

File No. 240552

Committee Item No. 6

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Rules Committee

Date July 15, 2024

Board of Supervisors Meeting

Date _____

Cmte Board

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| <input type="checkbox"/> | <input type="checkbox"/> | <u>Charter Amendment</u> |
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Completed by: Victor Young

Date July 11, 2024

Completed by: _____

Date _____

[Charter Amendment - Fire Department Service Retirement Pension]

Describing and setting forth a proposal to the voters at an election to be held on November 5, 2024, to amend the Charter of the City and County of San Francisco to shorten to one year the period to calculate “final compensation” for retirement benefits for persons who have or will become members of the Fire Department on and after July 7, 2010; change the age factor percentage for benefit calculations such that persons who have or will become members of the Fire Department on and after January 7, 2012 reach a higher age factor percentage at earlier ages; and lower from 58 to 55 the retirement age at which persons who have or will become members of the Fire Department on and after January 7, 2012 reach the highest age factor percentage.

Section 1. Findings.

(a) In November 2011, San Francisco voters approved Proposition C to reform the City and County of San Francisco’s (City) retirement and health benefits systems. This reform was a response to the disastrous fiscal impacts of the 2008 Great Recession that significantly reduced the City’s revenues and caused the retirement fund to drop from being fully funded to being only partially funded. This drop in funding status required the City to substantially increase its employer contributions, further exacerbating the City’s budget deficit.

(b) Proposition C amended the Charter to increase pension contribution rates for employees hired on and after January 7, 2012. In addition, it increased to three years the final compensation time period for calculating retirement benefits for employees who were hired on and after January 7, 2012. Further, it raised the retirement ages for which members of the Fire Department hired on and after January 7, 2012 receive the highest percentage for each year of credited service for retirement benefit calculations and raised the age at which employees reach

1 the highest percentage from age 55 to 58.

2 (c) In the more than 12 years since this pension reform, the financial outlook of the
3 San Francisco Employees' Retirement System has improved significantly.

4 (d) Members of the Fire Department uniquely face both short- and long-term health
5 complications as a result of their occupation. The City relies on our firefighters to be the first
6 responders to a plethora of dangerous circumstances, most notably active fires but also many
7 other instances of trauma or tragedy. Beyond these immediate high-risk threats, the conditions
8 that City firefighters endure have demonstrably increased their risk of adverse long-term health
9 impacts. According to the San Francisco Firefighters Cancer Prevention Foundation, San
10 Francisco's female firefighters have a rate of breast cancer that is six times higher than the
11 national average, and over the past 20 years, the Fire Department has lost more than 300
12 firefighters to cancer. Furthermore, national research shows that firefighters experience higher
13 rates of behavioral health issues than the general public. According to the International
14 Association of Fire Fighters, 20% of firefighters and paramedics meet the criteria for post-
15 traumatic stress at some point during their careers, while the National Fallen Firefighters
16 Foundation reports that the suicide rate for firefighters is higher than the rate for the general
17 public.

18 (e) Additionally, the Fire Department has few positions that are not directly in the
19 field, meaning that members of the Fire Department are asked to enter active fires and other
20 dangerous circumstances regardless of their age. In 2024, only approximately 180 out of 1800
21 positions in the San Francisco Fire Department are not "in the field" or on frontline service
22 delivery, and these jobs are dependent on promotions, not seniority of employee tenure. As a
23 result, the risk of severe injury and health complications is further heightened for members of the
24 Fire Department over age 55, as demonstrated by data from the Department of Human Resources
25 that show a positive correlation between increased age, number of injuries, and workers'

1 compensation claim costs.

2 (f) This Charter amendment aims to recognize the distinctive and brave work of the
3 members of the Fire Department and to lessen the adverse health impacts firefighters experience.
4 By allowing members of the Fire Department to retire with up to 90% of their final
5 compensation at age 55 while maintaining the increased contribution rates for employees
6 imposed by Proposition C in 2011, the City simultaneously accomplishes these important goals.
7 In doing so, the City ensures that our firefighters can enter retirement with financial security
8 without facing an additional three years of potential health risks.

9 Section 2. The Board of Supervisors hereby submits to the qualified voters of the City
10 and County, at an election to be held on November 5, 2024, a proposal to amend the Charter of
11 the City and County by revising Sections A8.601, A8.601-1, A8.604, A8.604-1, and A8.604-2,
12 and adding Sections A8.601-17 and A8.604-17, to read as follows:

13 NOTE: **Unchanged Charter text and uncodified text** are in plain font.
14 **Additions** are single-underline italics Times New Roman font.
15 **Deletions** are ~~strike-through italics Times New Roman font~~.
Asterisks (* * * *) indicate the omission of unchanged Charter subsections.

