MONTCLAIR

BUILD THE GOLD LINE TO MONTCLAIR

November 5, 2015

TO: Honorable Mayor and City Council

FROM: Edward C. Starr, City Manager

SUBJECT: CITY MANAGER'S WEEKLY REPORT: October 30-November 5, 2015

CITY MANAGER/ADMINISTRATIVE SERVICES DEPARTMENTS

- Mostly because of rising pension costs, triggered in part by an undeterred effort by CalPERS to achieve full funding in 30 years, a growing number of Californians are again facing revenue shortfalls only 5 years after the official end of the Great Recession. The city of Long Beach recently announced it faces an estimated $7.5-million budget gap in 2016, and officials are already outlining cuts across the city, including million-dollar reductions in the police and fire departments. Similarly, the city of Sacramento is expecting a $20-million hike in pension costs over the next 5 years, above the $60 million paid this year. And by 2020, Montclair is expecting pension costs to increase to nearly $8 million, 2 times greater than what the City paid in 2014.

  Now, the looming fiscal crisis for cities may only grow gradually worse once the CalPERS Board of Administration implements a plan to raise employee pension costs even higher as it grapples with unachieved investment projections, declining earnings, a cash-flow emergency, and an annuitant pool soon to grow larger than the number of actively contributing employees.

  Under the proposal, CalPERS' initial step is to gradually move more of its $300-billion portfolio to safer investments that earn lower returns. As a result, investment income would provide less money for public pensions and cities would be required to kick in substantially more money. A final vote on the plan is expected before the end of 2015.

  CalPERS staff members argue the changes are necessary to improve the financial stability of the fund, which provides benefits to 1.7 million employees and retirees of the state government, cities, and other local agencies. They say that moving more assets into safer investments (like bonds) will reduce the chance of a loss similar to the 28 percent plunge the fund suffered in 2008 during the Great Recession.

By some estimates, CalPERS already needs an additional $100 billion to fully cover its pension payment obligations. A steep decline in the markets or a lower return on investments would dig that hole far deeper.

At the heart of the CalPERS proposal, however, is a reduction to the expected annual rate of investment return from the current 7.5 percent to 6.5 percent. Government watchdogs have been warning for years that public pension plans across the country are overestimating how much they can earn on their investments.

For example, in 2000 when the stock market was booming, CalPERS projected an annual investment return of 8.3 percent. Based on this overly optimistic projection, state legislators and CalPERS urged cities throughout the state to adopt lucrative and enhanced safety and miscellaneous pension formulas, including the exorbitantly expensive 3 percent @ 50 CHP formula, promising that optimistic returns would cover employer contributions.

Concurrent to adoption of enhanced formulas by a substantial number of California cities, Wall Street's dot-com bubble burst expanded, causing (1) investment returns to shrink; and (2) CalPERS employer rates to climb to unprecedented levels. In 2003, CalPERS lowered its annual investment return to 7.75 percent, where it remained until March 2012, when mounting pressure by economists, Wall Street, and federal regulators induced CalPERS to lower the projected return on investments to the current 7.5 percent.

With the nation experiencing a jarringly slow recovery from the Great Recession, CalPERS' investment portfolio performance has not been particularly stellar; for example, in the year ending in June 2015, the fund earned just 2.4 percent.

The new proposal presented to the Board of Administration is the result of CalPERS' recognition that—even with significantly more contributions from local governments—an aggressive investment strategy cannot sustain the level of pensions promised to public workers.

Even now many cities are struggling to meet current pension obligations. Unfortunately, the worse is yet to come as local governments enter a 6-year span in which required payments to CalPERS will rise by an estimated 50 percent and higher.

A recent report by Moody's, the credit rating firm, found that a substantial number of California cities are now paying to CalPERS annual employer rates that are equal to no less than 32 percent of salaries paid to police and fire employees, while other cities, including Montclair, are paying significantly more. By 2020, California cities are expected to be paying at least 50 percent of salaries toward pension costs.

