File No. 170663 Committee Item No. 4
Board Item No. 15

COMMITTEE/BOARD OF SUPERVISORS

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Prepared by: John Carroll **Date:** Sept. 15, 2017
Prepared by: John Carroll **Date:** Sept. 22, 2017

[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 contained 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.

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

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

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

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

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

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

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

WHEREAS, Finding No. F1 states: "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;" and

WHEREAS, Finding No. F2 states: "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;" and

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

WHEREAS, Recommendation No. R1.2 states: "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;" and

WHEREAS, Recommendation No. R2.1 states: "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 (Section 6254, et seq., of the Government Code of the State of California) and the City's Sunshine Ordinance (Chapter 67 of this Code). The committee shall issue regular reports on the results of its activities. A report shall be issued at least once a year. Minutes of the proceedings of the committee and all documents received and reports issued shall be a matter of public record and be made available on the Board's website.

4. Membership

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

b. Public members.

i. Public members must be voters.

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

iii. Each Supervisor will appoint a single Public member.

iv. The Mayor will appoint all other Public members.

v. Public members can only be removed for cause.

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

vii. Public members will receive no compensation.

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

ix. No more than two consecutive terms.

c. Representative members

i. Mayor's Office representative.

ii. Board of Supervisors' representative.

iii. Controller's Office representative.

iv. Human Resources Department representative.

v. Safety Unions' representative.

vi. Miscellaneous Unions' representative.

5. Committee Costs

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

WHEREAS, Recommendation No. R2.2 states: "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;" and

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

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

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

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

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

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

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

FURTHER RESOLVED, That the Board of Supervisors reports that Recommendation No. R2.2 will not be implemented because it is not warranted or reasonable; Trustees of the Retirement Board are obligated to act only in the fiduciary interests of the beneficiaries, and the current composition of the Retirement Board is sufficient; and, be it

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

CIVIL GRAND JURY | 2016-2017

CITY AND COUNTY OF SAN FRANCISCO

THE SAN FRANCISCO RETIREMENT SYSTEM

INCREASING UNDERSTANDING AND ADDING VOTER OVERSIGHT

Findings, Recommendations, Responses, & SF CGJ Notes

SEPTEMBER 20, 2017

Finding 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's Office Response to Finding F1
Disagree with it, partially.

We agree that there are multiple drivers of the City's long term pension obligations. However, SFERS is among the top-performing and well-funded public pension plans in the United States. We are confident that, over the long term, the assets in the SFERS Trust will be sufficient to pay the promised benefits to all active and retired SFERS members. Each year, the Retirement Board receives an actuarial valuation - a snapshot of the long-term progress of the fund toward full funding of all promised benefits - from which they review and adjust, if prudent and appropriate, existing funding policies to ensure the long-term financial strength of the SFERS Trust. In accordance with the City Charter and Retirement Board policies, the cost or increase in liabilities associated with every voter-approved proposition is amortized over up to a 20-year period.

The Retirement System unfunded liability is not a "debt", but rather a funding gap that will be made up over the very long term, not only by the City, but also by City employees as a result of the employee cost sharing provisions approved by the City voters in 2011 (Proposition C) and long term investment gains. As reflected in the past investment performance of the Retirement System – relative to U.S. public fund peers, SFERS' investment results ranked in the first quartile for the 3 year, 5 year and 10 year time periods, investment gains will also contribute a significant amount towards reducing the unfunded liabilities of the Retirement System.

SF CGJ Notes

The Mayor's Office's cover letter states that "The System is currently 85% funded, versus an average of 72% funded amongst peer jurisdictions."

The 7/1/16 Actuarial Valuation Report (page 1) shows two funded ratios: 82.6% based on Market Value of Assets, and 84.6% based on Actuarial Value of Assets.
http://mysfers.org/wp-content/uploads/SFERS-2016-AVR_2017-02-01s.pdf

The 6/30/16 GASB 67/68 Report (page 9) shows the "Plan fiduciary net position as a percentage of the total pension liability" as 77.61%.
http://mysfers.org/wp-content/uploads/11092016-board-meeting-11-gasb.pdf

The 6/30/16 SFERS Annual Report (page 3) states "At the June 30, 2016 fiscal year-end measurement date, the plan net position as a percentage of total pension liability is 77.6% based on total pension liability of $26.0 billion and plan net position of $20.2 billion."
http://mysfers.org/wp-content/uploads/SFERS_AnnualReport_FY16_web.pdf

None of the reports explain the differences between the Actuarial Valuation Report's funded percentages and the funded percentage in the GASB 67/68 and SFERS Annual Reports.

The Retirement System unfunded liability has an outstanding balance, an annual interest rate of 7.5%, and annual payments for interest and principal, so it strongly resembles a debt. The City's employees do not pay for this debt.

The unfunded liability is part of employees' compensation for services rendered during a year for the benefit of the City's residents. By amortizing the unfunded liability over up to 20 years, we are making future residents pay for services received by current residents. This is called intergenerational inequity.

Retirement Board Response to Finding F1
Disagree with it, wholly.

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.

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 it 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.

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.

SF CGJ Notes

The Retirement System's unfunded liability has an outstanding balance, an annual interest rate of 7.5%, and annual payments for interest and principal, so it strongly resembles a debt. The City's employees do not pay for this debt.

The unfunded liability is part of employees' compensation for services rendered during a year for the benefit of the City's residents. By amortizing the unfunded liability over up to 20 years, we are making future residents pay for services received by current residents. This is intergenerational inequity.

The 6/30/16 GASB 67/68 Report (page 2) states "The Net Pension Liability (NPL) increased significantly by about $3,517 million since the prior measurement date, primarily due to investment losses ($1,384 million), **the Appeal Court's elimination of the full funding requirement for certain members ($1,294 million)**, and the impact of the revised demographic assumptions and change in discount rate ($1,087 million)."