16 **A8.601 MEMBERS OF THE FIRE DEPARTMENT ON AND AFTER JULY 1,**
17 **2010**

18 Persons who become members of the fire department, as defined in Section A8.601-1,
19 on and after July 1, 2010, shall be members of the Retirement System subject to the provisions of
20 Sections A8.601 through A8.601-17~~6~~ (which shall apply only to members under Section A8.601)
21 in addition to the provisions contained in Sections 12.100 to 12.103 and Sections A8.500,
22 A8.510, A8.520, A8.526-2~~2~~, and A8.526-3 of this Charter, notwithstanding the provisions of any
23 other section of this Charter, and shall not be subject to any of the provisions of Section~~s~~ A8.598
24 of this Charter.
25

1 The provisions of Section A8.601 shall not apply to any member of the Retirement
2 System before July 1, 2010, or any member who separated from service, retired, or
3 died before July 1, 2010, or to ~~his or her~~ the member's continuant.

4 **A8.601-1 DEFINITIONS**

5 The following words and phrases as used in this section, Section A8.601, and Sections
6 A8.601-2 through A8.601-176, unless a different meaning is plainly required by the context,
7 shall have the following meanings:

8 "Retirement allowance," "death allowance," or "allowance," shall mean equal monthly
9 payments, beginning to accrue upon the date of retirement, or upon the day following the date of
10 death, as the case may be, and continuing for life unless a different term of payment is definitely
11 provided by the context.

12 "Compensation," as distinguished from benefits under the Workers' Compensation
13 Insurance and Safety Act of the State of California, shall mean the remuneration payable in cash,
14 by the City and County, without deduction except for absence from duty, for time during which
15 the individual receiving such remuneration is a member of the fire department, but excluding
16 remuneration paid for overtime. Subject to the requirement that it be payable in cash and that
17 overtime be excluded, "compensation" for pension purposes may be defined in a collective
18 bargaining agreement.

19 "Compensation earnable" shall mean the compensation which would have been earned
20 had the member received compensation without interruption throughout the period under
21 consideration and at the rates of remuneration attached at that time to the ranks or positions held
22 by ~~him or her~~ the member during such period, it being assumed that during any absence, ~~he or~~
23 ~~she~~ the member was in the rank or position held by ~~him or her~~ the member at the beginning of
24 the absence, and that prior to becoming a member of the fire department, ~~he or she~~ the member
25 was in the rank or position first held by ~~him or her~~ the member in such department.

1 "Benefit" shall include "allowance," "retirement allowance," "death allowance," and
2 "death benefit."

3 "Final compensation" shall mean the average monthly compensation earned by a
4 member during any one year of credited service in which the member's average compensation is
5 the highest ~~the higher of any two consecutive fiscal years of earnings or the twenty four months~~
6 ~~of earnings immediately prior to retirement.~~

7 For the purpose of Sections A8.601 through A8.601-176, the terms "member of the fire
8 department," "member of the department," or "member" shall mean any officer or employee of
9 the fire department employed on and after July 1, 2010, who was or shall be subject to the
10 Charter provisions governing entrance requirements of members of the uniformed force of said
11 department and said terms shall further mean persons employed on and after July 1, 2010, at an
12 age not greater than the maximum age then prescribed for entrance into employment in said
13 uniformed force, to perform duties now performed under the titles of pilot of fireboats, or marine
14 engineer of fireboats; provided, however, that said terms shall not include any person who has
15 not satisfactorily completed such course of training as may be required by the fire department
16 prior to assignment to active duty with said department.

17 "Retirement System" or "system" shall mean San Francisco City and County
18 Employees' Retirement System as created in Sections 12.100 and A8.500 of the Charter.

19 "Retirement Board" shall mean "Retirement Board" as created in Section 12.100 of the
20 Charter.

21 "Charter" shall mean the Charter of the City and County of San Francisco.

22 * * * *

23 "Interest" shall mean interest at the rate adopted by the Retirement Board.

24 **A8.601-17 APPLICABILITY**

The amendment to Section A8.601-1 effective January 1, 2025 shall not apply to any member of the Retirement System who separated from service, retired, or died before that date, or to that member's continuant.

A8.604 MEMBERS OF THE FIRE DEPARTMENT ON AND AFTER JANUARY 7, 2012

Persons who become members of the fire department, as defined in Section A8.604-1, on and after January 7, 2012, shall be members of the Retirement System subject to the provisions of Sections A8.604 through A8.604-1~~7~~6 in addition to such other applicable provisions of this Charter, including but not limited to Sections 12.100 and A8.500.

A8.604-1 DEFINITIONS

The following words and phrases as used in this Section, Section A8.604~~2~~, and Sections A8.604-2 through A8.604-1~~7~~6, unless a different meaning is plainly required by the context, shall have the following meanings:

"Retirement allowance," "death allowance," or "allowance," shall mean equal monthly payments, beginning to accrue upon the date of retirement, or upon the day following the date of death, as the case may be, and continuing for life unless a different term of payment is definitely provided by the context.

