



January 21, 2016

TO: Honorable Mayor and City Council

FROM: Edward C. Starr, City Manager

SUBJECT: CITY MANAGER'S WEEKLY REPORT: January 15-21, 2016

CITY MANAGER/ADMINISTRATIVE SERVICES DEPARTMENTS

- Montclair City staff would like to congratulate Mayor Paul Eaton on his reappointment as San Bernardino Associated Governments' (SANBAG) Primary Member on the Metro Gold Line Phase II Joint Powers Authority.
- Can a municipality reduce supplemental pension benefits for current retirees? The city of San Bernardino is pressing that position as it prepares its plan to exit bankruptcy, possibly next year. The plan calls for cutting the pensions of 23 retired police officers who receive a supplement to their regular CalPERS pension payments.

The supplement paid through a private-sector firm, the Public Agency Retirement System (PARS), has been used by some public agencies to boost retiree pensions to make them comparable to the same 3 percent formula that eventually became common for many of the state's public safety employees. The 3 percent @ 50 formula, no longer allowed for new employees under PEPPRA, is a standard set by SB 400, a bill sponsored by CalPERS in 1999.

San Bernardino provided the PARS supplement from 2004 to 2008, when the 23 police officers retired. The PARS supplement was seen as a lower-cost way to be competitive in the job market, absent the more expensive CalPERS 3 percent @ 50 pension formula.

San Bernardino's PARS plan retirees would be the only retired employees in the state of California to have their retirement compensation reduced through a bankruptcy proceeding. The reduction would be equal to approximately 12 percent of each annuitant's pension earnings.

San Bernardino's plan to exit bankruptcy would reject the PARS contracts, distribute a \$1.8 million trust fund to the 23 retirees, and make no more payments to the supplement, which is said to be underfunded by about \$3 million.

San Bernardino thought it had an agreement with the PARS retirees last month; but in a court filing earlier this month, the city suggested the emergence of opposition since then has placed the two sides at odds.

Public pension supplements like PARS are now banned under PEPPRA, and cannot be provided to employees hired on or after January 1, 2013. CalPERS' Replacement Benefit Plan (RBP) is also a banned supplement plan. The RBP is a qualified benefit arrangement that provides for that portion of a retirement allowance that exceeds the IRC Section 415(b) dollar limit. Government Code Section 21761 mandated every CalPERS employer participate in the RBP. San Bernardino's challenge to the supplement paid through PARS may open the door to cities challenging RBP payments as they struggle to deal with unsustainable pension payments.

San Bernardino argues that phasing out the PARS supplement leaves the 23 retirees with the pension offered when they were hired, which treats them no different than other police officers who retired before the supplement began in 2004. This argument does not affect pensions from the California Public Employees Retirement System and other public retirement systems covered by the "California rule"—a series of state court decisions. Under the rule, public pensions can go up, but not down, even if, as with SB 400, a pension increase is retroactive, immediately creating debt because the increase was not paid for by previous employer-employee contributions.

A San Bernardino disclosure statement filed last November said the city has roughly \$323 million in CalPERS pension unfunded liabilities. The filing attributes the debt to unfunded retroactive pension increases, heavy CalPERS investment losses during the financial crisis, and an increasing number of retirees with larger pensions and fewer active workers to help pay for them.

- The California budget that Governor Jerry Brown proposed earlier this month marks a financial turnaround for a state that just a few years ago faced a \$26 billion deficit.

But even as the governor and lawmakers debate how to spend a budget surplus, there's a looming financial hurdle: Unfunded pension and health care liabilities of \$220 billion for future retirees who work for the state and the University of California system.

As the Brown administration prepares to enter labor talks this year, the governor is seeking changes to help the state cut future costs, warning there is a serious long-term liability.

Over the past four years, the Legislature moved to improve the financial outlook for the state's largest public employee pension systems, the California Public Employees Retirement System (CalPERS) and the California State Teachers Retirement System (CalSTRS). Governor Brown is now setting his sights on a rapidly growing retiree expense, health care. He's asking workers to pay more to fund those benefits.

Reform advocates warn that failing to address unfunded liabilities will ultimately require higher taxes or cuts in other government services so the state can pay for its obligations to retired workers.

The state has promised an estimated \$72 billion in health care benefits for its current and future retirees, an amount that will increase to more than \$300 billion over the next 3 decades, according to the governor's Department of Finance.

The bill for retiree health care has historically been paid year-by-year, about \$2 billion in the proposed 2016-17 budget. Governor Brown proposes prefunding benefits similar to the way the state pays for pensions—by paying into a trust fund that accrues investment returns over time, reducing the amount of money that taxpayers must contribute in the future.

