

BOARD of SUPERVISORS



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

October 12, 2017

The Honorable Teri Jackson
Presiding Judge
Superior Court of California, County of San Francisco
400 McAllister Street, Department 206
San Francisco, CA 94102

RE: Civil Grand Jury Report - The San Francisco Retirement System - Increasing
Understanding and Adding Voter Oversight

Dear Judge Jackson:

The Board of Supervisors' Government Audit and Oversight Committee conducted a public hearing on September 20, 2017, to review the findings and recommendations of the 2016-2017 Civil Grand Jury report, entitled "The San Francisco Retirement System - Increasing Understanding and Adding Voter Oversight."

Prior to the Committee meeting, the following City Departments submitted required responses to the Civil Grand Jury:

- Office of the Controller:
Received August 11, 2017, for Findings F2, F3, and F4; and Recommendations R2.1, R2.2, R3.1, R3.2, R4.1, and R4.2; and
- The Mayor's Office submitted a consolidated response for the following departments:
 - a. Office of the Mayor;
 - b. Elections Department; and
 - c. Elections CommissionReceived August 15, 2017, for Findings F1, F2, and F3; and Recommendations R1.1, R1.2, R2.1, R2.2, R3.1, and R3.2.
- Retirement Board:
Received September 13, 2017, for Findings F1, F2, and F4; and Recommendations R1.1, R1.2, R2.1, R2.2, R4.1 and R4.2.


At the September 20, 2017 meeting, the Government Audit and Oversight Committee prepared a resolution responding to the requested findings and recommendations identified in the report. The response was prepared by Resolution No. 360-17, enacted on October 5, 2017.

Continues on next page

By this message, the Office of the Clerk of the Board of Supervisors is transmitting Resolution No. 360-17 to your attention.

If you have any questions, please contact John Carroll, Government Audit and Oversight Committee Clerk at (415) 554-4445, or via email to john.carroll@sfgov.org.

Sincerely,


Angela Calvillo
Clerk of the Board

- c: Kathie Lowry, Foreperson, 2016, 2017 San Francisco Civil Grand Jury
Kitsaun King, 2015-2016 San Francisco Civil Grand Jury
Jason Elliot, Chief of Staff, Mayor's Office
Kate Howard, Deputy Chief of Staff, Mayor's Office
Melissa Whitehouse, Budget Director, Mayor's Office
Marie Valdez, Mayor's Office
Ben Rosenfield, Controller, Office of the Controller
Asja Steeves, Office of the Controller
Peg Stevenson, Office of the Controller
John Arntz, Director, Department of Elections
Chris Jerdonek, Elections Commission
Jay Huish, Executive Director, Employee's Retirement System
Norm Nickens, Retirement Board
Jon Givner, Deputy City Attorney
Alisa Somera, Legislative Deputy Director, Office of the Clerk of the Board
Severin Campbell, Budget and Legislative Analyst
Ashley Clark, Budget and Legislative Analyst



City and County of San Francisco

City Hall
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4689

Certified Copy

Resolution

170663

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

Resolution responding to the Presiding Judge of the Superior Court on the findings and recommendations in the 2016-2017 Civil Grand Jury Report entitled "The San Francisco Retirement System - Increasing Understanding and Adding Voter Oversight;" and urging the Mayor to cause the implementation of accepted findings and recommendations through his/her department heads and through the development of the annual budget. (Clerk of the Board)

9/26/2017 Board of Supervisors - AMENDED, AN AMENDMENT OF THE WHOLE BEARING SAME TITLE

Ayes: 11 - Breed, Cohen, Farrell, Fewer, Kim, Peskin, Ronen, Safai, Sheehy, Tang and Yee

9/26/2017 Board of Supervisors - ADOPTED AS AMENDED

Ayes: 11 - Breed, Cohen, Farrell, Fewer, Kim, Peskin, Ronen, Safai, Sheehy, Tang and Yee