"Compensation," as distinguished from benefits under the Workers' Compensation laws of the State of California shall mean all remuneration whether in cash or by other allowances made by the City and County, for service qualifying for credit under this Section, but excluding remuneration for overtime and such other forms of compensation excluded by the Board of Supervisors pursuant to Section A8.500 of the Charter. Remuneration shall not mean new premiums or allowances first paid by the City and County after January 7, 2012, that exceed the rate of pay fixed for each classification for service qualifying for credit under this Section. For members with concurrent service in more than one position, "compensation" shall be limited to

1 the first hours paid during any fiscal year equal to one full-time equivalent position.

2 "Compensation" for any fiscal year shall not include remuneration that exceeds 75% of the limits
3 set forth in Internal Revenue Code Section 401(a)(17) and as amended from time to time.

4 Subject to the requirements that it be payable in cash, and that overtime and new
5 premiums or allowances first paid by the City and County after January 7, 2012 are excluded,
6 "compensation" for pension purposes may be defined in a collective bargaining agreement.

7 "Compensation earnable" shall mean the compensation which would have been earned
8 had the member received compensation without interruption throughout the period under
9 consideration and at the rates of remuneration attached at that time to the ranks or positions held
10 by ~~him or her~~ the member during such period, it being assumed that during any absence, ~~he or~~
11 ~~she~~ the member was in the rank or position held by ~~him or her~~ the member at the beginning of
12 the absence, and that prior to becoming a member of the fire department, ~~he or she~~ the member
13 was in the rank or position first held by ~~him or her~~ the member in such department.

14 "Benefit" shall include "allowance," "retirement allowance," "death allowance" and
15 "death benefit."

16 "Final compensation" shall mean the average monthly compensation earned by a
17 member during any one year of credited service in which the member's average compensation is
18 the highest the higher of any three consecutive fiscal years of earnings or the thirty six
19 consecutive months of earnings immediately prior to retirement.

20 For the purpose of Sections A8.604 through A8.604-176, the terms "member of the fire
21 department," "member of the department," or "member" shall mean any member of the fire
22 department employed on and after January 7, 2012, who was or shall be subject to the Charter
23 provisions governing entrance requirements of members of the uniformed force of said
24 department and said terms shall further mean persons employed on and after January 7, 2012, at
25 an age not greater than the maximum age then prescribed for entrance into employment in said

uniformed force, to perform duties now performed under the titles of pilot of fireboats, or marine engineer of fireboats; provided, however, that said terms shall not include any person who has not satisfactorily completed such course of training as may be required by the fire department prior to assignment to active duty with said department.

"Qualified for service retirement," "qualification for service retirement," or "qualified as to age and service for retirement," as used in this Section and other Sections to which persons who are members under Section A8.604 are subject, shall mean completion of 25 years of service and attainment of age 50, said service to be computed under Section A8.604-10.

"Retirement System" or "system" shall mean San Francisco City and County Employees' Retirement System as created in Sections 12.100 and A8.500 of the Charter.

"Retirement Board" shall mean "Retirement Board" as created in Section 12.100 of the Charter.

"Charter" shall mean the Charter of the City and County of San Francisco.

* * * *

"Interest" shall mean interest at the rate adopted by the Retirement Board.

A8.604-2 SERVICE RETIREMENT

Any member of the fire department, who completes at least five years of service in the aggregate and attains the age of ~~fifty~~ (50) years, said service to be computed under Section A8.604-10, may retire for service at ~~his or her~~ the member's option. A member retired after meeting the service and age requirements in the preceding sentence, shall receive a retirement allowance equal to the percent of final compensation (as defined in Section A8.604-1) set forth below opposite ~~his or her~~ the member's age at retirement, taken to the preceding completed quarter year, for each year of service, as computed under Section A8.604-10:

<i>Age at Retirement</i>	<i>Percent for Each Year of Credited Service</i>
<i>50</i>	<i>2.200</i>

1	50¹/₄	2.225
2	50¹/₂	2.250
3	50³/₄	2.275
4	51	2.300
5	51¹/₄	2.325
6	51¹/₂	2.350
7	51³/₄	2.375
8	52	2.400
9	52¹/₄	2.425
10	52¹/₂	2.450
11	52³/₄	2.475
12	53	2.500
13	53¹/₄	2.525
14	53¹/₂	2.550
15	53³/₄	2.575
16	54	2.600
17	54¹/₄	2.625
18	54¹/₂	2.650
19	54³/₄	2.675
20	55	2.700
21	55¹/₄	2.725
22	55¹/₂	2.750

1	55³/₄	2.775
2	56	2.800
3	56¹/₄	2.825
4	56¹/₂	2.850
5	56³/₄	2.875
6	57	2.900
7	57¹/₄	2.925
8	57¹/₂	2.950
9	57³/₄	2.975
10	58	3.0

11		
12	<u>Age at Retirement</u>	<u>Percent for Each Year of Credited Service</u>
13	<u>50</u>	<u>2.400</u>
14	<u>50.25</u>	<u>2.430</u>
15	<u>50.5</u>	<u>2.460</u>
16	<u>50.75</u>	<u>2.490</u>
17	<u>51</u>	<u>2.520</u>
18	<u>51.25</u>	<u>2.550</u>
19	<u>51.5</u>	<u>2.580</u>
20	<u>51.75</u>	<u>2.610</u>
21	<u>52</u>	<u>2.640</u>
22	<u>52.25</u>	<u>2.670</u>
23	<u>52.5</u>	<u>2.700</u>
24	<u>52.75</u>	<u>2.730</u>