Despite the fiscal impacts, many local governments support the proposal because of its potential to reduce future financial risks and slowly eliminate unfunded liabilities. In effect, knowing what is coming is better than not knowing. However, several cities, including Montclair, were blindsided by massive increases in 2015—Montclair's contribution in 2015 was projected to increase by $1.6 million. The City objected to the increase and, at the request of CalPERS, forwarded a protest letter to the Board of Administration. The Board reduced the City's 2015 increase to approximately $900,000 and authorized smoothing the difference over the next several years.

CalPERS has said it designed the plan now under consideration to minimize the effect on cities by slowly making the changes over decades. The expected annual rate of investment return would be lowered in tiny increments ranging from 0.05 percent to 0.25 percent each year—and only in years in which the fund's investments perform far above expectations. Historically CalPERS provided cities a break in good economic years by lowering previously announced employer rate payments. That practice now officially ends. CalPERS officials estimate that it may take 30 years to reduce the expected rate of return from 7.5 percent to 6.5 percent.

In recent years, CalPERS finally recognized the fund's precarious finances, noting that annual employee and employer contributions are no longer enough to cover monthly checks sent to retirees. In 2014, for example, governments and employees paid CalPERS $12.5 billion ($8.8 billion on the employer rate and $3.8 billion on employee rate); however, those combined amounts fell $5.2 billion short of the $17.8 billion paid to retirees in 2014. As a result, the pension fund must now pull money from its investments to cover what it calls "negative cash flows."

Those shortfalls come, in part, from the lucrative pension benefit increases provided back in the early 2000s and the aging of the government workforce. With the increasing number of baby boomer retirements, CalPERS estimates that the number of government retirees will exceed the number of working public employees in less than 10 years.

- Los Angeles World Airports (LAWA), in partnership with the City of Los Angeles Department of Cultural Affairs, recently announced a solo exhibition at Los Angeles-Ontario International Airport, featuring Los Angeles-based artist Brandy Eve Allen. The exhibition is titled *Missing Persons* and features 60 plaster sculptures of milk cartons inspired by the 1980s milk carton campaign created to assist in finding missing children, before the age of social media.

  Displayed in front of large-format photographs of urban and rural landscapes that create dreamlike settings, the cartons are a visual expression of the transient nature of relationships. The cartons themselves feature photographic portraits of people "missing" from the artist's life, and her reflections on those former relationships.

The *Missing Persons* milk carton exhibit marks a moment in pop culture that may resonate with many viewers, while others may find it a fascinating historical narrative about the plight of missing children. The artist appropriates this pivotal campaign in her *Missing Persons* series to consider relationships that have gone “missing” in her own life: whether because relationships ended, or people moved, or quietly grew apart.

The plaster, quart-size milk cartons with black-and-white portraits and writings resemble private journal entries, offering viewers a very intimate look at moments of transience. The backdrop photographs feature some of the places inhabited by the artist during past relationships.

Missing Persons offers viewers an opportunity to reflect on their own moments of connections and disconnections with people in their own lives, especially in the midst of our evolving efforts to create lasting, meaningful connections within the realm of social media.

Initiated in 1990, the purpose of the Public Art and Exhibitions Program at LAWA is to educate and entertain the traveling public at LAX and ONT, and the FlyAway Bus Terminal at Van Nuys Airport. The program showcases local and regional artists through temporary exhibitions and permanent public art installations.

Missing Persons is on display now on the Departures Levels in Terminals 2 and 4, for ticketed passengers only through February 2016.

- The Federal Reserve System on Wednesday described the economy as expanding at a "moderate" pace and put a December rate hike on the table with a direct reference to its next policy meeting. The U.S. central bank has kept benchmark overnight interest rates near zero since December 2008.

  The economy has struggled to sustain a faster pace of growth since the end of the 2007 Great Recession, with average yearly growth failing to break above 2.5 percent. Economists had forecast GDP expanding at a 1.6 percent rate in the third quarter.

  Businesses accumulated $56.8 billion worth of inventory in the third quarter, the smallest since the first quarter of 2014 and down sharply from $113.5 billion in the April-June period. The small inventory build sliced off 1.44 percentage points from third-quarter GDP growth, the largest since the fourth quarter of 2012.

