



August 15, 2017

The Honorable Teri L. Jackson
Presiding Judge
Superior Court of California, County of San Francisco
400 McAllister Street
San Francisco, CA 94102

Dear Judge Jackson:

Pursuant to Penal Code sections 933 and 933.05, the following is in reply to the 2016-17 Civil Grand Jury report, *The San Francisco Retirement System: Increasing Understanding and Adding Voter Oversight*. We would like to thank the members of the Civil Grand Jury for their interest in San Francisco's Retirement System and its role in the City's long-term financial health. The report focuses primarily on two challenges with the Retirement System: reducing our long term pension obligations, and improving transparency and accountability to taxpayers about the City's pension costs.

The City remains committed to striving for responsible stewardship of the San Francisco Employees' Retirement System (SFERS). The careful management of retirement obligations and their associated costs is critical to ensuring the City's financial security. In 2011 Mayor Ed Lee worked to pass pension reform legislation which significantly reduced the City's long term pension obligations. The legislation (Prop. C) included reductions to benefits and requirements that employee contribute at least 7.5% of their salary toward their pension costs, depending on the health of the pension fund. This was estimated to save the City up to \$1.3 billion over the subsequent 10 years. Without this legislation, the City's fiscal outlook would be considerably worse.

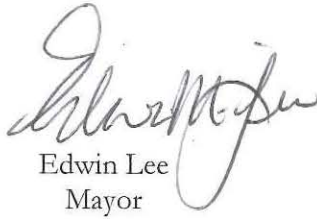
There are multiple drivers of the City's long term pension obligations. However, SFERS is among the top-performing and well-funded public pension plans in the United States. The System is currently 85% funded, versus an average of 72% funded amongst peer jurisdictions. That funding gap that will be closed over the long term, not only by the City but also by City employees as a result of the employee cost sharing provisions approved by the voters in 2011 and future investment gains. However, future pension liabilities are a great concern for the city, and are carefully tracked and analyzed closely on an ongoing basis by the Mayor's Office, Controller's Office, Retirement System and the Board of Supervisors' Budget and Legislative Analyst. We closely monitor the impact of our pension obligations on our long term fiscal deficit and will continue to seek to reduce projected deficits over time.

A detailed response from the Mayor's Office, Elections Department, and Elections Commission to the Civil Grand Jury's findings and recommendations are attached.


Each signatory prepared its own responses and is able to respond to questions related to its respective part of the report.

Thank you again for the opportunity to comment on this Civil Grand Jury report.