<u>53</u>	<u>2.760</u>
<u>53.25</u>	<u>2.790</u>
<u>53.5</u>	<u>2.820</u>
<u>53.75</u>	<u>2.850</u>
<u>54</u>	<u>2.880</u>
<u>54.25</u>	<u>2.910</u>
<u>54.5</u>	<u>2.940</u>
<u>54.75</u>	<u>2.970</u>
<u>55+</u>	<u>3.000</u>

In no event shall a member's initial retirement allowance exceed 90%~~ninety percent~~ of ~~his or her~~ the member's average final compensation.

A8.604-17 APPLICABILITY

The amendment to Sections A8.604-1 and A8-604-2, effective January 1, 2025, shall not apply to any member of the Retirement System who separated from service, retired, or died before that date, or to that member's continuant.

APPROVED AS TO FORM:
DAVID CHIU, City Attorney

By: /s/ CECILIA MANGOBA
Deputy City Attorney

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LEGISLATIVE DIGEST

(Revised 7/8/2024)

[Charter Amendment – Fire Department Service Retirement Pension]

Describing and setting forth a proposal to the voters at an election to be held on November 5, 2024, to amend the Charter of the City and County of San Francisco to shorten to one year the period to calculate “final compensation” for retirement benefits for persons who have or will become members of the Fire Department on and after July 7, 2010; change the age factor percentage for benefit calculations such that persons who have or will become members of the Fire Department on and after January 7, 2012 reach a higher age factor percentage at earlier ages; and lower from 58 to 55 the retirement age at which persons who have or will become members of the Fire Department on and after January 7, 2012 reach the highest age factor percentage.

Existing Law

1. Definition of “Final Compensation”

Currently, persons who have or will become members of the Fire Department on and after July 7, 2010, have a different final compensation period included for benefits calculations than those hired earlier than that date. For persons who became members of the Fire Department between July 7, 2010 and January 7, 2012, Charter Section A8.601-1 defines “final compensation” as the average monthly compensation earned by a member during the higher of any two consecutive fiscal years of earnings immediately before retirement. For persons who have or will become members of the Fire Department on and after January 7, 2012, Charter Section A8.604-1 defines “final compensation” as the average monthly compensation earned by a member during the higher of any three consecutive fiscal years of earnings immediately before retirement. In contrast, persons who became members of the Fire Department before July 7, 2010 have a retirement benefit calculation based on a one-year period.

2. Changing Age Factor Percentages and Lowering Retirement Age

Persons who are members of the Fire Department and meet age and service requirements receive a service retirement allowance based on their age, final compensation, and years of service. Under Charter Section A8.604-2, persons who have or will become members of the Fire Department on and after January 7, 2012 attain their highest age factor percentage when they reach age 58. In contrast, persons who became members of the Fire Department before January 7, 2012 attain their highest age factor percentage when they reach age 55. Similarly, persons who became members of the Fire Department before January 7, 2012 attain higher age factor percentages at earlier ages than those who have or will become members of the Fire Department on and after January 7, 2012.

Amendments to Current Law

1. Definition of "Final Compensation"

This amendment would change the definition of final compensation so that persons who have or will become members of the Fire Department on and after July 7, 2010 have a final compensation calculation based on one year of credited service as do those who became members of the Fire Department before that date.

2. Changing Age Factor Percentages and Lowering Retirement Age

This amendment would: 1) align the age factor percentage for persons who have or will become members of the Fire Department on and after January 7, 2012 with those who became members of the Fire Department before that date; and 2) lower from 58 to 55 the retirement age at which persons who have or will become members of the Fire Department on and after January 7, 2012 reach the highest age factor percentage, consistent with persons who join the Fire Department before that date.

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June 17, 2024

Victor Young
Assistant Clerk, Rules Committee
Board of Supervisors
City Hall, Room 244
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

RE: File No. 240552 (ver1)

Charter Amendment (First Draft) to amend the Charter of the City and County of San Francisco to shorten to one year the period to calculate “final compensation” for retirement benefits for persons who have or will become members of the Fire Department on and after July 7, 2010; calculate “final compensation” on the basis of average compensation earnable rather than compensation earned for persons who have or will become members of the Fire Department on and after July 7, 2010; change the age factor percentage for benefit calculations such that persons who have or will become members of the Fire Department on and after January 7, 2012 reach a higher age factor percentage at earlier ages; and lower from 58 to 55 the retirement age at which persons who have or will become members of the Fire Department on and after January 7, 2012 reach the highest age factor percentage; at an election to be held on November 5, 2024.

Dear Mr. Young:

This letter is the cost and effect report required to be prepared by the San Francisco City and County Employees' Retirement System under Charter Section A8.500.

