

1 [Board Response - Civil Grand Jury Report - The San Francisco Retirement System -
2 Increasing Understanding and Adding Voter Oversight]

3 **Resolution responding to the Presiding Judge of the Superior Court on the findings**
4 **and recommendations contained in the 2016-2017 Civil Grand Jury Report, entitled**
5 **“The San Francisco Retirement System - Increasing Understanding and Adding Voter**
6 **Oversight;” and urging the Mayor to cause the implementation of accepted findings**
7 **and recommendations through his/her department heads and through the development**
8 **of the annual budget.**

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10 WHEREAS, Under California Penal Code, Section 933 et seq., the Board of
11 Supervisors must respond, within 90 days of receipt, to the Presiding Judge of the Superior
12 Court on the findings and recommendations contained in Civil Grand Jury Reports; and

13 WHEREAS, In accordance with California Penal Code, Section 933.05(c), if a finding or
14 recommendation of the Civil Grand Jury addresses budgetary or personnel matters of a
15 county agency or a department headed by an elected officer, the agency or department head
16 and the Board of Supervisors shall respond if requested by the Civil Grand Jury, but the
17 response of the Board of Supervisors shall address only budgetary or personnel matters over
18 which it has some decision making authority; and

19 WHEREAS, Under San Francisco Administrative Code, Section 2.10(a), the Board of
20 Supervisors must conduct a public hearing by a committee to consider a final report of the
21 findings and recommendations submitted, and notify the current foreperson and immediate
22 past foreperson of the civil grand jury when such hearing is scheduled; and

23 WHEREAS, In accordance with San Francisco Administrative Code, Section 2.10(b),
24 the Controller must report to the Board of Supervisors on the implementation of

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1 recommendations that pertain to fiscal matters that were considered at a public hearing held
2 by a Board of Supervisors Committee; and

3 WHEREAS, The 2016-2017 Civil Grand Jury Report, entitled “The San Francisco
4 Retirement System – Increasing Understanding and Adding Voter Oversight” (“Report”) is on
5 file with the Clerk of the Board of Supervisors in File No. 170662, which is hereby declared to
6 be a part of this Resolution as if set forth fully herein; and

7 WHEREAS, The Civil Grand Jury has requested that the Board of Supervisors respond
8 to Finding Nos. F1 and F2 as well as Recommendation Nos. R1.1, R1.2, R2.1, and R2.2,
9 contained in the subject Report; and

10 WHEREAS, Finding No. F1 states: “That there are multiple causes for the City’s \$5.81
11 billion debt to its Retirement System, including investment losses (\$1.4 billion), a court ruling
12 on Supplemental Cost of Living Adjustments (COLAs) in the 2011 Proposition C (\$1.3 billion),
13 and changes in demographic assumptions (\$1.1 billion). However, the principal underlying
14 cause is the estimated \$3.5 billion in retroactive retirement benefit increases implemented by
15 voter-approved propositions between 1996 and 2008;” and

16 WHEREAS, Finding No. F2 states: “1) That the City’s Retirement System diligently
17 protects the retirement-related interests of the City’s employees and retirees; 2) that the
18 Retirement Board has a majority of members who are also members of the Retirement
19 System (they receive, or will receive, pensions); 3) that when it came to retroactive retirement
20 benefit increase propositions between 1996 and 2008, the Mayor, Board of Supervisors,
21 Retirement Board, and Controller did not fulfill their responsibility to watch out for the interests
22 of the City and its residents; and 4) that despite previous Retirement System-related
23 propositions (2010 Proposition D and 2011 Proposition C) that reduced future pension
24 liabilities, the Retirement System remains seriously underfunded, threatening the fiscal status
25 of the City;” and

1 WHEREAS, Recommendation No. R1.1 states: “That the Mayor and Board of
2 Supervisors fully disclose the financial details of any future retirement benefit increases or
3 decreases to the public;” and

4 WHEREAS, Recommendation No. R1.2 states: “That by the end of 2018, the
5 Retirement Board produce an annual report for the public showing each component of the
6 debt owed by the City to the Retirement System, including the full history of each component
7 and descriptions of all calculations;” and

8 WHEREAS, Recommendation No. R2.1 states: “That the Board of Supervisors
9 establish a permanent Retirement System Oversight Committee to develop a comprehensive,
10 long-term solution for the Retirement System that is fair to both employees and taxpayers,
11 and present it to the voters in a proposition by 2018. All options for reducing pension liabilities
12 must be considered, including a hybrid Defined Benefit / Defined Contribution plan. The
13 details of the committee are:

14 1. Name: Retirement System Oversight Committee

15 2. Purpose

16 a. Develop a comprehensive, long-term solution for the Retirement
17 System’s unfunded liabilities that is fair to both employees, retirees, and
18 taxpayers, and present it to voters in a proposition by the end of 2018. All
19 options should be on the table, including a Hybrid Defined Benefit / Defined
20 Contribution plan.

21 b. Inform and educate the public concerning the finances of the
22 Retirement System.

23 c. As needed, develop solutions to future problems the Retirement
24 System encounters and, if necessary, present them to voters in a proposition. All
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1 options should be on the table, including a Hybrid Defined Benefit / Defined
2 Contribution plan.

3 d. The Committee shall provide oversight to ensure that: (1) actions taken
4 by the Retirement System are in the best interest of the residents of San
5 Francisco; (2) all propositions that modify the Retirement System are adequately
6 described to voters in the Voter Information Pamphlet.

