



CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ben Rosenfield
Controller

Todd Rydstrom
Deputy Controller

August 11, 2017

The Honorable Teri L. Jackson
Presiding Judge, Superior Court of California, County of San Francisco
400 McAllister Street, Room 008
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 Civil Grand Jury for their attention to this subject. Managing retirement benefits, plans and funding are among the most complex financial and workforce issues faced by governments and other entities nationwide. Consistently modeling, projecting and managing pension costs, and providing reporting and transparency to the public, is challenging. The Controller's Office works continuously to improve the quality of the City's financial management and reporting. Especially where the public are the primary users of financial information, such as in our required ballot statements, we work hard to make our reports clear and straightforward.

Overall, the Controller's Office strives to be a responsible financial steward for the City and has been a leader in analyzing ways to manage long-term costs, reduce the Retirement System's unfunded actuarial liability, and create fair cost-sharing between employees and the City as an employer. Over the last eight years, the Controller's Office has supported five different efforts to model financial and actuarial projections and make changes to pension benefits to better manage future costs. Many of these efforts have resulted in proposals moved forward by the Mayor and Board of Supervisors and ultimately adopted by City voters.

The Civil Grand Jury's report provided important findings and recommendations and helped us understand how our financial reporting and statements are received. We will use this feedback to improve efforts to communicate with leadership, stakeholders and the public on these issues.

If you have any questions about this response, please contact Deputy Controller Todd Rydstrom or me at 415-554-7500.

Respectfully submitted,

for 
Ben Rosenfield
Controller

cc: Angela Calvillo, Clerk of the Board, City and County of San Francisco

2016-17 Civil Grand Jury
The SF Retirement System- Increasing Understanding Adding Voter Oversight : **RESPONSES TO CGJ FINDINGS**

#	Findings	Respondent assigned by CGJ	2017 Responses (Agree/Disagree)	2017 Response Text
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.	Controller	disagree with it, partially (explanation in next column)	While the Controller's Office finds the Civil Grand Jury's statement regarding the health of the Retirement Fund to be overstated, we do share the general concern regarding the increase in the system's net pension liability in recent years and its implications for future City costs. We have presented discussion and analysis in the City's recent Comprehensive Annual Financial Reports (CAFR) and in the City's Five-Year Financial Plan on this topic. We believe that the health of the system needs to be closely monitored and that it is likely to create financial pressure for the City in the years ahead absent changes to benefits. The Controller's Office disagrees with the finding that our office, the Mayor, and the Board of Supervisors did not fulfill our responsibilities to watch out for the interest of the City and its residents regarding benefit changes on the ballot between 1996 and 2008. Cost analyses prepared by our office 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.
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.	Controller	disagree with it, partially (explanation in next column)	The Controller's Office cost analyses for measures in these years included estimates based upon actuarial and financial assumptions utilized by the Retirement System at the time. Our analyses noted the sensitivity of the cost analyses to these assumptions. By necessity, these cost analyses are brief written statements for the Voter Information Pamphlet, with detailed files maintained for stakeholders or members of the public interested in exploring further. We are open to specific comments on ways to improve our ballot cost analyses, including those for future pension measures. We are open to the possibility of providing a section in the Voter Information Pamphlet with background on public pension structures and status, similar to our section regarding debt management and bond financing that is provided when bonds are on the ballot.
F4	The Controller and the Retirement System provide extensive reports about the Retirement System, but they are too complex for the average citizen, employee, or retiree to understand. The data in the Retirement System reports is not available to the Retirement System or the public in a dataset, making research and analysis more difficult.	Controller	disagree with it, partially (explanation in next column)	The Retirement System produces various reports detailing financial, actuarial, and operational issues, including a summary of their financial statements that are designed for a knowledgeable but non-expert audience. The Controller's Office, in the City's Five-Year Financial Plan, reports on the expected future retirement costs to the City, and includes discussion of the health of the Retirement Fund in the City's Comprehensive Annual Financial Report (CAFR). The Controller's Office has made regular public presentations at hearings held by the Board of Supervisors on the health of the Retirement System and its implications for the financial health of the City. We welcome comments on specific ways to improve these various products to ensure their ability to be useful to a broad array of audiences interested in this complex topic.