Sincerely,



Edwin Lee
Mayor



John Arntz
Director of the Department of Elections



Christopher Jerdonek
President of the Elections Commission

CGJ Year	Report Title	#	Findings	Respondent assigned by CGJ	2017 Responses (Agree/Disagree)	2017 Response Text
2016-17	The SF Retirement System- Increasing Understanding & Adding Voter Oversight	F1	That there are multiple causes for the City's \$5.81 billion debt to its Retirement System, including investment losses (\$1.4 billion), a court ruling on Supplemental Cost of Living Adjustments (COLAs) in the 2011 Proposition C (\$1.3 billion), and changes in demographic assumptions (\$1.1 billion). However, the principal underlying cause is the estimated \$3.5 billion in retroactive retirement benefit increases implemented by voter-approved propositions between 1996 and 2008.	Mayor	disagree with it, partially (explanation in next column)	<p>We agree that there are multiple drivers of the City's long term pension obligations. However, SFERS is among the top-performing and well-funded public pension plans in the United States. We are confident that, over the long term, the assets in the SFERS Trust will be sufficient to pay the promised benefits to all active and retired SFERS members. Each year, the Retirement Board receives an actuarial valuation - a snapshot of the long-term progress of the fund toward full funding of all promised benefits - from which they review and adjust, if prudent and appropriate, existing funding policies to ensure the long-term financial strength of the SFERS Trust. In accordance with the City Charter and Retirement Board policies, the cost or increase in liabilities associated with every voter-approved proposition is amortized over up to a 20-year period.</p> <p>The Retirement System unfunded liability is not a "debt", but rather a funding gap that will be made up over the very long term, not only by the City, but also by City employees as a result of the employee cost sharing provisions approved by the City voters in 2011 (Proposition C) and long term investment gains. As reflected in the past investment performance of the Retirement System – relative to U.S. public fund peers, SFERS' investment results ranked in the first quartile for the 3 year, 5 year and 10 year time periods, investment gains will also contribute a significant amount towards reducing the unfunded liabilities of the Retirement System.</p>
2016-17	The SF Retirement System- Increasing Understanding & Adding Voter Oversight	F2	1) That the City's Retirement System diligently protects the retirement-related interests of the City's employees and retirees; 2) that the Retirement Board has a majority of members who are also members of the Retirement System (they receive, or will receive, pensions); 3) that when it came to retroactive retirement benefit increase propositions between 1996 and 2008, the Mayor, Board of Supervisors, Retirement Board, and Controller did not fulfill their responsibility to watch out for the interests of the City and its residents; and 4) that despite previous Retirement System-related propositions (2010 Proposition D and 2011 Proposition C) that reduced future pension liabilities, the Retirement System remains seriously underfunded, threatening the fiscal status of the City.	Mayor	disagree with it, partially (explanation in next column)	<p>We are in agreement that the City's Retirement System diligently protects the retirement interests of the City's employees and Retirees (item 1). We also agree about the composition of the retirement board (item 2).</p> <p>However, we disagree with finding (3). Cost analyses prepared by the Controller and the Retirement System were based upon the best available information, and were in line with actuarial and economic assumptions in use at the time. As noted in those analyses, benefit costs and Retirement Fund results are highly sensitive to a number of economic assumptions, several of which were not met in the years following the changes approved by voters.</p> <p>In addition, we disagree with finding 4). Future pension liabilities are a great concern for the city, and are carefully tracked and analyzed closely on an ongoing basis by the Mayor's Office, Controller's Office, Retirement System and the Board of Supervisors' Budget and Legislative analyst. Projected costs are forecast and incorporated into our 5-year financial planning process which is jointly developed by the Mayor's Budget Office, the Controllers Office and the Board of Supervisors' Budget and Legislative analyst.</p> <p>We have also made significant strides in enacting policy to reduce our pension liability and continue to look for ways to reduce our long term pension liabilities. The SFERS retirement system is 85% funded. While still not fully funded, it is important to consider that relative to comparable systems, San Francisco's SFERS is faring very well, and is among the top-performing and well-funded public pension plans in the United States. A recent report by the City Services Auditor found that the peer average for city employee pension plans as of FY 15 was 72% funded (compared with SFERS at 85%). For instance CALPERS is currently funded at 69% and Los Angeles is funded at 83%. As of FY 15, Seattle was funded at 66% and Portland at 46%.</p>

The SF Retirement System-Increasing Understanding Adding Voter Oversight: **RESPONSES TO CGJ RECOMMENDATIONS**

CGJ Year	Report Title	#	Recommendations	Respondent assigned by CGJ	2017 Responses (implementation)	2017 Response Text
2016-17	The SF Retirement System- Increasing Understanding & Adding Voter Oversight	R1.1	That the Mayor and Board of Supervisors fully disclose the financial details of any future retirement benefit increases or decreases to the public	Mayor	The recommendation has been implemented (summary of how it was implemented in next column)	<p>The financial impact of major changes that impact benefit structure are already fully disclosed to the voters via the ballot (see below). Day to day decisions taken by the Retirement Board are also already disclosed to the public. Board meetings are public; agendas and minutes are posted online. Any action taken by the board is publicly posted.</p> <p>All changes in SFERS benefit provisions must be approved by the City's voters. For items on the ballot we are required by charter to provide actuarial reports detailing the costs of the proposition, which are disclosed on the ballot. The Retirement System and the Controller's Office prepare extensive analyses of any pension-related measure placed on the ballot. By necessity, these cost analyses are brief written statements, with more detailed files maintained and available for inspection by members of the public interested in exploring the issues in more depth.</p>
2016-17	The SF Retirement System- Increasing Understanding & Adding Voter Oversight	R1.2	That by the end of 2018, the Retirement Board produce an annual report for the public showing each component of the debt owed by the City to the Retirement System, including the full history of each component and descriptions of all calculations.	Mayor	The recommendation has been implemented (summary of how it was implemented in next column)	<p>The Retirement System provides extensive reports detailing financial, actuarial and administrative matters on an annual basis. These annual reports include audited financial statements and required supplementary information, an actuarial valuation, and a department annual report which consolidates the financial and actuarial information with detailed information on the administration of the Retirement System. The details of the breakout for each component of unfunded liability related to the City's retirement plan are contained in the annual actuarial valuation report. There is a description of the calculation method in the appendix of the report. The Retirement System maintains five years of the SFERS annual actuarial valuation report on its website. Historical valuation reports beyond the five years available on the website are available by request to the Retirement System.</p>