  The blow from inventories was blunted by bullish consumers, who are getting a tailwind from cheaper gasoline and firming housing and labor markets.

  Consumer spending, which accounts for more than two-thirds of U.S. economic activity, grew at a 3.2 percent rate after expanding at a 3.6 percent pace in the second quarter. A measure of private domestic demand, which excludes trade, inventories and government spending, rose at a sturdy 3.2 percent pace.

  Given a strong dollar, export growth decelerated in the third quarter. The drag was, however, offset by a slowdown in imports, leaving the impact from trade on GDP growth neutral.

  Ongoing spending cuts in the energy sector also undermined growth. A plunge in oil prices has prompted oil field companies to slash investment. Most analysts did not expect a recovery in demand before 2017 and anticipated that exploration and production spending would fall again in 2016.

  Despite strong domestic demand, inflation retreated because of dollar strength and cheaper gasoline.

The personal consumption expenditures (PCE) price index rose at a 1.2 percent rate after rising 2.2 percent in the second quarter. Excluding food and energy, prices increased at a 1.3 percent pace.

- Over the next 3 years, Southern California Edison (SCE), the state's second-largest investor-owned utility, plans to spend $12 billion to modernize the electric grid, the chief executive of the utility's parent company said Tuesday.

  The utility is adjusting for changes in technology with rooftop solar and other innovations. The majority of the yearly $4 billion spent each year will be used on upgrading transmission systems. Roughly $240 million a year, or about 6 percent, will go toward new power generation.

  The biggest issue facing SCE is its ability to provide electricity with little environmental impact without choking out economic growth and job creation, and maintaining its aging infrastructure.

  Utilities in California and throughout the nation are grappling with the rapidly changing electric industry as innovations with rooftop solar and other individualized or so-called "distributive" resources become increasingly cost effective.

  SCE is not alone in its planned investments over the next 3 years. The utility industry trade association, the Edison Electric Institute, projects the nation's power companies will spend $300 billion on capital projects. About $100 billion of that will go to new power plants, such as natural gas-powered facilities, as well as solar and wind farms. Utilities expect to spend about $150 billion on wiring the system and the rest for the natural gas system.

  SCE's investment over the next 3 years will enable the utility to prepare for a future in which individuals may play a role in selling electricity on the market.

FIRE DEPARTMENT

- Last Thursday, Fire Captains Brian Brambila and Ed Cook, and Fire Engineer Narek Babayan stopped by the Mini-School's Halloween Program to offer the students some information on Halloween safety and a show-and-tell of the fire engine. Afterwards, they treated the children to pencils, stickers, and candy.

Fire Engineer Narek Babayan and Fire Captain Ed Cook

Fire Captain Ed Cook, Fire Engineer Narek Babayan, and Fire Captain Brian Brambila

HUMAN SERVICES DEPARTMENT

- Several hundred children and their families attended the Annual Children's Halloween Party last Saturday night.

  Also in attendance were Mayor Pro Tem Carolyn Raft and Council Members John Dutrey, Bill Ruh, and Trisha Martinez.

  Staff repeated the "spiced up" festivities from last year with the popular Wii game "Just Dance" so everyone could enjoy dancing in their costumes.

  Special thanks go out to our sponsors: Montclair Plaza, Montclair-Ontario Junior Women's Club, and the City of Montclair for donating candy and prizes. Recognition also goes to our volunteers, members of the Community Action Committee who judged the costume contest, Information Technology Division staff for setting up audio and the Wii game, and Fire Department staff for attending and passing out candy.

  Photos are shared on Page 12.

POLICE DEPARTMENT

- Omnitrans held its annual Roadeo on Saturday, October 24, for its employees. Police Officers Kris Kelley and Javier Aguilar (shown below) were invited to judge the bus-driving competition/contest.

The Omnitrans' parking lot was set up as an obstacle course with cone delineations, and the bus drivers had to drive the buses through the course without touching or knocking down the cones. The Officers took their roles seriously and filmed each bus driver's performance to make sure their judgments were accurate!

