



December 3, 2015

TO: Honorable Mayor and City Council

FROM: Edward C. Starr, City Manager

SUBJECT: CITY MANAGER'S WEEKLY REPORT: November 30-December 3, 2015

CITY MANAGER/ADMINISTRATIVE SERVICES DEPARTMENTS

- Earlier this month, I reported that the California Public Employee Retirement System (CalPERS) Investment Committee planned to complete a review of the fund's private equity investments and the fees paid to private equity managers. Private equity firms are known for venture capital investments and criticized for leveraged buyouts of debt-laden companies that often result in job losses and corporate bankruptcies.

Private equity is said to represent a multi-trillion dollar global industry, expanding investment options for pension funds and other large investors. Returns are usually higher than publicly traded stocks, but performance can vary widely. Investors like CalPERS are considered limited partners with little to no control over the private equity managers.

Effectively, private equities operate as blind pools, with investors having no knowledge as to what the investments will be. In contrast to their lack of control over private equity firms, both CalPERS and the California State Teachers Retirement System (CasSTRS) do have corporate governance units that use shareholder clout to push for change and reform within the investment sector.

The CalPERS review of private equities is part of a larger re-evaluation of the fund's investment strategy, in which CalPERS will consider moving more of its portfolio to conservative, low-risk investments. As a precursor to a more conservative investment outlook, the CalPERS Board of Administration took action earlier this month to lower its projected rate of return from 7.5 percent to 6.5 percent over a 30-year period.

Moving to a more conservative investment strategy and lowering the projected rate of return carries a significant concern to contracting agencies: with lower investment returns, CalPERS will rely increasingly on member agencies to make up growing, annual shortfalls for pension payments to annuitants. However, cities contracting with CalPERS to manage investment funds are increasingly stressed over rising pension costs—costs that will continue to grow over the next several decades as CalPERS seeks to reach full funding by 2045.

CalPERS currently has annual pension obligations of \$17.8 billion. Of this total, contracting agencies paid CalPERS \$12.5 billion in 2014, leaving the pension fund \$5.3 billion short on its obligations. To fully meet annual obligations, the pension fund has pulled money from its shrinking investment portfolio to cover the negative cash difference.

The following factors are contributing to CalPERS shrinking investment portfolio:

1. Moving to conservative investment strategies;
2. Stagnant return on stocks;
3. Declining real estate portfolio;
4. The failure of CalPERS to fully recover from losses of the Great Recession;
5. Reliance on investments to meet pension obligations; and
6. An increasing annuitant population and diminishing active employee/contributing population.

The above factors ultimately are forcing CalPERS to rely on contracting agencies to cover increasing pension costs. Thus, cities can now expect to see significant annual rate increases for the foreseeable future. In response, many cities are looking at cost sharing as a means to transfer employer pension costs to employees. Ballot measures are also under consideration as a means to reduce pension costs for taxpayers.

Whether or not CalPERS abandons private equities as part of its move to a more conservative investment strategy remains to be seen. So far, the fund's investment officers argue private equities have been a vital component of CalPERS' investment strategy, producing returns of up to 11 percent. Nonetheless, the private equity industry remains the subject of intense criticism because they carry an excessively high degree of risk, operate under murky disclosure procedures, lack transparency, and charge what some analysts allege are excessively high fees and bonuses.

CalPERS has approximately \$27.5 billion, or nearly 10 percent of its total portfolio, committed to private equity deals and, according to its Chief Investment Officer, these investments generated approximately \$24.2 billion in net profit for CalPERS since making its first private equity investment 25 years ago—a performance that CalPERS argues is necessary to help finance benefits for its 1.7 million members.

The current focus on private equities regards the high fees paid by CalPERS to private equity managers and, until last week, the apparent lack of data at CalPERS as to the extent of fees paid. In response to the growing criticism, CalPERS issued a demand for private equity managers to disclose fee information.

Private equity partnerships have been a source of past scandal for CalPERS. A former member of the CalPERS Board of Administration, Alfred Villalobos, allegedly collected approximately \$50 million in "placement fees" from private equity firms seeking CalPERS investments. Villalobos died in 2014 from an apparent suicide just weeks before his trial. And a former CalPERS Chief Executive, Fred Buenrostro, pleaded guilty to bribery-related charges for aiding Villalobos. After the pay-to-play scandal surfaced, several private equity firms agreed to lower their CalPERS management fees.

