November 17, 2016

TO: Honorable Mayor and City Council

FROM: Edward C. Starr, City Manager

SUBJECT: CITY MANAGER'S WEEKLY REPORT: November 10-17, 2016

CITY MANAGER/ADMINISTRATIVE SERVICES DEPARTMENTS

- Earlier this month, at the California Public Employee Labor Relations Conference (CALPELRA), Senior Management Analyst Fuentes and I attended a workshop conducted by CalPERS Actuary Randy Dziubek and John Bartel of Bartel Associates regarding CalPERS pension rates. During his presentation, Mr. Dziubek discussed the CalPERS "Dollar Billing" process that now engulfs many public agencies with uncertainty related to their ability to meet their respective pension obligations.

  What is the Dollar Billing process? CalPERS has broken down pension payments into two separate billing schemes—the Dollar Billing process:

  1. Normal Cost—provided as a percentage of payroll and paid by the employer and employee

  2. Unfunded Liability—provided as a monthly dollar amount and charged to the employer.

  In the past, CalPERS assessed the employer rate (a percentage of payroll that fluctuated based on current pension fund status, assuming a fixed rate of return) and a fixed member contribution rate. Starting in 2015, however, the pension fund switched to the Dollar Billing process, with a normal cost range (based on funded status) that fluctuates for both the employer and member (though the member rate is still capped by law) and an unfunded liability payment mandated of the employer that fluctuates year to year, based on CalPERS' funded assets and each agency's underfunded status.

Some agencies describe the Dollar Billing process as a "sleight-of-hand" that harms their negotiating strength at the bargaining table. Because the unfunded liability payment is not expressed as a percentage component of payroll, many agencies are finding that labor groups fail to recognize or accept the unfunded liability payment as a legitimate labor cost component limiting a local agency's ability to fund wage and benefit improvements. Instead, labor groups look to the normal cost component, which is artificially lower for most agencies, due to the Dollar Billing process and the break out of the unfunded liability component as a separate payment. In fact, through the Dollar Billing process, many agencies have seen their annual pension payments increase significantly over the last two years, with additional, skyrocketing increases projected annually through 2022.

What does CalPERS recommend to member agencies to address higher pension costs? To address concerns related to increasing costs and the burden on local budgets, CalPERS is now advocating several "solutions."

1. **Fresh Start Program**. CalPERS recommends agencies accelerate their pension payments for unfunded liabilities to minimize interest costs related to future liabilities. This "Fresh Start" approach advocated by CalPERS requires paying off the basis faster than the existing schedule in order to realize a new, higher minimum unfunded annual liability (UAL) payment. To participate in the accelerated funding program, agencies must first consult with a CalPERS actuary to develop options and revised payment schedules.

   While advancing pension payments would reduce future interest costs, it is hardly a practical solution for agencies struggling to meet current and ongoing service obligations. To participate, agencies would have to identify available revenues to make accelerated payments.

2. **Borrow from the General Fund**. If funding is available, CalPERS recommends member agencies use unallocated reserves from their respective General Funds to accelerate pension payments.

   Similar to the Fresh Start approach described above, agencies would use available revenues maintained in their unallocated reserves to make accelerated pension payments. Given the size of unfunded obligations for most agencies, unallocated reserves would be quickly depleted if accelerated payments were to have any significant impact on long-term costs.

3. **Pension Obligation Bonds**. CalPERS recommends agencies consider asking voters to approve pension bonds supported by additional taxes to pay unfunded liabilities and finance pension costs.

Borrowing to finance pensions that have no sunset makes little sense to taxpayers who have seen private sector pensions eliminated or drastically reduced over the past decade. In addition, pension obligation bonds have been the source of fiscal woe for many agencies that faced drastic pension increases and restricted revenue flow, limiting their ability to meet pension and operating funding requirements, particularly during the Great Recession.

4. **Irrevocable Supplemental (Section 115) Trust**. Similar to the funding of Other Post-Employment Benefits (OPEBs) through an irrevocable Trust, monies placed in an Irrevocable Supplemental Trust are restricted in use solely for pension obligations. The Trust is primarily used for rate stabilization, but will likely not reduce GASB 68 Net Pension Liabilities. Discretionary investments are less restricted than agency investment funds, thereby producing higher investment returns (currently up to 5 percent), but for longer terms.