(bolding added)

Recommendation 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's Office Response to Recommendation R1.1
The recommendation has been implemented.

The financial impact of major changes that impact benefit structure are already fully disclosed to the voters via the ballot (see below). Day to day decisions taken by the Retirement Board are also already disclosed to the public. Board meetings are public; agendas and minutes are posted online. Any action taken by the board is publicly posted.

All changes in SFERS benefit provisions must be approved by the City's voters. For items on the ballot we are required by charter to provide actuarial reports detailing the costs of the proposition, which are disclosed on the ballot. The Retirement System and the Controller's Office prepare extensive analyses of any pension-related measure placed on the ballot. By necessity, these cost analyses are brief written statements, with more detailed files maintained and available for inspection by members of the public interested in exploring the issues in more depth.

SF CGJ Notes

The Voter Information Pamphlets for retroactive retirement benefit increases have not included the actuarial reports, the debt's principal amount, the debt's interest rate, or the debt's amortization schedule.

In the June 2008 Voter Information Pamphlet, the "Information on Local Ballot Measures" page, the Proposition B pages, and the Proposition B Legal Text make no mention of "more detailed files maintained and available for inspection by members of the public."

Retirement Board Response to Recommendation R1.1
The recommendation has been implemented.

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.

SF CGJ Notes

The actuarial cost reports for retroactive benefit increase propositions were not mentioned in the Voter Information Pamphlets.

Recommendation 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's Office Response to Recommendation R1.2
The recommendation has been implemented.

The Retirement System provides extensive reports detailing financial, actuarial and administrative matters on an annual basis. These annual reports include audited financial statements and required supplementary information, an actuarial valuation, and a department annual report which consolidates the financial and actuarial information with detailed information on the administration of the Retirement System. The details of the breakout for each component of unfunded liability related to the City's retirement plan are contained in the annual actuarial valuation report. There is a description of the calculation method in the appendix of the report. The Retirement System maintains five years of the SFERS annual actuarial valuation report on its website. Historical valuation reports beyond the five years available on the website are available by request to the Retirement System.

SF CGJ Notes

The 7/1/16 SFERS Actuarial Valuation Report, page 26, "Section V – Contributions" table, shows the values for only a single year. It does not show the full amortization schedule for each proposition.

"There is a description of the calculation method in the appendix of the report."
Appendix B – Actuarial Assumptions and Methods, pages 67-68, 3. Amortization Method contains high level descriptions such as "Any Charter change prior to 7/1/2014 has been amortized over 20 years from the date it was first recognized in the valuation." It does not describe the calculation method for these elements of the "Section V – Contributions" table:
Outstanding Balance, Amortization Payment, Payment as % of Pay.

Retirement Board Response to Recommendation R1.2
The recommendation has been implemented.

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.

SF CGJ Notes
The 7/1/16 SFERS Actuarial Valuation Report, page 26, "Section V – Contributions" table, shows the values for only a single year. It does not show the full amortization schedule for each proposition.
The calculations are not described: See above SF CGJ Notes on Appendix B.

Finding 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's Office Response to Finding F2
Disagree with it, partially.

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).

However, we disagree with finding (3). Cost analyses prepared by the Controller and the Retirement System were based upon the best available information, and were in line with actuarial and economic assumptions in use at the time. As noted in those analyses, benefit costs and Retirement Fund results are highly sensitive to a number of economic assumptions, several of which were not met in the years following the changes approved by voters.

In addition, we disagree with finding 4). Future pension liabilities are a great concern for the city, and are carefully tracked and analyzed closely on an ongoing basis by the Mayor's Office, Controller's Office, Retirement System and the Board of Supervisors' Budget and Legislative analyst. Projected costs are forecast and incorporated into our 5-year financial planning process which is jointly developed by the Mayor's Budget Office, the Controller's Office and the Board of Supervisors' Budget and Legislative analyst.

We have also made significant strides in enacting policy to reduce our pension liability and continue to look for ways to reduce our long-term pension liabilities. The SFERS retirement system is 85% funded. While still not fully funded, it is important to consider that relative to comparable systems, San Francisco's SFERS is faring very well, and is among the top-performing and well-funded public pension plans in the United States. A recent report by the City Services Auditor found that the peer average for city employee pension plans as of FY 15 was 72% funded (compared with SFERS at 85%). For instance, CALPERS is currently funded at 69% and Los Angeles is funded at 83%. As of FY 15, Seattle was funded at 66% and Portland at 46%.

SF CGJ Notes

Information provided in the Voter Information Pamphlets for retroactive retirement benefit increase propositions was not enough for voters to make a well-informed decision.

The City Services Auditor report mentioned is for Fiscal Year 2015, so it is not current. As stated in our report, the current funding level is 77.6% as of 6/30/2016 (GASB 67/68 Report for 6/30/16

Measurement Date).

CALPERS recently changed their expected return on investments from 7.5% to 7.0% in steps over the last few years. If the Retirement System did the same, the funding level would be significantly lowered.

Retirement Board Response to Finding F2
Disagree with it, partially.

SFERS is among the top performing and well-funded public pension 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 administer a funding policy to assure that all promised benefits will be paid over the combined lifetimes of the members and their beneficiaries.

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.

The Retirement Board also strongly disagrees with the finding "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." 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 Francisco Charter, to administer the SFERS Trust solely for the benefit of active and retired members of the Retirement System, and their survivors and beneficiaries. 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.