Last week, CalPERS announced preliminary results of fees paid to private equity managers. In Fiscal Year 2014-15, the fund paid \$414 million in base fees and \$700 million in profit sharing. Since 1990, CalPERS has reportedly paid over \$3.4 billion in profit sharing to private equity managers, and what some critics believe to be an estimated \$1.5 billion in associated fees. The recent disclosure does not include fees paid to inactive private equity investment partners and data from private equity managers that refused to divulge the fees charged CalPERS. If the numbers are accurate, it means CalPERS paid an estimated 20 percent of overall gain from its private equity investments to industry managers.

Critics of CalPERS jumped on the announcement, noting the fee information was released only under duress, but more importantly represents a past failure to report carrying fees to the Board and to members. The argument is that fee information should have always been part of program review, and by failing to do so calls into question CalPERS' commitment to transparency.

State Treasurer John Chiang plans to sponsor legislation next year requiring full fee disclosure from any private equity firm seeking investment dollars from public pension funds in California. Chiang sits on the governing boards for CalPERS and CalSTRS. In addition, the Securities and Exchange Commission has stepped up scrutiny of the private equity industry, focusing on the huge fees the firms charge.

Adding to the evolving and growing criticism of CalPERS on a number of fronts are two issues merging into the public view: (1) the recent selection of a fiduciary counsel apparently haunted by the scandal-ridden pension systems in Detroit, Michigan and Jacksonville, Florida; and (2) recent revelations that CalPERS annually pays out huge staff bonuses, including \$8.9 million last year—e.g., the Chief Investment Officer, in addition to his annual base salary of \$412,039 per year, reportedly received a 2014 bonus of \$305,810.

- Inland city and county agencies are preparing for expected El Niño flooding by stocking up on sand and sandbags, cleaning storm drains, educating residents, and coordinating efforts with neighboring agencies.

In San Bernardino County, officials are buying 200,000 sandbags in advance of the weather event, which is expected to soak Southern California this winter. Most inland cities also are offering sand and sandbags to residents at area fire stations and other locations.

Sandbags are just one part of the El Niño strategy.

Government agencies are also taking steps to prevent damage and respond if and when the floodwaters rise. Experts have said this El Niño, which is caused by unusually warm water temperatures in the equatorial Pacific Ocean, could be one of the strongest on record. A July storm gave a glimpse of what El Niño could have in store when an I-10 bridge near the Arizona border collapsed, and the rural community of Good Hope near Perris experienced heavy flooding.

The county has a task force that includes representatives from the flood control district, the Sheriff's Department, and the Fire Department. But it also includes animal services, social services, and other departments not typically associated with emergency planning. One task force goal is to develop a game plan for coordinating with cities and other public agencies when storm-related problems hit. City and county officials also are making sure storm drains, culverts, and other waterways are clear.

County officials have set up a website to inform residents what they can do to prepare: <http://www.sbcounty.gov/main/elniño>

- The South Coast Air Quality Management District has established a residential Electric Vehicle (EV) Charging Incentive Pilot Program that will be available to southland residents to help make charging at home more affordable. The convenience of having a home charging station makes buying a plug-in electric vehicle a more attractive choice and helps our region reduce vehicle emissions.

The program provides an incentive to buy-down the cost of Level 2 (24 volt) residential charging stations, which typically range from \$400-\$800. Level 2 charging is faster than Level 1 charging (using a standard 120-volt outlet). The incentive will be available on a first-come, first-served basis and will provide up to a \$250 rebate for the cost of hardware with an additional rebate of up to \$250 for low-income residents.

Charging stations need to be installed at available 240-volt outlets. The stations also need to be in place for a minimum of three years. Installers are responsible for obtaining any required city or county electrical permits for the installation.

Visit aqmd.gov/sign-up and scroll down under "Incentive Programs" to sign up for the Residential EV Charger Incentive Pilot Program's e-mail list for alerts about the application process and program updates.

HUMAN SERVICES DEPARTMENT

- Tonight, the City's Annual Tree Lighting Ceremony and visit with Santa and Mrs. Claus will be held at 6 p.m. at the Youth Center, located at 5111 Benito Street. Complimentary family pictures with Santa and Mrs. Claus will be held outside, while free refreshments and a "Letters to Santa" station will be available inside. A community sing-along will also be held.

As is customary, gift lights may be purchased for \$10 in honor of, or in memory of, a loved one.

Additional information is available by calling 909-625-9451.

- Members of the Police and Fire Departments collected new, unwrapped toys at Target last Saturday for less fortunate Montclair children. (See the photos on Page 10). They will be collecting again this Friday and next Friday (December 11) from 10 a.m. to 2 p.m. at Costco. Toys collected by Police Officers and Firefighters will cover (be placed on top of) police and fire vehicles. Cash, checks, and gift card donations will also be accepted. The collected toys will be distributed to children through the Human Services Department's Holiday Toy and Food Basket Program.