7 e. In furtherance of its purpose, the committee may engage in any of the
8 following activities:

9 i. Inquire into the actions of the Retirement System by reviewing
10 reports, analyses, financial statements, actuarial reports, or other
11 materials related to the Retirement System.

12 ii. Holding public meetings to review the effect on San Francisco
13 residents of actions taken by the Retirement System.

14 3. Public Meetings

15 a. The Board of Supervisors shall provide the committee with any
16 necessary technical assistance and shall provide administrative assistance in
17 furtherance of its purpose and sufficient resources to publicize the conclusions
18 of the committee.

19 b. All committee proceedings shall be subject to the California Public
20 Records Act (Section 6254, et seq., of the Government Code of the State of
21 California) and the City's Sunshine Ordinance (Chapter 67 of this Code). The
22 committee shall issue regular reports on the results of its activities. A report shall
23 be issued at least once a year. Minutes of the proceedings of the committee and
24 all documents received and reports issued shall be a matter of public record and
25 be made available on the Board's website.

1 4. Membership

2 a. Two-thirds of the members will be Public members and one-third will
3 be Representative members.

4 b. Public members.

5 i. Public members must be voters.

6 ii. Public members cannot be members of the Retirement System.

7 iii. Each Supervisor will appoint a single Public member.

8 iv. The Mayor will appoint all other Public members.

9 v. Public members can only be removed for cause.

10 vi. Public members shall be experienced in life insurance, actuarial
11 science, employee pension planning, investment portfolio management,
12 labor negotiations, accounting, mathematics, statistics, economics, or
13 finance.

14 vii. Public members will receive no compensation.

15 viii. Four-year term, staggered so that one-fourth of the Public
16 members' terms expire each year.

17 ix. No more than two consecutive terms.

18 c. Representative members

19 i. Mayor's Office representative.

20 ii. Board of Supervisors' representative.

21 iii. Controller's Office representative.

22 iv. Human Resources Department representative.

23 v. Safety Unions' representative.

24 vi. Miscellaneous Unions' representative.

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1 5. Committee Costs

2 a. The Board of Supervisors will decide how best to fund the Committee;” and

3 WHEREAS, Recommendation No. R2.2 states: “That by the end of 2018, the Mayor
4 and Board of Supervisors submit a Charter amendment proposition to the voters to add three
5 additional public members who are not Retirement System members to the Retirement
6 Board;” and

7 WHEREAS, In accordance with California Penal Code, Section 933.05(c), the Board of
8 Supervisors must respond, within 90 days of receipt, to the Presiding Judge of the Superior
9 Court on Finding Nos. F1 and F2 as well as Recommendation Nos. R1.1, R1.2, R2.1, and
10 R2.2 contained in the subject Report; now, therefore, be it

11 RESOLVED, That the Board of Supervisors reports to the Presiding Judge of the
12 Superior Court that they disagree partially with Finding No. F1 for reason as follows: The
13 primary causes of the greater than expected unfunded liabilities were the lower returns on
14 investments due to the dot-com bust and the Great Recession, the changes in demographic
15 assumptions, and the court ruling on the Supplemental Cost of Living Adjustments in the 2011
16 Proposition C, but not the voter-approved propositions between 1996 and 2008; and, be it

17 FURTHER RESOLVED, That the Board of Supervisors reports to the Presiding Judge
18 of the Superior Court that they disagree partially with Finding No. F2 for reason as follows:
19 The City departments did fulfill their responsibilities in overseeing the interests of City
20 residents regarding retirement benefits-related ballot initiatives between 1996 and 2008, and
21 that the Retirement System is not seriously underfunded, nor does it threaten the fiscal health
22 of the City; and, be it

23 FURTHER RESOLVED, That the Board of Supervisors reports that Recommendation
24 No. R1.1 has not been implemented but will be; For any future retirement benefit increases or
25 decreases, the Mayor and the Board of Supervisors shall provide information in lay-person

1 terms that is available and easily accessible on the City's website and that clearly presents
2 projected financials including unfunded liabilities; in addition, when there is a ballot initiative
3 that addresses retirement benefits, the Voter Information Pamphlet shall include an
4 introductory paragraph written by the Controller explaining in lay-person terms the assets,
5 liabilities, projected financials, including unfunded liabilities, and health of the retirement
6 system; and, be it

7 FURTHER RESOLVED, That the Board of Supervisors reports that Recommendation
8 No. R1.2 has not been implemented but will be; The 2017 Retirement System's annual report
9 shall include information about the Retirement System's projected finances, including
10 unfunded liabilities; and, be it

11 FURTHER RESOLVED, That the Board of Supervisors reports that Recommendation
12 No. R2.1 will not be implemented because it is not warranted or reasonable; The Mayor and
13 Board of Supervisors have oversight over the Retirement System and review financials and
14 projections regularly, including during the annual City budget process; and, be it

15 FURTHER RESOLVED, That the Board of Supervisors reports that Recommendation
16 No. R2.2 requires further analysis as the Board of Supervisors needs to investigate the
17 consequences of adding members to the Retirement Board, and will report back to the Civil
18 Grand Jury by December 16, 2017; and, be it

19 FURTHER RESOLVED, That the Board of Supervisors urges the Mayor to cause the
20 implementation of the accepted findings and recommendations through his/her department
21 heads and through the development of the annual budget.

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