For each proposition related to changes in SFERS benefits that was presented to City voters during the period from 1996 to 2008, the Retirement Board's consulting actuary prepared and presented a cost-effect report to the Board of Supervisors as required under the City Charter. Each report was 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, to provide an expert's projection of the overall cost and increase in liability for each proposition upon which the Board of Supervisors and the City's voters can make their determination regarding each proposition. These reports accurately measured the cost/effect impact of the propositions at the time they were prepared and presented to the Board of Supervisors and the City's voters. Certainly, these measurements may differ into the future due to changes in fund investment performance (e.g. 2007-08 Global Financial Crisis), changes in economic and demographic assumptions (e.g., people living longer than previously expected), and changes in plan provisions which are beyond the Retirement Board's control. The Retirement Board fulfilled its fiduciary responsibility, as required by law,

for each of the Retirement System-related propositions presented to the City's voters between 1996 and 2008.

SF CGJ Notes

The unfunded liabilities may not be a "debt" that must be paid today, but the $435,750,000 interest payment must be paid today ($5.81 billion at 7.5%).

The 6/30/16 GASB 67/68 Report (page 31) shows the "UAL Contribution" going to zero in 2083 (UAL = Unfunded Actuarial Liability).

The actuarial reports for retroactive benefit increases were not presented to the voters.

Controller's Office Response to Finding F2
Disagree with it, partially.

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.

SF CGJ Notes

"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."

This is a reason for creating a Retirement System Oversight Committee, or a similar body.

The City does not have a standing body to address changes to the Retirement System. The CA Supreme Court has accepted two cases that will probably lead to the removal of the "California Rule". If this occurs, there will be SF propositions to change the Retirement System, and those changes might not be to the City's benefit. The City should get ahead of this situation by creating a permanent, knowledgeable group of the stakeholders and have them propose solutions to Retirement System issues.

Recommendation 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 listed at the end of this document due to its length.

Mayor's Office Response to Recommendation R2.1
The recommendation will not be implemented because it is not warranted or reasonable.

The City already has a Retirement Board which functions as oversight to the Retirement System, and the Mayor's Office has no authority to establish or empanel a new Board committee. Mayor Lee worked to pass major pension reform legislation in 2011 and the City's long-term pension obligations would be much worse if it was not for these measures. Lastly, the City closely monitors pension costs in our long range financial planning- through the 5 year financial planning process, deficit projections as well as through the 2 year budget process, which are developed by the Mayor's Office in collaboration with the Controller's Office and the Board of Supervisors. We closely monitor the impact of our pension obligations on our long term deficit and will continue to seek to reduce projected deficits over time.

SF CGJ Notes

We should not have directed Recommendation R2.1 to the Mayor's Office; we apologize for our error.

The Retirement Board governs and controls the Retirement System, but does not have an oversight function.

The City does not have a standing body to address changes to the Retirement System. The CA Supreme Court has accepted two cases that will probably lead to the removal of the "California Rule". If this occurs, there will be SF propositions to change the Retirement System, and those changes might not be to the City's benefit. The City should get ahead of this situation by creating a permanent, knowledgeable group of the stakeholders and have them propose solutions to Retirement System issues.

Controller's Office Response to Recommendation R2.1
The recommendation will not be implemented because it is not warranted or reasonable.

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.

SF CGJ Notes

We should not have directed Recommendation R2.1 to the Controller's Office; we apologize for our error.

Retirement Board Response to Recommendation R2.1
The recommendation will not be implemented because it is not warranted or reasonable.

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.

SF CGJ Notes

We should not have directed Recommendation R2.1 to the Retirement Board; we apologize for our error.

The City does not have a standing body to address changes to the Retirement System. The CA Supreme Court has accepted two cases that will probably lead to the removal of the "California Rule". If this occurs, there will be SF propositions to change the Retirement System, and those changes might not be to the City's benefit. The City should get ahead of this situation by creating a permanent, knowledgeable group of the stakeholders and have them propose solutions to Retirement System issues.

Recommendation 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's Office Response to Recommendation R2.2
The recommendation will not be implemented because it is not warranted or reasonable.

This recommendation is intended to add individuals to the retirement system board who are not beneficiaries of the trust fund, and who will therefore presumably act as guardians of the public interest. However, trustees are always obligated to act only in the fiduciary interests of the beneficiaries. Therefore, this recommendation would not accomplish its intended goals, and for that reason will not be pursued. The City closely monitors pension costs in our long range financial planning - through the 5 year financial planning process, deficit projections as well as through the 2 year budget process, which are developed by the Mayor's Office in collaboration with the Controller's Office and the Board of Supervisors. We closely monitor the impact of our pension obligations on our long-term deficit and will continue to seek to reduce projected deficits over time. The Mayor will continue to consider any and all mechanisms within his purview to ensure fiscal sustainability.

SF CGJ Notes

The current Retirement Board members fulfill their fiduciary responsibilities regardless of whether or not they are beneficiaries; three additional public members should be expected to do the same.

The Retirement Board members' duties include "minimizing employer contributions thereto".

The San Francisco Charter, Article XII: Employee Retirement and Health Service Systems, Sec. 12.100. Retirement Board, includes this statement:
In accordance with Article XVI, Section 17, of the California Constitution, the Retirement Board shall have plenary authority and fiduciary responsibility for investment of monies and administration of the Retirement System.

An excerpt from the CA Constitution, Article XVI, Section 17:

(b) The members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, ***minimizing employer contributions thereto,*** *and defraying reasonable expenses of administering the system. A retirement board's duty to its participants and their beneficiaries shall take precedence over any other duty.*

Controller's Office Response to Recommendation R2.2
The recommendation will not be implemented because it is not warranted or reasonable.

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.

SF CGJ Notes

We should not have directed Recommendation R2.2 to the Controller's Office; we apologize for our error.

Retirement Board Response to Recommendation R2.2
The recommendation will not be implemented because it is not warranted or reasonable.

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.

SF CGJ Notes

We should not have directed Recommendation R2.2 to the Retirement Board; we apologize for our error.