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2016-17	The SF Retirement System-Increasing Understanding & Adding Voter Oversight	R2.1	<p>That the Board of Supervisors establish a permanent Retirement System Oversight Committee to develop a comprehensive, long-term solution for the Retirement System that is fair to both employees and taxpayers, and present it to the voters in a proposition by 2018. All options for reducing pension liabilities must be considered, including a hybrid Defined Benefit / Defined Contribution plan. The details of the committee are:</p> <ol style="list-style-type: none"> 1. Name: Retirement System Oversight Committee 2. Purpose <ol style="list-style-type: none"> a. Develop a comprehensive, long-term solution for the Retirement System's unfunded liabilities that is fair to both employees, retirees, and taxpayers, and present it to voters in a proposition by the end of 2018. All options should be on the table, including a Hybrid Defined Benefit / Defined Contribution plan. b. Inform and educate the public concerning the finances of the Retirement System. c. As needed, develop solutions to future problems the Retirement System encounters and, if necessary, present them to voters in a proposition. All options should be on the table, including a Hybrid Defined Benefit / Defined Contribution plan. d. The Committee shall provide oversight to ensure that: (1) actions taken by the Retirement System are in the best interest of the residents of San Francisco; (2) all propositions that modify the Retirement System are adequately described to voters in the Voter Information Pamphlet. e. In furtherance of its purpose, the committee may engage in any of the following activities: <ol style="list-style-type: none"> i. Inquire into the actions of the Retirement System by reviewing reports, analyses, financial statements, actuarial reports, or other materials related to the Retirement System. 	Mayor	The recommendation will not be implemented because it is not warranted or reasonable (explanation in next column)	The City already has a Retirement Board which functions as oversight to the Retirement System, and the Mayor's Office has no authority to establish or empanel a new Board committee. Mayor Lee worked to pass major pension reform legislation in 2011 and the City's long term pension obligations would be much worse if it was not for these measures. Lastly, the City closely monitors pension costs in our long range financial planning- through the 5 year financial planning process, deficit projections as well as through the 2 year budget process, which are developed by the Mayor's Office in collaboration with the Controller's Office and the Board of Supervisors. We closely monitor the impact of our pension obligations on our long term deficit and will continue to seek to reduce projected deficits over time.
2016-17	The SF Retirement System-Increasing Understanding & Adding Voter Oversight	R2.2	<p>That by the end of 2018, the Mayor and Board of Supervisors submit a Charter amendment proposition to the voters to add three additional public members who are not Retirement System members to the Retirement Board.</p>	Mayor	The recommendation will not be implemented because it is not warranted or reasonable (explanation in next column)	This recommendation is intended to add individuals to the retirement system board who are not beneficiaries of the trust fund, and who will therefore presumably act as guardians of the public interest. However, trustees are always obligated to act only in the fiduciary interests of the beneficiaries. Therefore, this recommendation would not accomplish its intended goals, and for that reason will not be pursued. The City closely monitors pension costs in our long range financial planning - through the 5 year financial planning process, deficit projections as well as through the 2 year budget process, which are developed by the Mayor's Office in collaboration with the Controller's Office and the Board of Supervisors. We closely monitor the impact of our pension obligations on our long term deficit and will continue to seek to reduce projected deficits over time. The Mayor will continue to consider any and all mechanisms within his purview to ensure fiscal sustainability.