Effect of the Proposed Charter Amendment

The proposed Charter Amendment will amend the two firefighter retirement benefit plans approved by the voters, and applicable to persons who became or become members of the Fire Department on and after July 1, 2010: Charter Section A8.601 et seq., applicable to members on and after July 1, 2010, and Charter Section A8.604 et seq., applicable to members on and after January 7, 2012.

Under existing law, firefighters receive a service retirement allowance that is a percentage of the two or three years of their highest final compensation depending on the retirement benefit plan. This service retirement allowance is determined by the following formula:

$$\text{Total Years of Service Credit} \times \text{Age Factor} \times \text{Final Compensation} = \text{Benefit (in \$)}$$

The Charter proposal changes the final compensation and age factor components of the benefit calculation. These changes have three primary components.

First, the proposal will both increase the factors on which the firefighters' retirement benefit in Charter Section A8.604 will be calculated and these firefighters will reach the maximum factors at an earlier age. For example, currently an A8.604 firefighter retiring at age 50 with 30 years of service will receive a 66% service retirement allowance. Under the Charter proposal, at age 50, the same firefighter would receive a 72% service retirement allowance. The maximum service retirement allowance remains at 90%. The proposal will also lower the age when members of the A8.604 firefighter plan reach the maximum factor of 3% from 58 to 55.

Second, final compensation will be calculated based on any one year in which a firefighter's average final compensation is the highest. Currently, final compensation is calculated based on the member's highest average two or three years' compensation, depending on the retirement benefit plan.

Third, "final compensation" will be based on compensation "earnable" rather than compensation actually earned. Currently, "final compensation" is calculated based on the compensation the member actually earns. Under the Charter proposal, when a firefighter has no actual earnings during the final compensation measurement period, the Retirement System will apply the remuneration attached to other firefighters' rate of pay in their rank or position to determine their monthly service retirement benefit.

Cost of the Proposed Charter Amendment

As required under Charter Section A8.500, Cheiron, the SFERS consulting actuary, has conducted its analysis to estimate the cost and effect of the proposed legislation. Cheiron's analysis is summarized below. The full Cheiron report is attached. Please refer to this report to review Cheiron's assumptions and for further costing detail.

To estimate the cost, Cheiron based its analysis on the July 1, 2023 Actuarial Valuation Report. The report can be found at: <https://mysfers.org/sfers-actuarial-valuation-2023/>.

Should the voters approve the proposal, the normal cost for the impacted firefighter plans will increase by 3.5% of covered payroll. The increase to the normal cost rate is a permanent change that raises costs each year in the future as payroll increases. It represents the increased value in future benefits earned. The unfunded actuarial liabilities (UAL) are expected to increase by \$34.4 million. The increase in UAL represents the amount of money needed today to immediately fund the increased benefits that have already been earned by the firefighter group. However, the UAL will not be immediately funded but instead will be amortized over 15 years, i.e. paid over a 15 year period, in a method designed to keep costs approximately level with payroll. The initial year's payment will increase 3.25% each year until the 15th payment is made. There are no further

payments to the UAL after year 15. In annual dollar terms, the normal cost and UAL payment together result in an estimated increase in employer contributions of \$10.2 million in FY 2026, increasing to \$21.2 million by FY 2040. In FY 2041, the UAL component declines to zero and the estimated normal cost increase is \$16.7 million.

Cheiron estimated the cost of the components of the proposal sequentially. Cheiron first costed the impact of the multiplier/age factor, then added the final averaging period, and finally layered on the earnable compensation component. Thus, the cost of each component is not completely independent of the other components. The breakdown for each component of the Charter proposal is below.

The changes to the multiplier and lowering the maximum retirement age are estimated to increase the normal cost for the impacted firefighter plans by 1.2% of covered payroll. In addition, the UAL is expected to increase by approximately \$13.1 million. Fiscal year 2025-26 costs are expected to be \$3.7 million higher and to increase each year until the UAL is fully amortized. At that time, the ongoing costs will be limited to the increased normal cost.

Adding on to the changes to the multiplier and lowering the maximum retirement age, the proposed changes to the final compensation averaging period, from two or three years to one year, are expected to increase the normal cost rate an additional 1.8% of covered payroll. The UAL will additionally increase by approximately \$19.6 million. Fiscal year 2025-26 costs are expected to be \$5.5 million higher and to increase each year until the UAL is fully amortized. At that time, the ongoing costs will be limited to the increased normal cost.

The proposal to change final compensation calculation from “earned” to “earnable” will have a significant impact only with respect to disability benefits. Cheiron costed the difference with respect to that benefit. The normal cost is anticipated to increase the normal cost rate by an additional 0.5% of covered payroll. The UAL will additionally increase by approximately \$1.7 million. Fiscal year 2025-26 costs are expected to be \$1 million higher and to increase each year until the UAL is fully amortized. At that time, the ongoing costs will be limited to the increased normal cost.