   Irrevocable Supplemental Trusts can mitigate investment volatility; however, investments can only be used to reimburse for pension contributions and make payments directly to CalPERS—assets cannot be used for any other purpose. There is the potential for the Trust to become overfunded, and participants are required to make a minimum annual contribution to the Trust equal to 10 percent of the annual pension contribution.

Why are cities facing uncontrolled increases in annual CalPERS pension payments? In 2013, the CalPERS Board adopted a new amortization policy to address the pension system's underfunded status. By advancing a 5-year direct rate smoothing process (annual increases over a 5-year period), CalPERS reasoned it could pay down unfunded liabilities over a 30-year period, producing higher short-term costs (25+ years), but lower long-term costs.

In 2014, CalPERS followed its 2013 amortization policy with new asset allocation and actuarial assumptions. By changing its economic, demographic, and mortality assumptions, the pension fund realized the need for higher normal cost contributions from member agencies—costs that are now being passed on to agencies with the Fiscal Year 2016-17 rate adjustment.

Employer contributions are also increasing because of successive years of poor performance by the pension funds investment portfolio. The expected annual return is 7.5 percent; however, CalPERS is projecting substantially lower returns that will see plans increase by at least 15 percent over the next 4 years.

In practice, member agencies should expect to see higher rate increases as CalPERS seeks to lower its investment return assumption in response to capitol market assumptions that project decreased returns over the next 10 years. The CalPERS Board is expected to decrease the investment return assumption to 7 percent by February 2018—producing a rate adjustment that would be separate from any increase due to risk mitigation and CalPERS' amortization policy.

For member agencies, a lower investment return assumption means:

- Higher normal cost percentages
- Higher accrued liabilities
- Potential increases to required payments toward existing unfunded liabilities
- Increase to total employer contributions

CalPERS suggests it will address future adjustments to the investment return assumption through a Risk Mitigation funding scheme in order to spread increased costs over time.

How will Funding Risk Management work?

1. When an investment return exceeds the discount rate by a defined threshold, a Funding Risk Management event would trigger a lowering of the investment return assumption

2. A portion of the higher investment return will be used to pay for lowering the expected rate of return to reduce the impact on member agencies; for example, an 11.5 percent threshold investment return would reduce the investment return assumption by 5 basis points (0.05 percent)

3. Ultimately, Funding Risk Mitigation may reduce the investment return assumption by 100 basis points (1 percent) from the current 7.5 percent to 6.5 percent, resulting in higher contributions from member agencies.

- With 100 percent of precincts reporting and Measure M receiving close to 70 percent of the vote, Los Angeles County's Metropolitan Transportation Authority (Metro) successfully promoted an expansive traffic improvement plan (Measure M) to build 40 major highway and transit projects in the coming decades, including extension of the Foothill Gold Line from Glendora to the county line in Claremont.

  Measure M is a half-cent sales tax that will raise $120 billion over 40 years for transportation improvements, adding on to Measure R's half-cent sales tax passed by Los Angeles County voters in 2008. When Measure R expires in 2039, Measure M will convert to a one-cent tax, thereby avoiding a loss of revenue for transportation projects—Measure M has no sunset, allowing a constant inflow of revenue for ongoing maintenance and expansion of Los Angeles County's transportation systems. Measure M gives Metro a funding stream of $860 million every year, making the measure worth more than half of all the transit measures approved by voters across the country at the November 8 Presidential Election, making it the boldest, most comprehensive transportation investment initiative in North America.

  Measure R funds were used to open the Pasadena-to-Azusa extension of the Gold Line in March 2016, and the expansion of the Expo Line from downtown L.A. to Santa Monica in May 2016. These lines, already exceeding ridership projections, may have helped prompt the two-thirds vote needed for Measure M's passage for the next phase of transit and transportation growth in the county.