10/5/2017 Mayor - APPROVED

STATE OF CALIFORNIA
CITY AND COUNTY OF SAN FRANCISCO

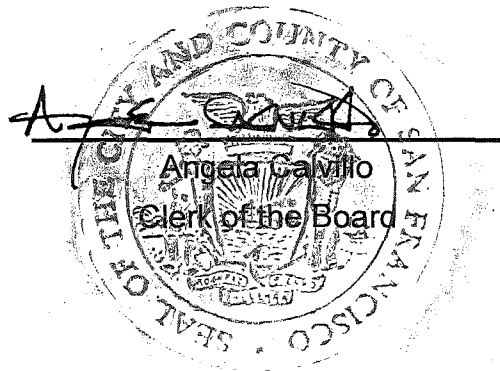
CLERK'S CERTIFICATE

I do hereby certify that the foregoing Resolution is a full, true, and correct copy of the original thereof on file in this office.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the City and County of San Francisco.

October 10, 2017

Date



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.**

9
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
25

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
25

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.

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.



City and County of San Francisco

Tails
Resolution

City Hall
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4689

File Number: 170663

Date Passed: September 26, 2017

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

September 20, 2017 Government Audit and Oversight Committee - AMENDED, AN AMENDMENT OF THE WHOLE BEARING SAME TITLE

September 20, 2017 Government Audit and Oversight Committee - RECOMMENDED AS AMENDED

September 26, 2017 Board of Supervisors - AMENDED, AN AMENDMENT OF THE WHOLE BEARING SAME TITLE

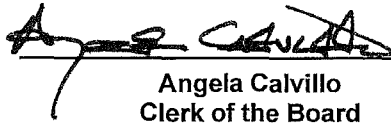
Ayes: 11 - Breed, Cohen, Farrell, Fewer, Kim, Peskin, Ronen, Safai, Sheehy, Tang and Yee

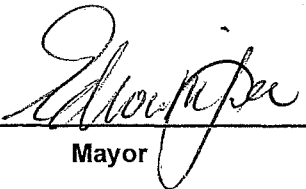
September 26, 2017 Board of Supervisors - ADOPTED AS AMENDED

Ayes: 11 - Breed, Cohen, Farrell, Fewer, Kim, Peskin, Ronen, Safai, Sheehy, Tang and Yee

File No. 170663

I hereby certify that the foregoing Resolution was ADOPTED AS AMENDED on 9/26/2017 by the Board of Supervisors of the City and County of San Francisco.


Angela Calvillo
Clerk of the Board


Mayor

10/5/2017
Date Approved



SFERS

San Francisco Employees' Retirement System

City and County of San Francisco Employees' Retirement System

September 13, 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. The members of the Retirement Board recognize that, in performing their fiduciary duties to prudently oversee the investment and administration of the SFERS Trust, their actions impact both plan beneficiaries and the City.

The Retirement Board appreciates the Civil Grand Jury's recognition of its diligent work to protect the interests of the beneficiaries of the SFERS Trust. As a result of this work, SFERS is among the top-performing and well-funded public pension plans in the nation. The Retirement Board is confident that, over the long term, the assets in the SFERS Trust will be sufficient to pay the promised benefits to all beneficiaries. The City and its voters have also taken important steps to address the increase in unfunded liability. The pension reform legislation approved by City voters in 2011 (Prop. C) will significantly reduce the City's long-term pension obligations and reduce the projected unfunded liabilities over time.

The Retirement Board works continuously to improve the quality and clarity of its reporting. The reports related to the projected cost of benefit improvements referenced in the Civil Grand Jury's report accurately measure the cost/effect impact of the proposed benefit changes at the time they were prepared and presented to the Board of Supervisors and the City voters.

The Civil Grand Jury's report provided important feedback to help us understand how our reporting is received. Retirement System staff is always exploring ways to simplify the presentation of sometimes complex topics and information and is prepared to assist members of the public and City employees and retirees with any questions they might have related to the financial, actuarial and administrative information provided in our reports. The Retirement System welcomes comments on specific ways to improve these various reports to ensure their ability to be useful to a broad array of audiences interested in these complex topics.

Detailed responses by the Retirement Board to the Civil Grand Jury's findings and recommendations are attached.

