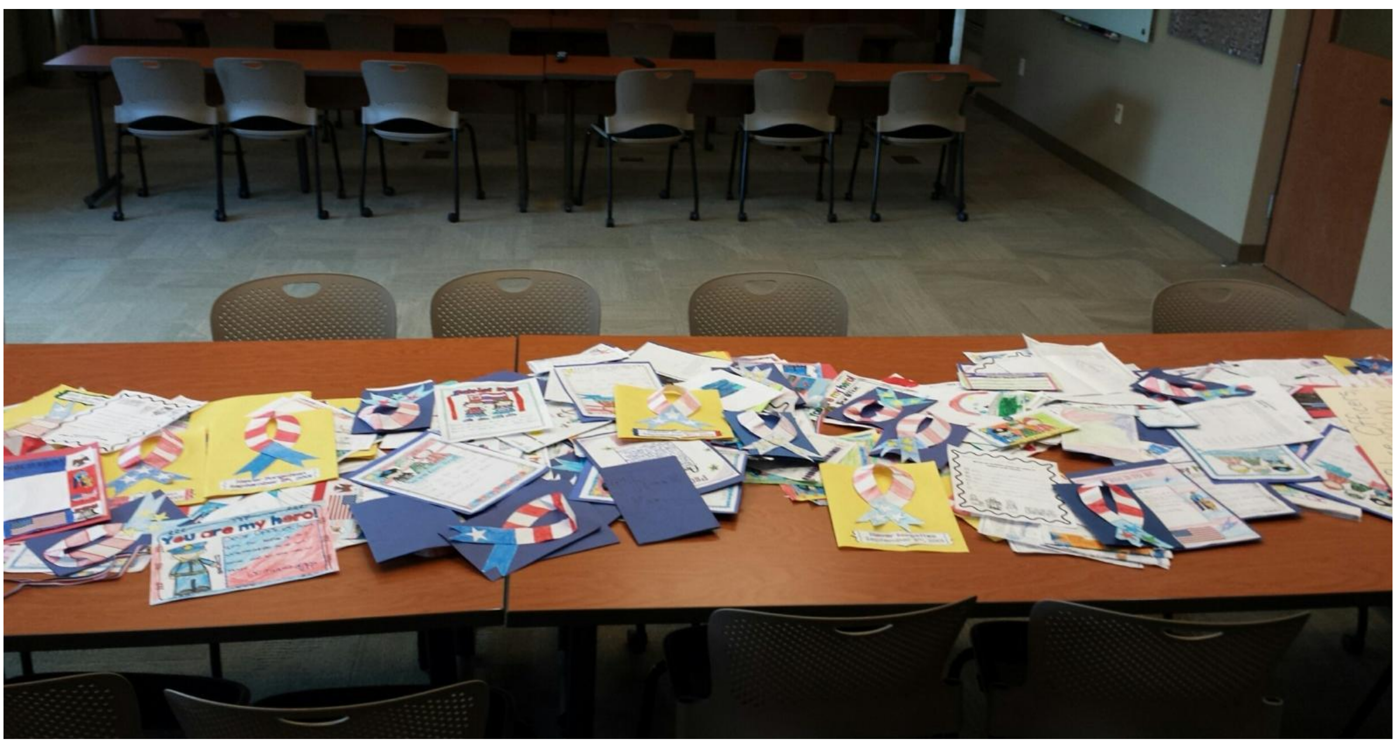
  A photo collage of the day is shown on Page 13.

  City employees and the community may still purchase discounted Fair tickets from the Recreation Center and the Senior Center. Tickets are good any day the Fair is open. Adult tickets are $12 and child tickets (6-12 years old) are $6. Children 5 and under are free. Tickets must be purchased with cash. The Fair runs until Sunday, September 27, and is closed Mondays and Tuesdays.

POLICE DEPARTMENT

- On September 11, Police Officers were the guests of honor at Patriot Day held at Ramona and Monte Vista Elementary Schools. CSU Officers attended the Ramona Elementary School program, and Detectives Eric Ruziecki and Courtnie Mair, School Resource Officer Gloria Perez, and Motor Officer Kris Kelley attended the program at Monte Vista Elementary School.

CSU Officers Nick Almeida, Eric Rivera, and Jeffrey Wheater; and Sergeant Matt Borra are pictured above, with Ramona Elementary School children



Artwork by Ramona Elementary School children, illustrating their support of Montclair's law enforcement officers, is piled on a table in the Police Department's Briefing room and has been enjoyed by staff all week

PUBLIC WORKS DEPARTMENT

- As of August 31, Merchants Building Maintenance is no longer the maintenance contractor providing custodial services for the City of Montclair. Effective September 1, four part-time employees were hired to perform in-house custodial maintenance. Two of the new employees, Juan Carrillo and Maria Carrillo, are generally assigned to the Police Department, but also work at City Hall. The other two employees, John Argent and Pedro Flores, are solely assigned to the Civic Center facilities.

  Please welcome these new employees to the Montclair family!

SUCCESSOR REDEVELOPMENT AGENCY/ MONTCLAIR HOUSING CORPORATION

- Paying with a credit card has become like clockwork for most Americans. We don't even have to think about swiping the plastic in our wallets.