The Retirement System will appear at the Rules Committee hearing on this subject and address Committee member questions.

Very truly yours,



Alison Romano
CEO & CIO
San Francisco Employees' Retirement System

Attachment: Cheiron report dated June 2024

June 17, 2024

Page 4

cc: Supervisor Aaron Peskin, President, Board of Supervisors
Supervisor Hilary Ronen, Chair Rules Committee
Supervisor Shamann Walton, Rules Committee
Supervisor Ahsha Safai, Rules Committee
Angela Cavillo, Clerk, Board of Supervisors

Via Electronic Mail

June 17, 2024

Ms. Alison Romano
Chief Executive and Investment Officer
San Francisco City and County Employees' Retirement System
1145 Market Street, 6th Floor
San Francisco, CA 94103

Re: Proposed Charter Amendment – Fire Department Service Retirement Pension

Dear Alison:

As requested, we have estimated the cost impact of the proposed Charter amendment that would improve benefits for members of the fire department covered under Charter sections A8.601 (Prop D) and A8.604 (Prop C). The proposed amendment would:

- Improve the multiplier for each year of service at each retirement age for Prop C members,
- Reduce the averaging period in the determination of final compensation, and
- Change the definition of compensation from “earned” to “earnable” compensation.

The table below summarizes the estimated cost for each component assuming the amendment is effective January 1, 2025, and is first reflected in contribution rates on July 1, 2025. The cost of each component is not independent of the other components. The table shows the costs assuming each component builds on the components from any columns further to the left.

Estimated Increase Due to Proposed Charter Change				
	Multiplier / Retirement Age	Final Averaging Period	Earnable Compensation	Total
Actuarial Liability	\$ 13.1	\$ 19.6	\$ 1.7	\$ 34.4
Normal Cost Rate	1.2%	1.8%	0.5%	3.5%
FYE 2026 Employer Contribution Increase				
Employer Normal Cost	\$ 2.4	\$ 3.6	\$ 0.9	\$ 6.9
UAL Payment	1.3	1.9	0.1	3.3
Total	\$ 3.7	\$ 5.5	\$ 1.0	\$ 10.2

Dollar Amounts in Millions

The increase to the firefighter normal cost rate is a permanent change that raises costs for each year in the future, increasing as a dollar amount as the affected payroll increases. Since Fire members hired prior to January 7, 2012 are currently assumed to be replaced when they retire or otherwise leave SFERS covered employment by members covered by Charter Section A8.604, the affected payroll is expected to grow more rapidly than overall payroll growth. The UAL payment,

however, is an annual payment that increases 3.25% each year for 15 years. After 15 years, there are no further payments. To illustrate these dynamics, the table below shows the expected increase in contributions due to the Charter amendment for select years in the future. These projections assume all assumptions used in the July 1, 2023 valuation are exactly met each year in the future.

Estimated Employer Contribution Increase Sample Fiscal Years			
Fiscal Year Ending	Employer Normal Cost	UAL Payment	Total
2026	\$ 6.9	\$ 3.3	\$ 10.2
2030	9.7	3.7	13.4
2035	12.9	4.4	17.3
2040	16.1	5.1	21.2
2041	16.7	0.0	16.7

Dollar Amounts in Millions

Basis for Analysis

Our analysis uses the census data, assumptions, and methods from the July 1, 2023 actuarial valuation. Please refer to that report for a summary of the data, assumptions, and plan provisions applicable to Fire members under the various Charter sections. To value the proposed provisions, we applied the assumptions applicable to “Other than Prop C.”

Valuation results are projected to July 1, 2024 to determine the expected impact on the liability as of July 1, 2024 and contributions for the fiscal year ending June 30, 2026. While the changes are not effective until January 1, 2025, we anticipate reflecting the changes in the July 1, 2024 actuarial valuation so that the amendment is reflected in contribution rates beginning July 1, 2025.

There are some subtle differences between “earned” compensation and “earnable” compensation that could affect service retirement benefits for some members. However, the only significant impact of changing to “earnable” compensation is on disability benefits. We understand that for disabilities, “earned” compensation does not increase between the date of disability and the Qualified Service Retirement date while “earnable” compensation does increase. This difference is what has been valued in this analysis.

Detailed Results

The table below summarizes the impact separately for Charter sections A8.601 and A8.604.

Detailed Impact of Proposed Charter Change				
	Current	Multiplier / Retirement Age	Final Averaging Period	Earnable Compensation
7/1/2024 Actuarial Liability – Active Members				
Prop D (A8.601)	\$ 41.3	\$ 41.3	\$ 42.5	\$ 42.5
Increase		0.0	1.2	0.0
Prop C (A8.604)	308.7	321.8	340.2	341.9
Increase		13.1	18.4	1.7
Normal Cost Rate				
Prop D (A8.601)	35.1%	35.1%	36.1%	36.5%
Increase		0.0%	1.0%	0.4%
Prop C (A8.604)	30.8%	32.1%	34.0%	34.4%
Increase		1.3%	1.9%	0.4%
FYE 2026 Employer Contribution Increase				
Prop D (A8.601)	N/A	\$ 0.0	\$ 0.2	\$ 0.0
Prop C (A8.604)	N/A	\$ 3.7	\$ 5.3	\$ 1.0

Dollar Amounts in Millions

We interpret the proposal to state that disabilities prior to January 1, 2025 will not be re-calculated using earnable compensation. However, if our interpretation is incorrect and current disabilities would be re-calculated using earnable compensation, it would add an additional \$3.9 million to the Actuarial Liability and \$0.4 million to the employer contribution. It would not affect the normal cost.