Respectfully submitted,

Jay Hulsh, Executive Director, on behalf of the
SFERS Retirement Board

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

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	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.	Retirement Board	disagree with it, wholly (explanation in next column)	<p>The Retirement Board is confident that, over the long term, the assets in the SFERS Trust will be sufficient to pay the promised benefits to all beneficiaries. We emphasize the long term view because none of the figures cited as "debt" are due now. Rather, the items being called a "debt" are funding gaps (i.e., unfunded liabilities) which are designed to be paid off over the life of the SFERS Trust. Additionally, under Proposition C, City employees now pay more out of each and every paycheck into the SFERS Trust, which has reduced the City's cost.</p> <p>Despite investment shortfalls from two recent major recessions, including the Tech Bubble and the Global Financial Crisis, SFERS is closing the gap and ranked in the first quartile of all U.S. public fund peers. SFERS investment performance varies from year-to-year due to financial markets; however, SFERS invests for the long term, evidenced by its top quartile performance, over the 3 year, 5 year, and 10 year time periods. SFERS investment gains have contributed a significant amount toward reducing the unfunded liabilities.</p> <p>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. The remaining cost of the benefit and COLA increases approved by City voters between 1996 and 2008 was \$1.038 billion, as of June 30, 2016. By 2028, this liability will be paid in full. The present value of the increase in the unfunded liability resulting from the court ruling on the Supplemental COLA retroactive payments of 2013 and 2014 was calculated to be \$429.3 million, as of July 2016.</p>

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	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.	Retirement Board	disagree with it, partially (explanation)	<p>SFERS is among the top performing and well-funded public pensions plans in the United States and disagrees with the finding that the "Retirement System remains seriously underfunded." The Retirement Board is confident that, over the long term, the assets in the SFERS Trust will be sufficient to pay the promised benefits to all beneficiaries. The Retirement Board recognizes that unfunded liabilities are not a "debt" that must be paid today. Rather, the Retirement Board annually adopts and administers a funding policy to assure that all promised benefits will be paid over the combined lifetimes of the members and their beneficiaries.</p> <p>Each year, the Retirement Board receives an actuarial valuation - a detailed report on the long-term progress of the SFERS Trust toward reducing all pension liabilities. Existing funding policies are reviewed and adjusted, where appropriate, to ensure the long-term financial strength of the SFERS Trust. In accordance with the City Charter, Retirement Board policies, and industry best practices, any increase in the unfunded liabilities associated with every voter-approved proposition is spread out over a 20-year period, which minimizes the impact to the City budget. Based on recent actuarial projections, the Retirement Board expects a continued reduction in liabilities associated with voter-approved benefit improvements over the long-term.</p> <p>The Retirement Board also strongly disagrees with the finding "that when it came to retroactive retirement benefit increases between 1996 and 2008, the Mayor, Board of Supervisors, Retirement Board, and Controller did not fulfill their responsibility to watch out for the interest of the City and its residents." The Retirement Board does not approve plan benefits; its fiduciary duty is to manage the SFERS Trust and pay the mandated benefits approved by City voters. As fiduciaries to the SFERS Trust, the Retirement Board is legally bound, as set forth in the California State Constitution, and in the San</p>

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	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.	Retirement Board	disagree with it, wholly (explanation in	<p>The Retirement System provides extensive reports detailing financial, actuarial and administrative matters, available on the SFERS website, 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.</p> <p>The Retirement System can neither agree nor disagree that these reports are too complex for the average citizen, employee, or retiree to understand; however, Retirement System staff is always exploring ways to simplify the presentation of sometimes complex topics and information and is prepared to assist members of the public and City employees and retirees with any questions they might have related to the financial, actuarial and administrative information provided in our reports. The Retirement System welcomes comments on specific ways to improve these various reports to ensure their ability to be useful to a broad array of audiences interested in these complex topics. The Retirement System disagrees with the finding that the data in the Retirement System reports is not available in a dataset. The Retirement System has ready access to all the data used in preparing these reports.</p>