Finding 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 Response to Finding F3
Disagree with it, wholly.

The Elections Commission disagrees wholly with the finding because the Commission lacks the knowledge to assess whether these specific VIPs did or did not provide voters with full and accurate information regarding these propositions.

SF CGJ Notes

We should not have directed Finding F3 and Recommendations R3.1 and R3.2 to the Elections Commission and the Department of Elections; we apologize for our error.

Department of Elections Response to Finding F3
Disagree with it, wholly.

The Department lacks sufficient knowledge to determine whether these VIPs included the information set forth in this finding.

SF CGJ Notes

We should not have directed Finding F3 and Recommendations R3.1 and R3.2 to the Elections Commission and the Department of Elections; we apologize for our error.

Controller's Office Response to Finding F3
Disagree with it, partially.

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.

SF CGJ Notes

The "detailed files maintained for stakeholders or members of the public interested in exploring further" are not mentioned in the Voter Information Pamphlets. The actuarial analysis report for the 2008 Prop B could not be found online.

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" would be helpful.

Recommendation 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 Response to Recommendation R3.1
The recommendation will not be implemented because it is not warranted or reasonable.

The Elections Commission will not implement this recommendation because the Commission lacks the authority to do what is requested.

SF CGJ Notes

We should not have directed Finding F3 and Recommendations R3.1 and R3.2 to the Elections Commission and the Department of Elections; we apologize for our error.

Department of Elections Response to Recommendation R3.1
The recommendation will not be implemented because it is not warranted or reasonable.

The Department lacks the authority to ensure that future VIPS provide voters with complete financial details regarding Retirement System-related propositions. The Department of Elections does not determine the content of the Voter Information Pamphlet; that determination is made by ordinance, and those ordinances are included in the Municipal Elections Code. The Department's role is simply to format information and transmit it to the printer. If the City adopts an ordinance requiring the Department of Elections to include additional information regarding costs associated with retirement benefits in the Voter Information Pamphlet, the Department will do so.

SF CGJ Notes

We should not have directed Finding F3 and Recommendations R3.1 and R3.2 to the Elections Commission and the Department of Elections; we apologize for our error.

Recommendation 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 Response to Recommendation R3.2
The recommendation will not be implemented because it is not warranted or reasonable.

The Elections Commission will not implement this recommendation because the Commission lacks the authority to do what is requested.

SF CGJ Notes

We should not have directed Finding F3 and Recommendations R3.1 and R3.2 to the Elections Commission and the Department of Elections; we apologize for our error.

Department of Elections Response to Recommendation R3.2
The recommendation will not be implemented because it is not warranted or reasonable.

The Department lacks the authority to require that the Controller's Office provide SF residents, employees, and retirees with a description of the City's Retirement System that enables them to make informed decisions about it. If an ordinance is adopted that requires additional content to be included in the Voter Information Pamphlet, the Department will comply with the ordinance.

SF CGJ Notes

We should not have directed Finding F3 and Recommendations R3.1 and R3.2 to the Elections Commission and the Department of Elections; we apologize for our error.

Controller's Office Response to Recommendation R3.2
The recommendation has been implemented.

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.

SF CGJ Notes

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" would be helpful.

Finding 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 Response to Finding F4
Disagree with it, wholly.

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 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.

SF CGJ Notes

The Finding refers to "data in the Retirement System reports", not "data used in preparing these reports."

Most of the Retirement System's reports are understandable for 'a knowledgeable but non-expert audience', but there are important sections that would be a challenge for even an expert audience. Some examples:

SFERS Annual Report: the "Actuarial Analysis of Financial Experience", "Schedule of Funding Progress", and "Actuarial Solvency Test" tables have no description of the tables, the data they contain, or why the data ends with the previous Fiscal Year.

SFERS Actuarial Valuation Report: Section VI – Actuarial Section of the CAFR, "Table VI-1 Analysis of Financial Experience", "Table VI-2 Solvency Test", and "Table VI-3 Schedule of Funding Progress" have minimal descriptions of the tables' purpose or the data they contain.

GASB 67/68 Report: Section VI – GASB 68 Collective Information, "Table VI-1 Schedule of Collective Deferred Inflows and Outflows of Resources", "Table VI-2 Calculation of Collective Pension Expense" do not describe the sources of the data, and why much of the data is different than what is in the SFERS Actuarial Valuation Report.

The items below could be done by the Retirement System and/or the Controller's Office.

1. Create a Sankey Diagram for the Retirement System. Here's a link to a CalMatters' Sankey Diagram of

the CA Budget: https://calmatters.org/articles/california-state-budget-best-visualization-tool/

2. Create an interactive online diagram that shows an employee's retirement fund life-cycle, from hire date through, and sometimes after, death.

3. Publish complete amortization schedules for each of the current proposition-based debts.

Controller's Office Response to Finding F4
Disagree with it, partially.

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.

SF CGJ Notes

See the SF CGJ Notes above for specific report sections that would be a challenge for even an expert audience, and some suggestions for improvements.

Recommendation 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 Response to Recommendation R4.1
The recommendation will not be implemented because it is not warranted or reasonable.

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.

SF CGJ Notes

The Retirement System data is not available on SF OpenBook (http://openbook.sfgov.org/) or DataSF (https://data.sfgov.org), and a search of the Retirement System website found no data.

Controller's Office Response to Recommendation R4.1
The recommendation will not be implemented because it is not warranted or reasonable.

This recommendation should be directed to the Retirement System and not the Controller's Office.

SF CGJ Notes

We should not have directed Recommendation R4.1 to the Controller's Office; we apologize for our error.

Recommendation 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 Response to Recommendation R4.2
The recommendation will not be implemented because it is not warranted or reasonable.

This recommendation should be directed to the Controller's Office and not the Retirement Board.