In its first decades, Measure M would fund 38 freeway, rail, and bus projects, return up to 20 percent to 88 county cities in Los Angeles County to fix potholes and build bikeways, and set aside money for Metro and Metrolink operations and maintenance.

Significant Measure M-funded transit projects include:

- A transit tunnel under the Sepulveda Pass connecting West Los Angeles with the San Fernando Valley
- Extending the foothill Gold Line from Glendora to Claremont
- Completing the Purple Line subway to Westwood
- Crenshaw Green Line to LAX
- Running a new light-rail line from Artesia to Union Station
- Improving the Orange Line Bus Rapid Transit in the San Fernando Valley by adding grade separations within two years.

Local jockeying to determine which transportation and transit projects are ready to break ground first is already in full swing. The Gold Line extension to Claremont, already approved in Metro's transit plan, is a shovel-ready favorite. Contracts for the extension could be signed in late 2017, a year ahead of scheduled funding from Measure M.

It now becomes Montclair's mission, in consort with Metro, the Gold Line Foothill Construction Authority, and San Bernardino Associated Governments (SANBAG) to develop funding for construction of the Montclair Segment. Because the Montclair Segment is in San Bernardino County, it is not eligible for Measure M or Measure R funding. Application had been made to the California State Transportation Administration (CalSTA) for cap-and-trade funding; however, the application was denied in August 2016. A renewed application will be submitted for 2017. If necessary, the City will also explore using Federal Transit Administration (FTA) funding and examine other funding alternatives.

President-elect Donald Trump has indicated he would push Congress for a $1 trillion infrastructure expansion bill for bridges, highways, transit, and airports—an effort that could potentially increase the availability of federal grant dollars. However, after taking the oath as President, Mr. Trump is expected to receive stiff opposition from a Congress that has consistently failed to embrace infrastructure improvements as a priority.

Unlike with San Bernardino County's transit agency (SANBAG), which is focused heavily on highway improvements, Metro and Los Angeles County voters overwhelmingly endorsed Measure M because there exists a community of desire and intent to address the region's long-term transportation concerns by pursuing a range of transportation and transit fixes—a desire and intent that overcame opposition from more than 40 South Bay and Gateway cities on the west side of Los Angeles County. Councils of Government for both areas opposed the measure, arguing their areas were being bypassed by Metro for Los Angeles-centric projects. For example, completion of the widening of the 5 Freeway between the 605 and 710 freeways is not scheduled to start construction until 2036. However, the Metro Board expressed hope that private contractors offering venture capital could help speed up down-listed projects.

In the short-term, and in addition to its focus on developing funding for construction of the Montclair Segment, Montclair will continue to focus on commercial and residential project development in the North Montclair Transit District (TOD). Interest in extending the Gold Line to Montclair has already spurred developer interest in the TOD area defined by the North Montclair Downtown Specific Plan (NMDSP).

- The *City Manager's Weekly Report* will "take a break" next week. I wish everyone a very happy Thanksgiving Day and weekend with their families.

COMMUNITY DEVELOPMENT DEPARTMENT/ECONOMIC DEVELOPMENT

- On Monday, the Planning Commission unanimously approved a Conditional Use Permit (CUP) Amendment that allows the reconfiguration of the north side of McDonald's Restaurant at 9147 Central Avenue to add a second drive-thru lane and order-station to improve efficiency. The new configuration will create two lanes where customers can order and then move forward to recombine into a single lane for payment, pick up, and exiting. The existing delivery area and landscaping will be reduced in size to accommodate the proposed site changes as depicted on submitted plans. The project also included approval of a Precise Plan of Design as summarized below:

    - Removal of the existing red metal mansard-style roof as the primary design element of the existing building. A new modern architectural design for the building is proposed which incorporates squared-off building elevations and use of decorative metal trim and corrugated metal panels. New aluminum canopies over the windows and entrances are also proposed. The existing 35-foot tall accent tower will be retained and remodeled to match proposed exterior materials and colors as described above

    - Proposed new color scheme in beige and grey, as shown in color renderings. The existing stone veneer at the base of the entire restaurant will remain

- Update landscaping areas for the subject site to match existing shrubs that would be relocated as part of the addition of the second drive-thru lane

- Provide new identification signs for the business. The applicant will submit a separate application for new signs for administrative review and approval by City staff.