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	Retirement Board	The recommendation has been implemented (summary of how it was implemented in next column)	The Retirement Board will continue its long-standing practice for any and all future City ordinances or City Charter amendments that impact retirement benefits. The Retirement Board's consulting actuary will prepare and present a cost-effect report to the Board of Supervisors, as required under the City Charter. Each report will be prepared in accordance with industry standards and practices, using the best available demographic information and economic information at the time, as well as the long-term demographic and economic assumptions adopted by the Retirement Board. The report is intended to assist the Board of Supervisors and/or the City's voters, by providing an expert's projection of the overall cost and increase in liability for each proposition. These reports accurately measure the cost/effect impact of the proposition at the time they are prepared. Certainly, the cost or change in liability may differ, in the future, due to changes in fund investment performance (e.g. 2007-08 Global Financial Crisis), changes in economic and demographic assumptions, and changes in plan provisions which are beyond the Retirement Board's control.
2016-17	Accelerating SF Government Performance. Taking Accountability and Transparency to the Next Level	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.	Retirement Board	The recommendation has been implemented (summary of how it was implemented in next column)	The Retirement System provides extensive reports detailing financial, actuarial and administrative matters, including a summary of their financial statements that are designed for a knowledgeable but non-expert audience, on an annual basis. These annual reports are available on the SFERS website and 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 each annual actuarial valuation report. The Retirement System maintains at least five years of the SFERS annual actuarial valuation report on its website. Historical valuation reports beyond the years available on the website are available by request to the Retirement System. The Retirement System welcomes 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.

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	Retirement Board	The recommendation has been implemented (summary of how it was implemented in next column)	The Retirement Board will continue its long-standing practice for any and all future City ordinances or City Charter amendments that impact retirement benefits. The Retirement Board's consulting actuary will prepare and present a cost-effect report to the Board of Supervisors, as required under the City Charter. Each report will be prepared in accordance with industry standards and practices, using the best available demographic information and economic information at the time, as well as the long-term demographic and economic assumptions adopted by the Retirement Board. The report is intended to assist the Board of Supervisors and/or the City's voters, by providing an expert's projection of the overall cost and increase in liability for each proposition. These reports accurately measure the cost/effect impact of the proposition at the time they are prepared. Certainly, the cost or change in liability may differ, in the future, due to changes in fund investment performance (e.g. 2007-08 Global Financial Crisis), changes in economic and demographic assumptions, and changes in plan provisions which are beyond the Retirement Board's control.
2016-17	Accelerating SF Government Performance. Taking Accountability and Transparency to the Next Level	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.	Retirement Board	The recommendation has been implemented (summary of how it was implemented in next column)	The Retirement System provides extensive reports detailing financial, actuarial and administrative matters, including a summary of their financial statements that are designed for a knowledgeable but non-expert audience, on an annual basis. These annual reports are available on the SFERS website and 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 each annual actuarial valuation report. The Retirement System maintains at least five years of the SFERS annual actuarial valuation report on its website. Historical valuation reports beyond the years available on the website are available by request to the Retirement System. The Retirement System welcomes 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.