It should be noted that new hires enter under Charter section A8.604, so the increase in normal cost rate for that Charter section represents the ongoing permanent expected cost increase for the proposed amendment. The increase in normal cost rate for Charter section A8.601 will only last while current members under that Charter section remain actively employed, and the increase to the Actuarial Liability will be paid off over the 15-year amortization period.

This estimate and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices and our understanding of the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board as well as applicable laws and regulations. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this estimate. This estimate does not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

Ms. Alison Romano

June 17, 2024

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This estimate was prepared exclusively for the San Francisco City and County Employees' Retirement System for the purpose described herein. Other users of this estimate are not intended users as defined in the Actuarial Standards of Practice, and Cheiron assumes no duty or liability to any other user.

If you have any questions on this estimate, please let us know.

Sincerely,
Cheiron, Inc.



William R. Hallmark, ASA, EA, FCA, MAAA
Consulting Actuary



Anne D. Harper, FSA, EA, MAAA
Principal Consulting Actuary

Attachment

cc: Caryn Bortnick, Chief Operating Officer
Janet Brazelton, Actuarial Services Coordinator
Matt Wells, Cheiron

Summary of Proposed Changes to Charter

Current Charter Section Provisions			
Benefit Provision	A8.601	A8.604	Proposed Provisions
Final Compensation	Average monthly compensation earned during the higher of any two consecutive fiscal years or the 24 months immediately prior to retirement	Average monthly compensation earned during the higher of any three consecutive fiscal years or the 36 months immediately prior to retirement	Highest average monthly compensation earnable during any one year of credited service
Benefit Multiplier			
<u>Age at Retirement</u>	<u>Percent for Each Year of Credited Service</u>		
50	2.40	2.20	2.40
51	2.52	2.30	2.52
52	2.64	2.40	2.64
53	2.76	2.50	2.76
54	2.88	2.60	2.88
55	3.00	2.70	3.00
56	3.00	2.80	3.00
57	3.00	2.90	3.00
58 or Older	3.00	3.00	3.00

BOARD of SUPERVISORS



City Hall
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco 94102-4689
Tel. No. (415) 554-5184
Fax No. (415) 554-5163
TDD/TTY No. (415) 554-5227

MEMORANDUM

TO: Greg Wagner, City Controller, Office of the Controller

FROM: Victor Young, Assistant Clerk, Rules Committee
Board of Supervisors

A handwritten signature in cursive script that reads "Victor Young".

DATE: July 9, 2024

SUBJECT: CHARTER AMENDMENT INTRODUCED
November 5, 2024, Election

The Board of Supervisors' Rules Committee has received the following Charter Amendment for the November 5, 2024, Election. This matter is being **re-referred** to you in accordance with Rules of Order 2.22.3.

File No. 240552 (ver2)

Charter Amendment (Second Draft) to amend the Charter of the City and County of San Francisco to shorten to one year the period to calculate "final compensation" for retirement benefits for persons who have or will become members of the Fire Department on and after July 7, 2010; change the age factor percentage for benefit calculations such that persons who have or will become members of the Fire Department on and after January 7, 2012 reach a higher age factor percentage at earlier ages; and lower from 58 to 55 the retirement age at which persons who have or will become members of the Fire Department on and after January 7, 2012 reach the highest age factor percentage; at an election to be held on November 5, 2024.

Please review and prepare a financial analysis of the proposed measure prior to the first Rules Committee hearing.

If you have any questions or concerns, please call me at (415) 554-7723 or email: victor.young@sfgov.org. To submit documentation, please email or forward to me at the Board of Supervisors, City Hall, Room 244, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

c: Natasha Mihal, Office of the Controller
Janice Levy, Office of the Controller
Greyson Spencer, Office of the Controller

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MEMORANDUM

TO: Carol Isen, Director, Department of Human Resources

FROM: Victor Young, Assistant Clerk, Rules Committee *Victor Young*
Board of Supervisors

DATE: May 28, 2024

SUBJECT: LEGISLATION INTRODUCED – MEET AND CONFER DETERMINATION

The Board of Supervisors' Rules Committee has received the following Charter Amendment. This matter is being **re-referred** to you as it may require the Department of Human Resources to fulfill "**Meet and Confer**" requirements. Please review, assess the impact and provide proper noticing as required and report back to on the status of the "Meet and Confer" requirement.