SF CGJ Notes

We should not have directed Recommendation R4.2 to the Retirement Board; we apologize for our error.

Controller's Office Response to Recommendation R4.2
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.

SF CGJ Notes

The items below could be done by the Retirement System and/or the Controller's Office.

1. Create a Sankey Diagram for the Retirement System. Here's a link to a CalMatters' Sankey Diagram of the CA Budget: https://calmatters.org/articles/california-state-budget-best-visualization-tool/

2. Create an interactive online diagram that shows an employee's retirement fund life-cycle, from hire date through, and sometimes after, death.

3. Publish complete amortization schedules for each of the current proposition-based debts.

Complete text of Recommendation 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 (Section 6254, et seq., of the Government Code of the State of California) and the City's Sunshine Ordinance (Chapter 67 of this Code). The committee shall issue regular reports on the results of its activities. A report shall be issued at least once a year. Minutes of the proceedings of the committee and all documents received and reports issued shall be a matter of public record and be made available on the Board's website.
4. Membership
    a. Two-thirds of the members will be Public members and one-third will be Representative members.

b. Public members.

i. Public members must be voters.

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

iii. Each Supervisor will appoint a single Public member.

iv. The Mayor will appoint all other Public members.

v. Public members can only be removed for cause.

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

vii. Public members will receive no compensation.

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

ix. No more than two consecutive terms.

c. Representative members

i. Mayor's Office representative.

ii. Board of Supervisors' representative.

iii. Controller's Office representative.

iv. Human Resources Department representative.

v. Safety Unions' representative.

vi. Miscellaneous Unions' representative.

5. Committee Costs

a. The Board of Supervisors will decide how best to fund the Committee.

Carroll, John (BOS)

From: Carroll, John (BOS)
Sent: Thursday, September 14, 2017 1:57 PM
To: BOS-Supervisors
Cc: BOS-Legislative Aides; 'Calvillo, Angela (angela.calvillo@sfgov.org)'; 'civilgrandjury@sftc.org'; 'TJackson@sftc.org'; 'klowry@sfcgj.org'; 'kittywitty@comcast.net'; Elliott, Jason; Howard, Kate (MYR); Whitehouse, Melissa (MYR); Valdez, Marie (MYR); Rosenfield, Ben (CON); Steeves, Asja (CON); Stevenson, Peg (CON); Arntz, John (REG); Huish, Jay (RET); Nickens, Norm (RET); Jerdonek, Chris (REG); Givner, Jon; Somera, Alisa (BOS); Campbell, Severin (BUD); Clark, Ashley (BUD)
Subject: 2016-2017 Civil Grand Jury Report - Hearing - Civil Grand Jury Report - The San Francisco Retirement System - Increasing Understanding and Adding Voter Oversight - Required Department Response

Categories: 170662, 170663

Supervisors:

The Office of the Clerk of the Board has received required responses to the 2016-2017 Civil Grand Jury report entitled **"The San Francisco Retirement System - Increasing Understanding and Adding Voter Oversight,"** from the Retirement Board. Please find the following direct link to the response, and a link to an informational memo from the Clerk of the Board of Supervisors.

Retirement Board Response - September 13, 2017

Clerk of the Board Memo - September 14, 2017

I invite you to review the entire matter on our Legislative Research Center by following the link below:

Board of Supervisors File No. 170662

Thank you,

John Carroll
Assistant Clerk
Board of Supervisors
San Francisco City Hall, Room 244
San Francisco, CA 94102
(415)554-4445 - Direct | (415)554-5163 - Fax
john.carroll@sfgov.org | bos.legislation@sfgov.org

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BOARD of SUPERVISORS

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

DATE: September 14, 2017

TO: Members of the Board of Supervisors

FROM: Angela Calvillo, Clerk of the Board

SUBJECT: 2016-2017 Civil Grand Jury Report "The San Francisco Retirement System, Increasing Understanding and Adding Voter Oversight"

We are in receipt of the following required response to the San Francisco Civil Grand Jury report released June 16, 2017, entitled: "The San Francisco Retirement System, Increasing Understanding and Adding Voter Oversight." Pursuant to California Penal Code, Sections 933 and 933.05, the City Departments shall respond to the report within 60 days of receipt, or no later than August 15, 2017.

For each finding the Department response shall:
1) agree with the finding; or
2) disagree with it, wholly or partially, and explain why.

As to each recommendation the Department shall report that:
1) the recommendation has been implemented, with a summary explanation; or
2) the recommendation has not been implemented but will be within a set timeframe as provided; or
3) the recommendation requires further analysis. The officer or agency head must define what additional study is needed. The Grand Jury expects a progress report within six months; or
4) the recommendation will not be implemented because it is not warranted or reasonable, with an explanation.

The Civil Grand Jury Report identified the following City Department to submit a response (attached):

- 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.

This response is provided for your information, as received, and may not conform to the parameters stated in California Penal Code, Section 933.05 et seq.

Continues on next page

On August 18, 2017, the Office of the Clerk of the Board distributed the following responses from City Departments:

- 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 Commission
  Received August 15, 2017, for Findings F1, F2, and F3; and Recommendations R1.1, R1.2, R2.1, R2.2, R3.1, and R3.2.

The Government Audit and Oversight Committee will consider the subject report, along with the responses, at an upcoming hearing and will prepare the Board's official response by Resolution for the full Board's consideration.

c:

Honorable Teri L. Jackson, Presiding Judge
Kathie Lowry, 2016-2017 San Francisco Civil Grand Jury
Kitsaun King, 2016-2017 San Francisco Civil Grand Jury
Jason Elliot, Mayor's Office
Kate Howard, Mayor's Office
Melissa Whitehouse, 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
Jay Huish, Executive Director, Employee's Retirement System
Norm Nickens, Retirement Board
Chris Jerdonek, Elections Commission
Jon Givner, Deputy City Attorney
Alisa Somera, Legislative Deputy Director
Severin Campbell, Budget and Legislative Analyst
Ashley Clark, Budget and Legislative Analyst

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 Huish, Executive Director, on behalf of the
SFERS Retirement Board

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

2016-17 Civil Grand Jury

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

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)	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. 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. 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.