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	R2.1	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: 1. Name: Retirement System Oversight Committee 2. Purpose 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: 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. ii. Holding public meetings to review the effect on San Francisco residents of actions taken by the Retirement System. 3. Public Meetings a. The Board of Supervisors shall provide the committee with any necessary technical assistance and shall provide administrative assistance in furtherance of its purpose and sufficient resources to publicize the conclusions of the committee. b. All committee proceedings shall be subject to the California Public Records Act	Retirement Board	The recommendation will not be implemented because it is not warranted or reasonable (explanation in next column)	This recommendation should be directed to the Board of Supervisors and not the Retirement Board. Note: These considerations already have and do occur. For example, in 2011, the Mayor, the Board of Supervisors, other City officials, employee groups, and members of the public worked to pass Proposition C. Now, under Proposition C, employees pay more out of each and every paycheck into the SFERS Trust, which has reduced the City's contribution rate, as a percentage of payroll. This has reduced the City's pension liability over the long term. On an annual basis, the City's leadership reviews pension costs, contribution rates, and their financial impacts in the City budget process and in other settings. On a regular basis, SFERS provides the City with detailed information, funding and contribution projections and stress testing results from the Retirement Board's actuarial consultant, and any other requested information related to the pension liabilities and employer contributions as part of the City's overall financial planning process. All changes in SFERS benefit provisions must be approved by the City's voters. The Retirement Board cannot approve changes in SFERS benefit provisions.
2016-17	The SF Retirement System- Increasing Understanding & Adding Voter Oversight	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.	Retirement Board	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's Office and Board of Supervisors and not the Retirement Board. Note: SFERS does not believe this recommendation will lead to the desired outcome of having representatives on the Retirement Board "to watch out for the interests of the City and its residents." All members of the Retirement Board, regardless of who elected or appointed them to the Board, have a fiduciary duty to SFERS participants and their beneficiaries. In accordance with the California State Constitution, this duty takes precedence over any other duty or concern. Under the State Constitution, the Retirement Board is required to discharge its duties with respect to the SFERS Trust solely in the interest of, and for the exclusive purposes of providing benefits to SFERS participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. Under trust law, the Retirement Board's duty to its participants and their beneficiaries takes precedence over any other duty, including any duty to the City or its residents.

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	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.	Retirement Board	The recommendation will not be implemented because it is not warranted or reasonable (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 Retirement System provides extensive reports detailing financial, actuarial and administrative matters, available on the SFERS website, 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 data used to produce these reports is available to the public to the extent it is not protected from disclosure by law. The Retirement System welcomes comments on specific ways to improve the public availability of data used in preparing the various reports to ensure their ability to be useful to a broad array of audiences interested in these complex topics.
2016-17	The SF Retirement System- Increasing Understanding & Adding Voter Oversight	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.	Retirement Board	The recommendation will not be implemented because it is not warranted or reasonable (explanation in next column)	This recommendation should be directed to the Controller's Office and not the Retirement Board.



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.

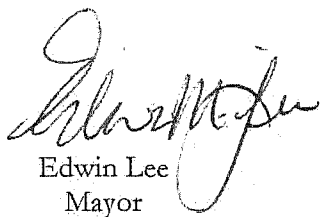
There are multiple drivers of the City's long term pension obligations. However, SFERS is among the top-performing and well-funded public pension plans in the United States. The System is currently 85% funded, versus an average of 72% funded amongst peer jurisdictions. That funding gap that will be closed 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.

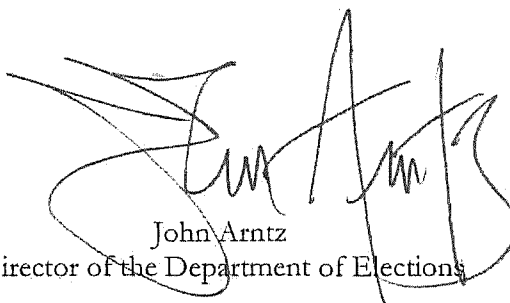
Each signatory prepared its own responses and is able to respond to questions related to its respective part of the report.

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

Report Title	#	Findings	Respondent assigned by CGJ	2017 Responses (Agree/Disagree)	2017 Response Text
Retirement System 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 performing and well-funded public pension plans in the United States. We are confident that, over time, assets in the SFERS Trust will be sufficient to pay the promised benefits to all active and retired SFERS members. The Retirement Board receives an actuarial valuation - a snapshot of the long-term progress of the system - of all promised benefits - from which they review and adjust, if prudent and appropriate, existing contributions to the long-term financial strength of the SFERS Trust. In accordance with the City Charter and Retirement System, the cost or increase in liabilities associated with every voter-approved proposition is amortized over a long period.</p> <p>The Retirement System unfunded liability is not a "debt", but rather a funding gap that will be made up over the long term, not only by the City, but also by City employees as a result of the employee cost sharing program approved by 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 in the first year and 10 year time periods, investment gains will also contribute a significant amount towards the reduction of liabilities of the Retirement System.</p>
Retirement System 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 are based upon the best available information, and were in line with actuarial and economic assumptions in those analyses, benefit costs and Retirement Fund results are highly sensitive to a number of 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 analyzed closely on an ongoing basis by the Mayor's Office, Controller's Office, Retirement System, Board of Supervisors' Budget and Legislative analyst. Projected costs are forecast and incorporated into our budgeting process which is jointly developed by the Mayor's Budget Office, the Controller's 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 work to reduce our long term pension liabilities. The SFERS retirement system is 85% funded. While it is important to consider that relative to comparable systems, San Francisco's SFERS is faring very well, we are performing and well-funded public pension plans in the United States. A recent report by the City of San Francisco that the peer average for city employee pension plans as of FY 15 was 72% funded (compared with the peer average for instance CALPERS is currently funded at 69% and Los Angeles is funded at 83%. As of FY 15, Seattle is funded at 46% and Portland at 46%.</p>