SUCCESSOR REDEVELOPMENT AGENCY/ MONTCLAIR HOUSING CORPORATION

- This week at the company's investor conference, Kroger (Ralph's in Southern California) revealed it reached $11 billion in organic and natural product sales in the past year. That's nearing the biggest name in the organics business, Whole Foods, which had a total of $14 billion in sales last year. Apparently, Kroger is much more than a grocery chain—it's a company with the ability to steal business from Wal-Mart, Target, Whole Foods, and even McDonald's.

  In fact, Kroger is expected to surpass Whole Foods to become the nation's top seller of organic and natural foods within two years, according to a recent report by JPMorgan Chase. *Simple Truth*, the company's natural and organic brand launched in 2012, is reportedly the largest organic brand in the country. However, Kroger's recent growth goes beyond building organic brands.

In September, the chain announced it had reached 47 consecutive quarters of positive same-supermarket sales growth (excluding fuel). In the second quarter, Kroger's same-store sales were up 5.7 percent.

While Kroger has built an organic empire in just a few years, it balances *Simple Truth* with brands like *"PSST"* and *Heritage Farm,* for shoppers on a budget. These different lines appeal to customers seeking deals, as well as those focused on quality.

The philosophy that has shaped this multi-pronged approach to business is an intense focus on customer demands. Responding rapidly to customer demand means constant innovation beyond what products appear on the shelves.

As the products within Kroger evolve, the appearance of a traditional storefront is also evolving. Smaller, convenience-focused stores have been adapting layouts over the past year to increase fresh produce and food-service offerings—an area of growth that is already attracting customers who would otherwise go to chain restaurants.

Most new Kroger locations contain a Marketplace, which sells various home goods and other items shoppers may need around the house, in addition to groceries. Increasingly, these locations stock Kroger's lines of clothing and shoes, as shoppers seek the one-stop shopping experience found at brands such as Wal-Mart and Target.

A final reinvention less likely to affect most shoppers, but sure to make Whole Foods wary, is that of the recently opened Kroger concept store near headquarters in Cincinnati, Ohio. Echoing the bar/grocery mash up popularized by Whole Foods, this upscale location features a growler bar with craft beer and wine.

Ultimately, competitors should be scared of Kroger because of the company's refusal to focus on just one area of growth.

- According to *Women's Wear Daily*, Nordstrom is aggressively expanding its off-price chain, Nordstrom Rack, with plans to expand from 180 stores up to 300 by 2020. While the outlet model may devalue other retailers, Nordstrom has seen a huge cash influx with its Rack expansion by catering to a different demographic.

  Edward Hertzman, founder and publisher of retail publication *Sourcing Journal*, said Nordstrom Rack locations in outlet centers have given them exposure to a completely different customer, who is all about value. Nordstrom Rack, like TJ Maxx, is defying the odds. With many Americans spending less on clothing, Nordstrom Rack and TJ Maxx are expanding because these discount retailers are hitting the right spot in the market.

  Unlike many other retailers, Nordstrom has figured out the elusive millennial generation, and the outlet concept appeals to cash-strapped young adults.

  ECS:spa

"America will never be destroyed from the outside. If we falter and lose our freedoms, it will be because we destroyed ourselves."
~ Abraham Lincoln

NOVEMBER 2015

09	City Manager's Staff Meeting City Hall Conference Room	9:00 a.m.
09	Planning Commission Meeting Council Chambers	7:00 p.m.
11	Veterans Day – City Offices Closed	
16	Code Enforcement/Public Safety Committee Meeting City Hall Conference Room	6:00 p.m.
16	City Council Meeting Council Chambers	7:00 p.m.
17	Annual Firefighters' Recognition Breakfast Montclair Community Center	7:30 a.m. - 9:00 a.m.
19	Safety Committee Meeting City Hall Conference Room	9:00 a.m.
19	Public Works Committee Meeting City Hall Conference Room	4:00 p.m.
23	Planning Commission Meeting Council Chambers	7:00 p.m.
26	Thanksgiving – City Offices Closed	


Children's Halloween Party!
Halloween Party!
October 31st, 2015
Volunteers
COSTUME CONTEST WINNERS!
WILL WORK 4 FOOD
TRICK OR TREAT