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 r	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. 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. 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

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	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 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.

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 / DefinedContribution 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.

Carroll, John (BOS)

From:	Carroll, John (BOS)
Sent:	Friday, August 18, 2017 4:41 PM
To:	BOS-Supervisors
Cc:	BOS-Legislative Aides; 'Calvillo, Angela (angela.calvillo@sfgov.org)'; 'civilgrandjury@sftc.org'; klowry@sfcgj.org; 'kittywitty@comcast.net'; Elliott, Jason; Howard, Kate (MYR); Whitehouse, Melissa (MYR); Valdez, Marie (MYR); Rosenfield, Ben (CON); Steeves, Asja (CON); Stevenson, Peg (CON); Arntz, John (REG); Nickens, Norm (RET); Huish, Jay (RET); Chan, Donald (REG); Givner, Jon; Somera, Alisa (BOS); Campbell, Severin (BUD); Newman, Debra; Clark, Ashley (BUD)
Subject:	2016-2017 Civil Grand Jury Report - The San Francisco Retirement System, Increasing Understanding and Adding Voter Oversight - Required Department Responses
Categories:	170662

Supervisors:

The Office of the Clerk of the Board has received required responses to the 2016-2017 Civil Grand Jury report entitled **"The San Francisco Retirement System - Increasing Understanding and Adding Voter Oversight,"** from the Offices of the Mayor and the Controller. Note that the Office of the Mayor has submitted a consolidated response for the Elections Department and the Elections Commission. Please find the following direct links to the individual responses, and a link to an informational memo from the Clerk of the Board of Supervisors.

Office of the Mayor Consolidated Response - August 15, 2017

Office of the Controller Response - August 11, 2017

Clerk of the Board Memo - August 18, 2017

I invite you to review the entire matter on our Legislative Research Center by following the link below:

Board of Supervisors File No. 170662

Thank you,

John Carroll
Assistant Clerk
Board of Supervisors
San Francisco City Hall, Room 244
San Francisco, CA 94102
(415)554-4445 - Direct | (415)554-5163 - Fax
john.carroll@sfgov.org | bos.legislation@sfgov.org

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BOARD of SUPERVISORS

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

DATE: August 18, 2017

TO: Members of the Board of Supervisors

FROM: Angela Calvillo, Clerk of the Board

SUBJECT: 2016-2017 Civil Grand Jury Report "The San Francisco Retirement System, Increasing Understanding and Adding Voter Oversight"

We are in receipt of the following required responses to the San Francisco Civil Grand Jury report released June 16, 2017, entitled: "The San Francisco Retirement System, Increasing Understanding and Adding Voter Oversight." Pursuant to California Penal Code, Sections 933 and 933.05, the City Departments shall respond to the report within 60 days of receipt, or no later than August 15, 2017.

For each finding the Department response shall:

1) agree with the finding; or
2) disagree with it, wholly or partially, and explain why.

As to each recommendation the Department shall report that:

1) the recommendation has been implemented, with a summary explanation; or
2) the recommendation has not been implemented but will be within a set timeframe as provided; or
3) the recommendation requires further analysis. The officer or agency head must define what additional study is needed. The Grand Jury expects a progress report within six months; or
4) the recommendation will not be implemented because it is not warranted or reasonable, with an explanation.

The Civil Grand Jury Report identified the following City Departments to submit responses (attached):

- 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 Commission
  Received August 15, 2017, for Findings F1, F2, and F3; and Recommendations R1.1, R1.2, R2.1, R2.2, R3.1, and R3.2.

Continues on next page

Responses not received within the 60-day deadline as required by California Penal Code, Section 933:

- Retirement Board:
  For Findings F1, F2, and F4; and Recommendations R1.1, R1.2, R2.1, R2.2, R4.1 and R4.2.

These departmental responses are being provided for your information, as received, and may not conform to the parameters stated in California Penal Code, Section 933.05 et seq. The Government Audit and Oversight Committee will consider the subject report, along with the responses, at an upcoming hearing and will prepare the Board's official response by Resolution for the full Board's consideration.

c:

Honorable Teri L. Jackson, Presiding Judge
Kathie Lowry, 2016-2017 San Francisco Civil Grand Jury
Kitsaun King, 2016-2017 San Francisco Civil Grand Jury
Jason Elliot, Mayor's Office
Kate Howard, Mayor's Office
Melissa Whitehouse, 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
Norm Nickens, Retirement Board
Donald Chan, Elections Commission
Jon Givner, Deputy City Attorney
Alisa Somera, Legislative Deputy Director
Severin Campbell, Budget and Legislative Analyst
Ashley Clark, Budget and Legislative Analyst

OFFICE OF THE MAYOR
SAN FRANCISCO

EDWIN M. LEE
MAYOR

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 commited 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 mutiple 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 liabilites 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.