#	Recommendations	Respondent assigned by CGJ	2017 Responses (Implementation)	2017 Response Text
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 benefits fully disclosed to the voters via the ballot (see below). Data by the Retirement Board are also already disclosed to the public; agendas and minutes are posted online. Any agenda is publicly posted.</p> <p>All changes in SFERS benefit provisions must be approved by voters. Items on the ballot we are required by charter to provide detailing the costs of the proposition, which are disclosed by the Retirement System and the Controller's Office prepare explanation-related measure placed on the ballot. By necessity, these are brief written statements, with more detailed files made available for inspection by members of the public interested in explanation depth.</p>
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 and administrative matters on an annual basis. These include audited financial statements and required supplementary information, actuarial valuation, and a department annual report which includes financial and actuarial information with detailed information on the administration of the Retirement System. The details of the unfunded liability related to the City's retirement system are contained in the annual actuarial valuation report. There is a detailed calculation method in the appendix of the report. The Retirement System maintains five years of the SFERS annual actuarial valuation reports. Historical valuation reports beyond the five years are available by request to the Retirement System.</p>

#	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. 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 Retirement System, and the Mayor's Office has no authority to empanel a new Board committee. Mayor Lee worked to reform pension legislation in 2011 and the City's long term pension costs are much worse if it was not for these measures. Lastly, the City's 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 our pension obligations on our long term deficit and will continue to project projected deficits over time.
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.	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 Board who are not beneficiaries of the trust fund, and who would presumably act as guardians of the public interest. However, the Mayor is not obligated to act only in the fiduciary interests of the beneficiaries. This recommendation would not accomplish its intended goal and will not be pursued. The City closely monitors pension costs through the 5 year financial planning process, deficit projections as well as through the 2 year budget process, 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 to ensure fiscal sustainability.

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

Report Title	#	Findings	Respondent assigned by CGJ	2017 Responses (Agree/Disagree)	2017 Response Text
Retirement Increasing Understanding & 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 included the information set forth in this finding.

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

#	Recommendations	Respondent assigned by CGJ	2017 Responses (implementation)	2017 Response Text
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 with complete financial details regarding Retirement Syst The Department of Elections does not determine the con Information Pamphlet; that determination is made by ord ordinances are included in the Municipal Elections Code. is simply to format information and transmit it to the pri an ordinance requiring the Department of Elections to in information regarding costs associated with retirement b Information Pamphlet, the Department will do so.
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 Ci SF residents, employees, and retirees with a description c System that enables them to make informed decisions at adopted that requires additional content to be included i Pamphlet, the Department will comply with the ordinanc

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

Report Title	#	Findings	Respondent assigned by CGJ	2017 Responses (Agree/Disagree)	2017 Response Text
Retirement - Increasing Understanding & 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. The Commission lacks the knowledge to assess whether these findings did not provide voters with full and accurate information on these propositions.

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

#	Recommendations	Respondent assigned by CGJ	2017 Responses (implementation)	2017 Response Text
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. The Commission lacks the authority to do what is requested.
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. The Commission lacks the authority to do what is requested.



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,

Ben Rosenfield
for Ben Rosenfield
Controller

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

#	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.