In negotiations with public employee unions, he's asking state workers to pay into a fund through a deduction on their paychecks. The state would pay an equal amount.

Governor Brown's budget proposal includes \$350 million for pay raises that could be used as a bargaining chip in labor negotiations. The state is actively negotiating with 4 of its 21 bargaining units, including corrections officers, firefighters, scientists, and maintenance workers. Talks with 15 others open this year.

The Governor points to an agreement last year with state engineers as a model he'll pursue with other bargaining units. Engineers agreed to pay an escalating portion of their paycheck toward their future health care benefits, eventually reaching 2 percent of salary, matched by the state.

With his focus on tackling health care liabilities, Governor Brown has shown little interest in further changes to the pension systems.

Pension reforms adopted in 2012 reduced liabilities in CalPERS by capping payments at \$132,120 a year, increasing the retirement age by 2 years for most new employees, boosting worker contributions and reducing abuses of the system. Two years later, the Legislature increased contributions by teachers, employers, and the state to the teacher retirement system, narrowing the gap between revenue and anticipated costs.

However, liabilities remain. As of June 2014, the 2 main pension systems had accrued \$116 billion in unfunded liabilities on top of the money owed for health care benefits.

- The California Department of Transportation is seeking 5,000 volunteers for an experimental program that will charge motorists a fee based on how far they drive—a proposal that could replace the state gas tax as a way to fund highway maintenance and repairs.

Volunteers will participate in the California Road Charge Pilot Program, which was created by the Legislature in 2014 to test the feasibility of so-called mileage-based user fees.

On September 29, 2014, Governor Brown signed into law Senate Bill (SB) 1077, which requires the state of California to design and implement a statewide pilot program to study the implications of a road charge model no later than January 1, 2017.

Pursuant to SB 1077, the California Transportation Commission (CTC), in conjunction with the California State Transportation Agency (CalSTA), has established a 15-member TAC that will ultimately study all aspects of road charging, with an emphasis on certain mandated considerations such as privacy, data security and a host of technology implications. The TAC will prepare and submit to CalSTA official recommendations for the design of a road charge pilot that will be implemented statewide, through a live demonstration, no later than January 1, 2017.

The dry run is scheduled to begin this summer and last for nine months. Participating motorists will test various mileage reporting methods, but they won't be charged fees for the distances they drive.

State officials are trying to determine if a fee of up to a few pennies per mile would be more effective at raising revenue for road projects than the state gas tax of 36 cents a gallon.

According to Caltrans, the current tax generates only enough revenue to fund \$2.3 billion out of \$8-billion worth of highway repair and maintenance that is needed every year.

The huge gap in funding, officials say, has resulted from cars with better gas mileage, including hybrids and electric vehicles, and the fact that the gas tax has not been increased for more than 20 years.

The pilot is an opportunity to study road charging and should provide the Legislature with the data it needs to better determine whether and how this idea might work. At the conclusion of the pilot program, the California State Transportation Agency will issue a report and findings to the Legislature, the Road Charge Technical Advisory Committee, and the California Transportation Commission.

The commission will then make recommendations to state lawmakers, who will decide whether to implement a mileage-based user fee in California.

Anyone interested in participating in the pilot program can find more information online at http://www.dot.ca.gov/road_charge/.

FIRE DEPARTMENT

- On Tuesday, Fire Chief Paul Segalla welcomed two new firefighter/paramedics on the first day of their two-week Recruit Orientation Academy (ROA). Once the ROA is completed, Ulises Baeza and Christian Noboa will start their assignments with the Montclair Fire Department.

Montclair Fire Captain Chris Jackson is facilitating the ROA. Instruction in various sections is being conducted by suppression and EMS personnel from the Department. Training topics covered during the ROA include:

- ✓ Radio operations and procedures
- ✓ hose operations
- ✓ auto extrications
- ✓ computer operations
- ✓ wildland-situational awareness
- ✓ fire shelter assembly
- ✓ tool maintenance
- ✓ ventilation procedures
- ✓ search-and-rescue operations

As a crucial component of the recruitment process, the ROA meticulously prepares new firefighters for the challenges and responsibilities that lie ahead as new recruits of the Montclair Fire Department.

HUMAN SERVICES DEPARTMENT

- At Tuesday's City Council meeting, three military banners were presented to Montclair veterans who had banners displayed in the City in 2015, and had been recently discharged. Banners are displayed in the spring through November; and the banners of those still in active duty are again displayed, along with new banner submissions, the following spring. The banners of those veterans who have been discharged are presented to the veteran and/or their family every January.