1 DR. CARLTON B. GOODLETT PLACE, ROOM 200
SAN FRANCISCO, CALIFORNIA 94102-4681
TELEPHONE: (415) 554-6141

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

2016-17 Civil Grand Jury

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.	Mayor	disagree with it, partially (explanation in next column)	We agree that there are mutiple drivers of the City's long term pension obligations. However, SFERS is among the top-performing and well-funded public pension plans in the United States. We are confident that, over the long term, the assets in the SFERS Trust will be sufficient to pay the promised benefits to all active and retired SFERS members. Each year, the Retirement Board receives an actuarial valuation - a snapshot of the long-term progress of the fund toward full funding of all promised benefits - from which they review and adjust, if prudent and appropriate, existing funding policies to ensure the long-term financial strength of the SFERS Trust. In accordance with the City Charter and Retirement Board policies, the cost or increase in liabilities associated with every voter-approved proposition is amortized over up to a 20-year period. The Retirement System unfunded liability is not a "debt", but rather a funding gap that will be made up over the very long term, not only by the City, but also by City employees as a result of the employee cost sharing provisions approved by the City voters in 2011 (Proposition C) and long term investment gains. As reflected in the past investment performance of the Retirement System – relative to U.S. pubic fund peers, SFERS' investment results ranked in the first quartile for the 3 year, 5 year and 10 year time periods, investment gains will also contribute a significant amount towards reducing the unfunded liabilities of the Retirement System.
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 Proppsition 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)	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). However, we disagree with finding (3). Cost analyses prepared by the Controller and the Retirement System were based upon the best available information, and were in line with actuarial and economic assumptions in use at the time. As noted in those analyses, benefit costs and Retirement Fund results are highly sensitive to a number of economic assumptions, several of which were not met in the years following the changes approved by voters. In addition, we disagree with finding 4). Future pension liabilites are a great concern for the city, and are carefully tracked and analyzed closely on an ongoing basis by the Mayor's Office, Controller's Office, Retirement System and the Board of Supervisors' Budget and Legislative analyst. Projected costs are forecast and incorporated into our 5-year financial planning process which is jointly developed by the Mayor's Budget Office, the Controllers Office and the Board of Supervisors' Budget and Legislative analyst. We have also made significant strides in enacting policy to reduce our pension liability and continue to look for ways to reduce our long term pension liabilities. The SFERS retirement system is 85% funded. While still not fully funded, it is important to consider that relative to comparable systems, San Francisco's SFERS is faring very well, and is among the top-performing and well-funded public pension plans in the United States. A recent report by the City Services Auditor found that the peer average for city employee pension plans as of FY 15 was 72% funded (compared with SFERS at 85%). For instance CALPERS is currently funded at 69% and Los Angeles is funded at 83%. As of FY 15, Seattle was funded at 66% and Portland at 46%.

2016-17 Civil Grand Jury

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

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

2015-17 Civil Grand Jury

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

CGJ Year	Report Title	#	Recommendations	Respondent assigned by CGJ	2017 Responses (implementation)	2017 Response Text
2016-17	The SF Retirement System-Increasing Understanding & Adding Voter Oversight	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 / DefinedContribution 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.	Mayor	The recommendation will not be implemented because it is not warranted or reasonable (explanation in next column)	The City already has a Retirement Board which functions as oversight to the Retirement System, and the Mayor's Office has no authority to establish or empanel a new Board committee. Mayor Lee worked to pass major pension reform legislation in 2011 and the City's long term pension obligations would be much worse if it was not for these measures. Lastly, the City closely monitors pension costs in our long range financial planning- through the 5 year financial planning process, deficit projections as well as through the 2 year budget process, which are developed by the Mayor's Office in collaboration with the Controller's Office and the Board of Supervisors. We closely monitor the impact of our pension obligations on our long term deficit and will continute to seek to reduce projected deficits over time.
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.	Mayor	The recommendation will not be implemented because it is not warranted or reasonable (explanation in next column)	This recommendation is intended to add individuals to the retirement system board who are not beneficiaries of the trust fund, and who will therefore presumably act as guardians of the public interest. However, trustees are always obligated to act only in the fiduciary interests of the beneficiaries. Therefore, this recommendation would not accomplish its intended goals, and for that reason will not be pursued. The City closely monitors pension costs in our long range financial planning - through the 5 year financial planning process, deficit projections as well as through the 2 year budget process, which are developed by the Mayor's Office in collaboration with the Controller's Office and the Board of Supervisors. We closely monitor the impact of our pension obligations on our long term deficit and will continute to seek to reduce projected deficits over time. The Mayor will continue to consider any and all mechanisms within his purview to ensure fiscal sustainability.

2016-17 Civil Grand Jury

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

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

2016-17 Civil Grand Jury

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

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

2016-17 Civil Grand Jury

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

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

2016-17 Civil Grand Jury

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

CGJ Year	Report Title	#	Recommendations	Respondent assigned by CGJ	2017 Responses (implementation)	2017 Response Text
2016-17	The SF Retirement System-Increasing Understanding & Adding Voter Oversight	R3.1	That the Elections Commission and the Department of Elections ensure that future Voter Information Pamphlets for Retirement System-related propositions provide voters with complete financial details.	Elections Commission	The recommendation will not be implemented because it is not warranted or reasonable (explanation in next column)	The Elections Commission will not implement this recommendation because the Commission lacks the authority to do what is requested.
2016-17	The SF Retirement System-Increasing Understanding & Adding Voter Oversight	R3.2	That by the end of 2018, the Controller's Office provide SF residents, employees, and retirees with a description of the City's Retirement System that enables them to make informed decisions about it.	Elections Commission	The recommendation will not be implemented because it is not warranted or reasonable (explanation in next column)	The Elections Commission will not implement this recommendation because the Commission lacks the authority to do what is requested.

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,

Peg Stevenson
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 knowledgable 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	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 / DefinedContribution 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 knowledgable 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.

BOARD of SUPERVISORS

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

MEMORANDUM

Date: June 16, 2017

To: Honorable Members, Board of Supervisors

From: Angela Calvillo, Clerk of the Board

Subject: 2016-2017 CIVIL GRAND JURY REPORT - The San Francisco Retirement System, Increasing Understanding and Adding Voter Oversight

The Office of the Clerk of the Board of Supervisors is in receipt of the San Francisco Civil Grand Jury (CGJ) Report, entitled: **The San Francisco Retirement System, Increasing Understanding and Adding Voter Oversight** (attached). Today is the public release date for this report.