  Come October 1, 2015, things will start to change, due to the nationwide migration to EMV technology. With EMV (which stands for Europay, MasterCard, and Visa), you will start "dipping" your credit and debit cards into a terminal slot instead of sliding them.

  Rather than reading the magnetic stripe on the back of your card, payment processing systems will read a microchip on the front of cards, which aims to improve security and reduce fraud.

  While a relatively new concept in the US, EMV chip technology has been widely used in Europe and other parts of the world for several decades in order to combat fraud.

  The traditional cards with magnetic stripes are decades old and easy for fraudsters to forge. With the EMV technology and chip-embedded cards, forgery is much more expensive.

  "Historically, the weakest link has been in the card," says Nuno Sebastiao, CEO of Feedzai, a data science company that detects payment fraud. "It's very easy to copy the stripe on a card. With a chip, that will be much harder. It's still doable, but it becomes much more costly."

  While the US is gradually catching up to Europe with this technology, we are still lagging in more ways than one. In the US, after dipping your card, you'll sign a receipt. In Europe, you dip and enter a four-digit PIN number, which is more secure than the dip-and-sign procedure. Banks can choose to issue cards that require a PIN, but it won't be required in October 2015.

Currently, if you fall victim to credit card fraud, your issuing bank will pick up the tab and insure you.

Starting October 1, the responsibility will shift to merchants, if they are still using the old "swipe and sign" system and do not accept a chip-enabled card. If the merchant accepts EMV cards, the issuing bank will insure you like it does today.

It works the other way around as well: If the merchant has the new terminal, but the bank hasn't started using a chip card, the bank will be responsible. This means there is incentive for merchants to start updating their in-store terminals to be EMV compliant, and for banks to start issuing new, chip-enabled cards.

You won't start exclusively dipping your card on October 1. Dipping will become more prevalent, but the full transition could take the better part of two years. October 1 is a very soft deadline. There will not be an instantaneous shift at the start of the month. Many merchants do not even have the new equipment installed, and some banks have not issued new cards to all of their customers.

The card networks—Visa, Discover, MasterCard, and American Express—are front-running the liability shift and have set the October date. It remains to be seen how strict they will be with the deadline, as so many merchants are not ready for the transition.

- Kroger is dominating the grocery industry, enjoying 47 quarters of same-store sales growth.

  Kroger (Ralph’s in Southern California) has recently opened a new concept store near its headquarters in Cincinnati, Ohio. The location, the company's second largest ever, includes everything from gourmet food to clothing to house wares. Kroger's new location includes a growler bar with craft beer. The bar is situated near a deli and prepared-foods section. There's also a wine bar where people can test wine and socialize, similar to ones found at Whole Foods.

  The new bars complement Kroger's extensive food selection. The brand sells prepared, packaged, and fresh foods. But now Kroger is testing out something new: offering extensive collections of clothing and footwear.

  There's an emphasis on children's clothing, making Kroger an attractive option for families who would normally shop at Wal-Mart or Target.

  Wal-Mart and Target are struggling to revamp their grocery businesses, making Kroger's new store a big potential threat to the department discounters.

  Kroger is also expected to surpass Whole Foods Market within two years and become the nation's top seller of organic and natural food. Kroger is perceived as a better value than the organic grocer, according to analysts at JPMorgan

  Wal-Mart and Target have been trying to improve their grocery selections to include better produce and more organic and prepared foods. Kroger has the food component down, but it is unclear whether its foray into clothing will be successful.

Selling clothing, decor, and food makes Kroger a one-stop shop for customers. This makes it a huge threat to Wal-Mart and Target, which do not excel at groceries the way Kroger does.

ECS:spa

"Do not let what you cannot do interfere with what you can do."
~ John Wooden

SEPTEMBER 2015

17	Safety Committee Meeting City Hall Conference Room	9:00 a.m.
17	Public Works Committee Meeting City Hall Conference Room	4:00 p.m.
21	Code Enforcement Committee Meeting City Hall Conference Room	6:00 p.m.
21	City Council Meeting Council Chambers	7:00 p.m.
23	Autumn Begins	
28	Planning Commission Meeting Council Chambers	7:00 p.m.
29	City Manager’s Staff Meeting City Hall Conference Room	9:00 a.m.

OCTOBER 2015

5	City Council Workshop – David Turch & Associates Council Chambers	5:45 p.m.
5	City Council Meeting Council Chambers	7:00 p.m.
7	Community Action Committee Council Chambers	7:00 p.m.
12	Planning Commission Meeting Council Chambers	7:00 p.m.
13	City Manager’s Staff Meeting City Hall Conference Room	9:00 a.m.
15	Safety Committee Meeting City Hall Conference Room	9:00 a.m.
15	Public Works Committee Meeting City Hall Conference Room	4:00 p.m.
19	Code Enforcement Committee Meeting City Hall Conference Room	6:00 p.m.
19	City Council Meeting Council Chambers	7:00 p.m.
26	Planning Commission Meeting Council Chambers	7:00 p.m.
31	Annual Children’s Halloween Party Montclair Community Center	5:30 p.m. - 8:00 p.m.

End of Summer Employee BBQ

Thank You

Global Link Distribution Inc

GLOBAL LINK DISTRIBUTION INC

September 15, 2015


September 11th, 2015
MONTCLAIR AT THE FAIR
livingsocial
LACF
City of Montclair
YOUTH CENTER
POLICE