This year's honorees were:

Alejandro Borrego, Army, 2005-2015

Luis A. Ramirez, Army, 2012-2015

Jarret Rousseve, Navy, 2004-2015



Pictured (L-R): Luis A. Ramirez, Jarret Rousseve, and Ofilia Castro (mother of Alejandro Borrego, who was not able to attend)

Congratulations to our veterans, and on behalf of the City of Montclair, many thanks for your service to our country.

- Also on Tuesday, the Montclair City Council presented the Montclair High School Junior Reserve Officer Training Corps (JROTC) Program with a \$600 check for winter uniforms.

For the past five years, student members of the JROTC and their instructor, Sergeant Lambert, have performed the flag-raising and flag-lowering color guard at the City's Annual Memorial Day Program. The students led the flag salute at Tuesday's Council Meeting.

In appreciation of the Council's donation, JROTC Sergeant Lambert presented the Council Members with a framed picture of the entire JROTC and a card of appreciation made and signed by the students.

Pictures of the presentation are shared on Page 13.

- And, finally, at Tuesday's City Council Meeting, awards were presented to the following three City partners:

Costco Montclair

Fire Chief Segalla presented an award of appreciation to Sylvia Garza for Costco's support of the 2015 Spark of Love Toy Drive. On two Fridays in December 2015, Costco graciously allowed our Fire and Police Departments to collect toys outside the store in support of the City's Toy and Food Basket Program. Over 600 toys were collected from the public and Costco employees!

Dr. Fabricant

For over 25 years, Dr. Robert Fabricant, owner of Pacific Eye Institute, has been donating 2 sheet cakes from Ontario Bakery to the Senior Nutrition Program's monthly birthday party.

Dr. Fabricant's assistant, Dante Cervantes, accepted the award.

Inter Valley Health Plan

For the past 15 years, Inter Valley Health Plan has purchased the 100-mile T-shirts for the Montclair Walkers. Those that walk over 100 miles at Montclair Place within a year earn a free T-shirt. This has been a great inspiration for our program's participants.

The award of appreciation was accepted by Cyndie O'Brien, Vice President of Sales, Marketing and Member Services at Inter Valley Health Plan.

Many thanks to all of our supporting partners! A photo collage of the presentations is shown on Page 14.

POLICE DEPARTMENT

- On Wednesday, Sergeant Matt Borra and Officer Nick Almeida of the Crime Suppression Unit were guest judges at El Camino Elementary School's Science Fair.

The projects were a hit. Matt and Nick voted for four students and their projects to advance. The projects tested the ability of drinks to stain teeth, ability of carnations to absorb various colors, testing the chemical reactions of baking soda and vinegar, and testing the aerodynamics of paper airplanes made with different types of paper.

The four finalists selected by our judges hope to move on in the competition.



Sergeant Borra and Officer Almeida are pictured here with the Science Fair finalists

PUBLIC WORKS DEPARTMENT

- After several months of construction, Montclair Shoppes will soon be open for business. Yesterday, Crosstown Electric, the signal contractor for the Shoppes development, activated the new signal at Costco and Central Avenue allowing full traffic movements in and out of the center. Cross traffic between Costco and the Shoppes will be possible, as well as southbound Central Avenue left turns into the Shoppes.

Having these signals fully operational was a condition of granting occupancy for the first two businesses to open: Starbucks and Sleep Number.

We welcome these new businesses into the City and look forward to the opening of the remaining Shoppes.

SUCCESSOR REDEVELOPMENT AGENCY/ MONTCLAIR HOUSING CORPORATION

- Apparently, it was a pretty good holiday season for retailers after all.

Days after the National Retail Federation reported that holiday sales growth fell short of its forecast, data from Adobe Digital Index found that online sales hit a record \$83 billion in November and December, easily beating the firm's expectations.

According to Adobe, online sales rose 12.7 percent during the final 2 months of the year, surpassing its forecast for 11 percent growth. It also marks a slight acceleration from 2014, when Adobe said holiday sales increased by 12 percent.

Results were lifted by a late-in-the season boost from mobile shoppers, as a spike in smartphone traffic led to an increase in sales. What's more, the option to pick up gifts in the store made consumers more comfortable placing last-minute online orders.

In years past, at least, as you get closer to Christmas people quit shopping online because they're afraid they're not going to get their items in time. That was not true this year. According to Adobe, which compiles its data from 1 trillion visits to more than 4,500 retail websites, digital sales spiked 56 percent year over year in the week prior to Christmas, to \$920 million.

Cyber Monday revenue hit an all-time high for a single day, at \$3.07 billion. It was followed by Black Friday, which generated \$2.74 billion, and the second Monday of December, known as "Green Monday," which rung up \$1.89 billion in sales.