File No. 240552 (ver2)

Charter Amendment (Second Draft) to amend the Charter of the City and County of San Francisco to shorten to one year the period to calculate "final compensation" for retirement benefits for persons who have or will become members of the Fire Department on and after July 7, 2010; change the age factor percentage for benefit calculations such that persons who have or will become members of the Fire Department on and after January 7, 2012 reach a higher age factor percentage at earlier ages; and lower from 58 to 55 the retirement age at which persons who have or will become members of the Fire Department on and after January 7, 2012 reach the highest age factor percentage; at an election to be held on November 5, 2024.

If you have any questions or concerns, please call me at (415) 554-7723 or email: victor.young@sfgov.org. To submit documentation, please email or forward to me at the Board of Supervisors, City Hall, Room 244, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

RESPONSE FROM THE DEPARTMENT OF HUMAN RESOURCES - Date: _____

_____ **Meet and Confer requirement has been fulfilled.**

_____ **Meet and Confer requirement not applicable.**

_____ **Additional information attached.**

Department of Human Resources

c: Mawuli Tugbenyoh, Department of Human Resources
Aliya Chisti, Department of Human Resources

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MEMORANDUM

TO: Tom Paulino, Liaison to the Board of Supervisors, Mayor's Office
Anne Pearson, Deputy City Attorney, Office of the City Attorney
John Arntz, Director, Department of Elections
Patrick Ford, Executive Director, Ethics Commission
Alison Romano, CEO/CIO, Employees' Retirement System
Chief Jeanine Nicholson, Fire Department

FROM: Victor Young, Assistant Clerk, Rules Committee
Board of Supervisors

A handwritten signature in black ink that reads "Victor Young".

DATE: July 9, 2024

SUBJECT: CHARTER AMENDMENT INTRODUCED
November 5, 2024

The Board of Supervisors' Rules Committee has received the following Charter Amendment for the November 5, 2024, Election. This matter is being **re-referred** to you in accordance with Rules of Order 2.22.4.

File No. 240552 (ver2)

Charter Amendment (Second Draft) to amend the Charter of the City and County of San Francisco to shorten to one year the period to calculate "final compensation" for retirement benefits for persons who have or will become members of the Fire Department on and after July 7, 2010; change the age factor percentage for benefit calculations such that persons who have or will become members of the Fire Department on and after January 7, 2012 reach a higher age factor percentage at earlier ages; and lower from 58 to 55 the retirement age at which persons who have or will become members of the Fire Department on and after January 7, 2012 reach the highest age factor percentage; at an election to be held on November 5, 2024.

Please review and submit any reports or comments you wish to be included with the legislative file.

If you have any questions or concerns, please call me at (415) 554-7723 or email: victor.young@sfgov.org. To submit documentation, please forward to me at the Board of Supervisors, City Hall, Room 244, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

c: Michael Canning, Ethics Commission
Andres Power, Mayor's Office
Darlene Armanino, SFERS
Theresa Ludwig, Fire Dept.

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MEMORANDUM

Date: July 9, 2024
To: Planning Department / Commission
From: Victor Young, Clerk of the Rules Committee *Victor Young*
Subject: Board of Supervisors Legislation Referral - File No. 240552 Ver2
Charter Amendment - Fire Department Service Retirement Pension

- ☒ California Environmental Quality Act (CEQA) Determination
(*California Public Resources Code, Sections 21000 et seq.*)
☐ Ordinance / Resolution
☒ Ballot Measure
Not defined as a project under CEQA Guidelines Sections 15378 and 15060(c)(2) because it would not result in a direct or indirect physical change in the environment.
07/10/2024 *[Signature]*
- ☐ Amendment to the Planning Code, including the following Findings:
(*Planning Code, Section 302(b): 90 days for Planning Commission review*)
☐ General Plan ☐ Planning Code, Section 101.1 ☐ Planning Code, Section 302
- ☐ Amendment to the Administrative Code, involving Land Use/Planning
(*Board Rule 3.23: 30 days for possible Planning Department review*)
- ☐ General Plan Referral for Non-Planning Code Amendments
(*Charter, Section 4.105, and Administrative Code, Section 2A.53*)
(Required for legislation concerning the acquisition, vacation, sale, or change in use of City property; subdivision of land; construction, improvement, extension, widening, narrowing, removal, or relocation of public ways, transportation routes, ground, open space, buildings, or structures; plans for public housing and publicly-assisted private housing; redevelopment plans; development agreements; the annual capital expenditure plan and six-year capital improvement program; and any capital improvement project or long-term financing proposal such as general obligation or revenue bonds.)
- ☐ Historic Preservation Commission
☐ Landmark (*Planning Code, Section 1004.3*)
☐ Cultural Districts (*Charter, Section 4.135 & Board Rule 3.23*)
☐ Mills Act Contract (*Government Code, Section 50280*)
☐ Designation for Significant/Contributory Buildings (*Planning Code, Article 11*)

Please send the Planning Department/Commission recommendation/determination to Victor Young at Victor.Young@sfgov.org.