#	Recommendations	Respondent assigned by CGJ	2017 Responses (implementation)	2017 Response Text
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. 	Controller	The recommendation will not be implemented because it is not warranted or reasonable (explanation in next column)	This recommendation should be directed to the Mayor and Board of Supervisors, and not the Controller's Office. In our role as financial advisor, the Controller's Office will support whatever efforts policymakers put in place to study the health of the Retirement Fund and to consider changes to manage future financial costs for the City. We note, however, that the City has rigorous ongoing practices built in to its financial management to review changes in the funded status of the Retirement Fund and their implications for the City's finances. Further, the Controller's Office has supported five different efforts in the last eight years to model financial and actuarial projections and make changes to pension benefits to better manage future costs. Many of these efforts have resulted in proposals moved forward by the Mayor and Board of Supervisors and ultimately adopted by City voters.
R2.2	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.	Controller	The recommendation will not be implemented because it is not warranted or reasonable (explanation in next column)	This recommendation should be directed to the Mayor and Board of Supervisors, and not the Controller's Office. In our role as financial advisor, the Controller's Office will support whatever efforts policymakers request to review governance questions regarding the Retirement Board. We note, however, that Retirement Board members are fiduciaries that have a duty to the system's participants and not to "watch out for the interests of the City and its residents." This broader responsibility falls on the Mayor, Board of Supervisors and other policymakers. Under the City Charter ultimately the voters of San Francisco determine benefit levels, unlike the majority of governments where retirement benefits levels are not subject to a vote of the people.
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.	Controller	The recommendation requires further analysis (explanation of the scope of that analysis and a timeframe for discussion, not more than six months from the release of the report noted in next column)	Both 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. We are open to specific comments and thoughts on ways to improve our ballot cost analyses, including those for future pension measures. We are open to the possibility of providing a background section in the Voter Information Pamphlet with further information on public pension structures and San Francisco's status. We currently provide a background section regarding debt management, bond financing and San Francisco's status in all elections where bonds are on the ballot.

#	Recommendations	Respondent assigned by CGJ	2017 Responses (implementation)	2017 Response Text
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.	Controller	The recommendation has been implemented (summary of how it was implemented in next column)	The Retirement System, the Controller's Office, and others already produce a wide array of public reports for various audiences on the financial health of the Retirement Fund and its implications for both beneficiaries and the City government. We have augmented this reporting in recent years with additional detailed analysis and discussion in the City's Five Year Financial Plan. We welcome specific suggestions to improve these products, but do not believe that an additional annual report will improve public knowledge of this topic. As discussed elsewhere, we are open to specific means of improving our ballot measure analysis, including the possibility of providing additional background information in the voter information pamphlet when pension measures are placed before the voters, similar to our discussion of debt financing when bond authorizations are on the ballot.
R4.1	That by the end of 2018, the Retirement System develop and maintain a dataset based on the data in its actuarial and financial reports of the last 20 years, and make that dataset available to the public.	Controller	The recommendation will not be implemented because it is not warranted or reasonable (explanation in next column)	This recommendation should be directed to the Retirement System and not the Controller's Office.
R4.2	That by the end of 2018, the Controller's Office develop and produce an annual Retirement System Report that clearly explains the current and projected status of the Retirement System and its effect on the City's budget.	Controller	The recommendation requires further analysis (explanation of the scope of that analysis and a timeframe for discussion, not more than six months from the release of the report noted in next column)	The City's Five-Year Financial Plan includes clear discussion regarding the high-level financial status of the Retirement Fund and its implications for future City costs, including analysis of the effects of a downturn in investment returns that may occur in a recession. The City's Comprehensive Annual Financial Report also includes discussion of the health and funded status of the Retirement Fund. The Retirement System produces various reports detailing financial, actuarial, and operational issues, including a summary of their financial statements that are designed for a knowledgeable but non-expert audience. We welcome comments on specific ways to improve these products to ensure that they are useful to a broad array of audiences interested in this complex topic.