Current restaurant and drive-thru hours of operation are 7 days a week, 5 a.m. to 10 p.m. No changes to open hours of operation are proposed.

View of Entrance from Parking Lot

View of Restaurant from Central Avenue

- Brick-and-mortar apparel retailers are struggling and, as a result, their physical footprints are shrinking.

  Most recently, Kenneth Cole announced plans to shutter all of its outlet stores in the U.S., and American Apparel filed for bankruptcy for the second time in just over a year. As the e-commerce market continues to grow in the U.S. and worldwide, traditional retailers will likely have a harder time keeping up with shifts in the digital space.

  Apparel retailers are struggling to maintain physical store performance.

- **Kenneth Cole:** Apparel and accessories brand Kenneth Cole announced plans last week to shut down all of its outlet stores in the U.S., leaving it with just two flagship stores operating in the country. Scaling back its underperforming brick-and-mortar locations could give Kenneth Cole the resources to be successful as it turns its attention to digital channels.

- **American Apparel:** American Apparel has filed for Chapter 11 bankruptcy for the second time. It first filed in October 2015, but the company's original turnaround plan was not enough to save the company as it focused mainly on closing underperforming stores, scaling back jobs, and launching stores in more profitable areas. The heightened focus on its physical presence with a lack of digital initiatives likely contributed to American Apparel's latest bankruptcy.

Amazon poses a larger threat than ever to traditional apparel retailers. Amazon is the top seller of online apparel, and it is building a lead over retailers' combined in-store and online apparel sales. The company earned $16.3 billion in 2015 from apparel sales, which is more Macy's, Nordstrom, Kohl's, Gap, and L Brands combined. As Amazon gains apparel market share, traditional retailers are suffering from declining foot traffic while trying to maximize performance across physical and digital channels.

Legacy apparel retailers could begin to rethink the purposes of their brick-and-mortars. Retailers with ample square footage have the physical space to either convert existing aisles or backrooms into storage for online orders. This, combined with the fact that many retail giants have densely distributed stores across the U.S., could enable retailers to adopt ship-from-store capabilities to serve more online orders, while also increasing inventory turnover within their physical locations.

- Macy's is struggling.

The retailer last week announced its seventh straight quarter of declines in both profits and sales.

Net income for the third quarter fell by 87 percent to $15 million, following a 46 percent decline over the same period last year, and sales dropped to 4.2 percent to $5.63 billion. Same-store sales, or sales at stores open at least a year, fell 3.3 percent.

The company's performance, while slightly better than the first half of the year, paints a grim picture, according to analysts at the consulting firm Conlumino.

According to analysts, the fact that Macy's made just $0.27 cents for every dollar of sales puts the company on a pathway to long-term unprofitability.

The issues plaguing Macy's are the same ones that have brought Sears close to extinction: falling traffic, underinvestment in stores, and a reliance on excessive discounting to attract customers.

On a more positive note, however, Macy's said that it's seeing improvement in its apparel sales and now expects same-store sales declines to slow in the fourth quarter.

Macy's must keep this momentum going by giving shoppers a reason to visit its stores, or else it risks getting crushed by Amazon.

In another potentially positive sign for the business, Macy's is teaming up with Brookfield Asset Management to redevelop at least 50 stores. The partnership is meant to make existing stores more profitable.

HUMAN SERVICES DEPARTMENT

- With the holiday season fast-approaching, we invite you to mark your calendars for the following events:

    - The Annual Tree-Lighting Ceremony and visit with Santa and Mrs. Claus will be held on Thursday, December 1 at 6 p.m. in the Youth Center. Complimentary family photos with Santa and Mrs. Claus, free refreshments, and a Letters to Santa station will be available. A community sing-along will also be held.

      Gift lights may be purchased for $10 in honor of, or in memory of, a loved one.

      Additional information is available by calling 625-9451.