The SF Retirement System- Increasing Understanding Adding Voter Oversight : **RESPONSES TO CGJ FINDINGS**

CGJ Year	Report Title	#	Findings	Respondent assigned by CGJ	2017 Responses (Agree/Disagree)	2017 Response Text
2016-17	The SF Retirement System- Increasing Understanding & Adding Voter Oversight	F3	That the Voter Information Pamphlets for retroactive retirement benefit increase propositions between 1996 and 2008 did not provide voters with complete estimates of the propositions' costs, who would pay those costs, how those costs were financed, and what the interest rates were.	Department of Elections	disagree with it, wholly (explanation in next column)	The Department lacks sufficient knowledge to determine whether these VIPs included the information set forth in this finding.

The SF Retirement System-Increasing Understanding Adding Voter Oversight: **RESPONSES TO CGJ RECOMMENDATIONS**

CGJ Year	Report Title	#	Recommendations	Respondent assigned by CGJ	2017 Responses (implementation)	2017 Response Text
2016-17	The SF Retirement System-Increasing Understanding & Adding Voter Oversight	R3.1	That the Elections Commission and the Department of Elections ensure that future Voter Information Pamphlets for Retirement System-related propositions provide voters with complete financial details.	Department of Elections	The recommendation will not be implemented because it is not warranted or reasonable (explanation in next column)	The Department lacks the authority to ensure that future VIPS provide voters with complete financial details regarding Retirement System-related propositions. The Department of Elections does not determine the content of the Voter Information Pamphlet; that determination is made by ordinance, and those ordinances are included in the Municipal Elections Code. The Department's role is simply to format information and transmit it to the printer. If the City adopts an ordinance requiring the Department of Elections to include additional information regarding costs associated with retirement benefits in the Voter Information Pamphlet, the Department will do so.
2016-17	The SF Retirement System-Increasing Understanding & Adding Voter Oversight	R3.2	That by the end of 2018, the Controller's Office provide SF residents, employees, and retirees with a description of the City's Retirement System that enables them to make informed decisions about it.	Department of Elections	The recommendation will not be implemented because it is not warranted or reasonable (explanation in next column)	The Department lacks the authority to require that the Controller's Office provide SF residents, employees, and retirees with a description of the City's Retirement System that enables them to make informed decisions about it. If an ordinance is adopted that requires additional content to be included in the Voter Information Pamphlet, the Department will comply with the ordinance.

The SF Retirement System- Increasing Understanding Adding Voter Oversight : **RESPONSES TO CGJ FINDINGS**

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2016-17	The SF Retirement System- Increasing Understanding & Adding Voter Oversight	F3	That the Voter Information Pamphlets for retroactive retirement benefit increase propositions between 1996 and 2008 did not provide voters with complete estimates of the propositions' costs, who would pay those costs, how those costs were financed, and what the interest rates were.	Elections Commission	disagree with it, wholly (explanation in next column)	The Elections Commission disagrees wholly with the finding because the Commission lacks the knowledge to assess whether these specific VIPs did or did not provide voters with full and accurate information regarding these propositions.

The SF Retirement System-Increasing Understanding Adding Voter Oversight: **RESPONSES TO CGJ RECOMMENDATIONS**

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2016-17	The SF Retirement System-Increasing Understanding & Adding Voter Oversight	R3.1	That the Elections Commission and the Department of Elections ensure that future Voter Information Pamphlets for Retirement System-related propositions provide voters with complete financial details.	Elections Commission	The recommendation will not be implemented because it is not warranted or reasonable (explanation in next column)	The Elections Commission will not implement this recommendation because the Commission lacks the authority to do what is requested.
2016-17	The SF Retirement System-Increasing Understanding & Adding Voter Oversight	R3.2	That by the end of 2018, the Controller's Office provide SF residents, employees, and retirees with a description of the City's Retirement System that enables them to make informed decisions about it.	Elections Commission	The recommendation will not be implemented because it is not warranted or reasonable (explanation in next column)	The Elections Commission will not implement this recommendation because the Commission lacks the authority to do what is requested.