According to Adobe, online retailers posted 31 billion-dollar days during the holidays, all of which were between November 22 and December 22. That compares with 25 such days last season. Overall, holiday sales accounted for 28 percent of annual online sales.

Fueling the growth in online revenues was a larger-than-expected shift to mobile sales, which attributed to a larger adoption of smartphones. Whereas tablet traffic declined from a 14 percent share in 2014 to 11 percent in 2015, smartphone's share grew from 30 percent to 39 percent. Desktop traffic declined from 56 percent to 50 percent per share.

According to comScore, it now expects overall online sales to have increased 13 percent this holiday season, compared with its original forecast for 14 percent growth.

Not surprisingly, Amazon is expected to be the big winner from the season's online surge. A recent note from Cowen and Co., citing ComScore data, said the total number of visits to Amazon this holiday was equal to the next four retailers combined. Those four retailers were eBay, Wal-Mart, Target, and Macy's.

Overall, the National Retail Federation reported that retail sales, excluding automobiles, gas stations, and restaurants, increased 3 percent in November and December, to \$626.1 billion. That compares with its forecast for a 3.7 percent increase, and last year's 4.1 percent growth.

- Macy's is taking a more professional view of its real estate assets than ever as it faces pressure to unlock their value.

Earlier this month, Starboard Capital urged Macy's to follow through with plans to spin off its real estate holdings in order to raise more cash at a time when the retailer is restructuring, cutting costs, and closing a number of stores.

Macy's is seeking to hire an in-house real estate adviser who can look to the long term and help the company rethink the value opportunities in its property holdings, and make its big box stores more productive.

Macy's launch of a discount concept, Macy's Backstage, some of which will be located in existing stores, is part of making its stores more productive. The discount stores will sell Macy's brands at steeply discounted prices—up to 80 percent off. This model copies highly successful brands like TJ Maxx and Nordstrom Rack.

Macy's Backstage stores are also an attempt to get younger customers as sales at its core business decline.

Macy's cut its outlook for the 4th quarter last year. Shares of Macy's closed last week at \$37.88, off a 52-week high of \$73.61 in July.

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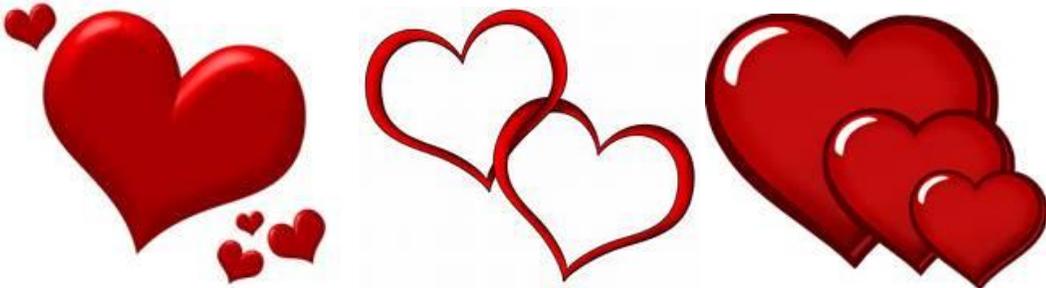
"Be a yardstick of quality. Some people aren't used to an environment where excellence is expected."

~ Steve Jobs

JANUARY 2016

		
21	Public Works Committee Meeting City Hall Conference Room	4:00 p.m.
25	Planning Commission Meeting - Canceled	
26	City Manager's Staff Meeting City Hall Conference Room	9:00 a.m.

FEBRUARY 2016

		
01	City Council Meeting Council Chambers	7:00 p.m.
03	Community Action Committee Council Chambers	7:00 p.m.
08	Planning Commission Meeting Council Chambers	7:00 p.m.
09	City Manager's Staff Meeting City Hall Conference Room	9:00 a.m.
11	Midyear Budget Review	6:00 pm.
14	Valentine's Day	
15	Presidents' Day – City Offices Closed	
16	Real Estate Committee City Hall Conference Room	5:30 p.m.
16	Code Enforcement/Public Safety Committee Meeting City Hall Conference Room	6:15 p.m.
16	City Council Meeting Council Chambers	7:00 p.m.
17	Safety Committee Meeting City Hall Conference Room	10:30 a.m.
18	Public Works Committee Meeting City Hall Conference Room	4:00 p.m.
22	Planning Commission Meeting City Hall Conference Room	7:00 p.m.

Montclair High School JROTC Check Presentation



City of Montclair Thanks You!



2015 Toy Drive Partner

Costco Montclair



Senior Center Partners

Dr. Fabricant & Inter Valley Health Plan