    - Dashing Through Montclair will be held on Saturday, December 3. Santa's sleigh will leave the Police Department at 1 p.m. and will make a stop at Alma Hofman Park before returning to the Police Department at 6 p.m. Santa, who will be greeting people at each stop, needs help filling his sleigh. Collected toys will be distributed to needy Montclair children as part of the City's Annual Toy and Food Basket Program.

      Santa's new route for 2016 will be posted online soon. To follow, visit www.cityofmontclair.org/dashingthroughmontclair or call 625-9479.

    - Now, through Thursday, December 15, the Human Services Department will be sponsoring its Annual Canned Food and Toy Drive. Employees and the community are encouraged to donate to this worthy cause.

      For the health and safety of those receiving food baskets, we cannot accept outdated, dented or bulging cans; or open packages. Toys must be new and unwrapped.

Marked collection bins are located at the Recreation Center, Youth Center, Senior Center, City Hall lobby, Fire Station 1, and the Police Department. All food and toys collected will be distributed to needy Montclair residents during the 2016 Holiday Toy and Food Basket Program.

- Yesterday, the Senior Center held its monthly birthday party in the Community Center. Over 250 seniors attended the Thanksgiving-themed event and enjoyed a delicious turkey dinner, cake, pumpkin pie, and ice cream. Entertainment was provided by fellow seniors Stan Chapin, who sang *Bless this House,* accompanied by Josie Arroyo on the piano. Seniors also had the opportunity to participate in coloring contests.

  Pictures are included on Page 13.

- On November 9, the Senior Center hosted a Veterans Day dance in honor of those who served in the United States military. Over 45 veterans were recognized by name, branch of service, and a standing ovation. Each veteran received a goody bag with several items, including a cupcake from My Delight Cupcakery in Ontario. Main Street Swing Band entertained over 150 guests with music from the 50's and 60's. Guests danced the night away and enjoyed refreshments provided by West End Family Counseling Services. Many veterans provided a picture for display, and everyone received a military-themed stuffed bear.

  Pictures are included on Page 14.

POLICE DEPARTMENT

- The Police Department had in its custody 38 unclaimed bicycles that were donated on November 9 to Bikes 4 Vets Project Inland Empire. Bikes 4 Vets was started by Army Veteran Joseph Mena and his wife, Aida, who are also the founders of Homeless Veterans First, Inc. Their goal is to assist military veterans in need of transportation by providing them with a refurbished, donated bicycle. These bicycles not only provide physical exercise, but they enable our veterans to travel to medical appointments and employment.

  Joseph and Aida, along with their associates, presented the Police Department with a Certificate of Recognition in appreciation of the donation.

ECS:spa

"I'm thankful for every moment."
~ Al Green

NOVEMBER 2016

17	Public Works Committee Meeting City Hall Conference Room	4:00 p.m.
21	Real Estate Committee Meeting City Hall Conference Room	5:30 p.m.
21	Code Enforcement/Public Safety Committee Meeting City Hall Conference Room	6:15 p.m.
21	City Council Meeting Council Chambers	7:00 p.m.
24	Thanksgiving Day	
28	Planning Commission Meeting Council Chambers	7:00 p.m.

DECEMBER 2016

1	Annual Tree-Lighting Ceremony Youth Center	6:00 p.m.
3	Dashing Through Montclair	1:00 p.m.
5	City Council Workshop – North Montclair Downtown Specific Plan Amendment	5:45 p.m.
5	City Council Meeting Council Chambers	7:00 p.m.
12	Planning Commission Meeting Council Chambers	7:00 p.m.
19	Real Estate Committee Meeting City Hall Conference Room	5:30 p.m.
19	Code Enforcement/Public Safety Committee Meeting City Hall Conference Room	6:15 p.m.
19	City Council Meeting Council Chambers	7:00 p.m.
25	Christmas Day	
26	City Offices Closed in Observance of Christmas Day	
27	Planning Commission Meeting Council Chambers	7:00 p.m.


Senior Center
Birthday Party
Happy
Birthday Seniors


Senior Center
Veterans Day Dance
Sacrifice
American
Brave
Patriotic
Honorable