Please help us support this worthy cause!

- Dashing through Montclair will take place this Saturday. Santa's sleigh will leave the Police Department at 11 a.m. on its journey through Montclair neighborhoods and will make planned stops at Lehigh Elementary School, Essex Park, Saratoga Park, Alma Hofman Park, MacArthur Park, and Montclair Place before returning to the Police Department at 6 p.m. for a community sing-along and complimentary refreshments.

Santa will greet people at each stop and will collect donations of new, *unwrapped* toys to fill his sleigh for needy Montclair children. Toys collected will be distributed as part of the City's Annual Toy and Food Basket Program.

To follow Santa's route and for toy donation locations, visit:
www.cityofmontclair.org/dashingthroughmontclair or call 625-9479.

POLICE DEPARTMENT

- No-Shave November has ended and our Officers are, once again, clean-shaven.

The Police Department's team originally set out to raise \$1500; thanks to everyone's generosity, the goal was exceeded by almost \$500! The Department looks forward to participating again next year to raise funds for this worthy cause!

No-shave.org is a 501(c) (3) charity which promotes research and awareness for men's cancer. Proceeds generated are donated equally to the American Cancer Society, the Prevent Cancer Foundation, Fight Colorectal Cancer, and St. Jude Children's Research Hospital.



From left: Officer Javier Aguilar, Sergeant Jim Michel, Officer Hector Sanchez, and Officer Miguel Lozano



Front row, from left: Officers Joshua Garabedian, Jesus Carrillo, and Julio Vargas.
Back row, from left: Officer Chad Ebli, Sergeants Steve Griffin and Michael Zerr,
and Officer Dave Vest.



Not to be outdone, our Dispatchers participated, too! From left are: Debbie Carcuz,
Jeanette Madaloni, Barbara Gallob, Karina Gonzalez, and Jennifer Noritake

SUCCESSOR REDEVELOPMENT AGENCY/ MONTCLAIR HOUSING CORPORATION

- According to the online publication *ICSC Week*, Black Friday has been kicking off the U.S. holiday shopping season for decades. But, this year it is clear that the actual Black Friday date is now just another sale day within what has become a four-week November shopping fest—with an abundance of pre-Black Friday in-store and online sales and a growing number of Thanksgiving Day openings, essentially spreading out the Christmas spend fest.

Brick-and-mortar store sales on Thanksgiving and Black Friday dropped to some \$10.4 billion this year, from \$11.6 billion a year ago, according to ShopperTrak. Meanwhile, RetailNext says sales at U.S. physical stores on Thanksgiving Day and Black Friday fell by 1.5 percent from a year ago, and an average spending per shopper declined by 1.4 percent. But reports are that shoppers picked up the slack online.

This online activity probably contributed to thinner crowds in stores, but better sales overall for retailers with strong omni-channel strategies. While many question the ongoing relevance of Black Friday, it is still the biggest sales day of the year and signals the start of the holiday shopping season. After Black Friday weekend, there are Cyber Monday deals, followed by Cyber Week deals, followed by Green Monday, and then Free Shipping Day.

Nearly 102 million people said they shopped in stores over the Thanksgiving weekend, and roughly 103 million said they shopped online, according to the National Retail Federation. Of those who shopped in stores over the weekend, 72.8 percent—some 74.2 million shoppers—said they shopped on Black Friday; an additional 34.6 million (about 34 percent) shopped on Thanksgiving Day, and 46.8 million (nearly 46 percent) did so on Saturday.

ECS:spa

"The best Christmas trees come very close to exceeding nature."

~ Andy Rooney

DECEMBER 2015



03	Christmas Tree Lighting Ceremony Youth Center	6:00 p.m.
05	Dashing Through Montclair	All Afternoon
07	City Council Workshop - Canceled	
07	City Council Meeting Council Chambers	7:00 p.m.
11	2015 MCEA Holiday Party Magdaleno's, 220 N. Central Avenue, Upland	6:00 p.m. - Midnight
14	Planning Commission Meeting Council Chambers	7:00 p.m.
15	City Manager's Staff Meeting City Hall Conference Room	9:00 a.m.
17	Public Works Committee Meeting City Hall Conference Room	4:00 p.m.
21	Winter Begins	
21	Code Enforcement Committee Meeting City Hall Conference Room	6:00 p.m.
21	City Council Meeting Council Chambers	7:00 p.m.
23-31	City Offices Closed in Observance of Christmas and New Year's Eve	

Donate a Toy



Public Safety Toy Drive at Target

11-28-15