Pursuant to California Penal Code, Sections 933 and 933.05, the Board must:

1. Respond to the report within 90 days of receipt, or no later than September 14, 2017.
2. For each finding the Department response shall:
   - agree with the finding; or
   - disagree with the finding, wholly or partially, and explain why.

3. For each recommendation the Department shall report that:
   - the recommendation has been implemented, with a summary of how it was implemented;
   - the recommendation has not been, but will be, implemented in the future, with a timeframe for implementation;
   - the recommendation requires further analysis, with an explanation of the scope of the analysis and timeframe of no more than six months from the date of release; or
   - the recommendation will not be implemented because it is not warranted or reasonable, with an explanation.

Pursuant to San Francisco Administrative Code, Section 2.10, in coordination with the Committee Chair, the Clerk will schedule a public hearing before the Government Audit and Oversight Committee to allow the Board the necessary time to review and formally respond to the findings and recommendations.

The Budget and Legislative Analyst will prepare a resolution, outlining the findings and recommendations for the Committee's consideration, to be heard at the same time as the hearing on the report.

Attachement: Civil Grand Jury Report

c: Honorable Teri L. Jackson, Presiding Judge
Nicole Elliott, Mayor's Office
Mawuli Tugbenyoh, Mayor's Office
Ben Rosenfield, Office of the Controller
Asja Steeves, Office of the Controller
Jon Givner, Office of the City Attorney
Alisa Somera, Office of the Clerk of the Board
Debra Newman, Office of the Budget and Legislative Analyst
Severin Campbell, Office of the Budget and Legislative Analyst
Jadie Wasilco, Office of the Budget and Legislative Analyst
Kathie Lowry, Foreperson, San Francisco Civil Grand Jury

City and County of San Francisco
2016-2017 Civil Grand Jury

FOR IMMEDIATE RELEASE
Friday, June 16, 2017
Contacts: Chris Bacon, Civil Grand Juror (415) 931-8157 (Primary Contact)
Kathie Lowry, Jury Foreperson (415) 601-2770

***** PRESS RELEASE *****

SAN FRANCISCO CIVIL GRAND JURY: SAN FRANCISCO'S RETIREMENT SYSTEM NEEDS SUBSTANTIAL STRUCTURAL CHANGES AND MORE VOTER INVOLVEMENT AND EDUCATION

San Francisco, CA – The 2016-2017 San Francisco Civil Grand Jury (CGJ) calls upon the Mayor and Board of Supervisors to enact substantial structural changes to the City's Retirement System, which has entered its second decade of being underfunded, to include more voter involvement.

For its report, *The San Francisco Retirement System: Increasing Understanding and Adding Voter Oversight*, the CGJ reviewed the recent history of the Retirement System and reached two main conclusions:

- The principal underlying cause of the Retirement System's unfunded condition is the estimated $3.5 billion in retroactive retirement benefit increases implemented by voter-approved propositions between 1996 and 2008.
- 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.

The CGJ's report states that the "fiscal status of San Francisco's Retirement System threatens the financial future of the City. As of June 30, 2016, the City and County of San Francisco owes its Retirement System $5.81 billion; this is more than half of the City's entire 2016 budget ($8.94 billion)."

In its boldest recommendation, the CGJ challenges the Board of Supervisors to "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."

The CGJ recommends that this new Retirement System Oversight Committee include representatives from the Mayor's office, the Board of Supervisors, the Controller's office, the Human Resources Department, and Unions, but that two-thirds of the Committee be public members who are not participants in the Retirement System and have financial expertise relevant to retirement systems.

The Superior Court selects 19 San Franciscans to serve year-long terms as Civil Grand Jurors. The Jury has the authority to investigate City and County government by reviewing documents and interviewing public officials and private individuals. At the end of its investigations, the Jury issues reports outlining findings and recommendations. County agencies identified in the report receive copies and must respond to these findings and recommendations. The Board of Supervisors conducts a public hearing on each CGJ report.

The public may view this report and others issued by the CGJ online at http://civilgrandjury.sfgov.org/report.html.

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CIVIL GRAND JURY | 2016-2017
CITY AND COUNTY OF SAN FRANCISCO

June 13, 2017

Board of Supervisors
Angela Calvillo, Clerk of the Board
City Hall, Room 244
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Dear Clerk of the Board Calvillo,

The 2016-2017 Civil Grand Jury will release a report entitled "The San Francisco Retirement System, Increasing Understanding and Adding Voter Oversight" to the public on Friday, June 16, 2017. Enclosed is an advance copy of this report. Please note that by order of the Presiding Judge of the Superior Court, Hon. Teri L. Jackson, this report **is to be kept confidential until the date of release (June 16th).**

California Penal Code §933 (c) requires a response to be submitted to the Presiding Judge no later than 90 days after the date of this letter. California Penal Code §933.05 states that for each finding in the report, the responding person or entity shall indicate one of the following: (1) agree with the finding; or (2) disagree with it, wholly or partially, and explain why.

Further, as to each recommendation, your response must either indicate:

1) That the recommendation has been implemented, with a summary of how it was implemented;
2) That the recommendation has not been, but will be, implemented in the future, with a timeframe for implementation;
3) That the recommendation requires further analysis, with an explanation of the scope of that analysis and a timeframe for discussion, not more than six months from the release of the report; or
4) That the recommendation will not be implemented because it is not warranted or reasonable, with an explanation.

Please provide your response to the Presiding Judge Teri L. Jackson at the following address:
400 McAllister Street, Room 007
San Francisco, CA 94102-4512
Email: CivilGrandJury@sftc.org

Respectfully,

Kathie Lowry

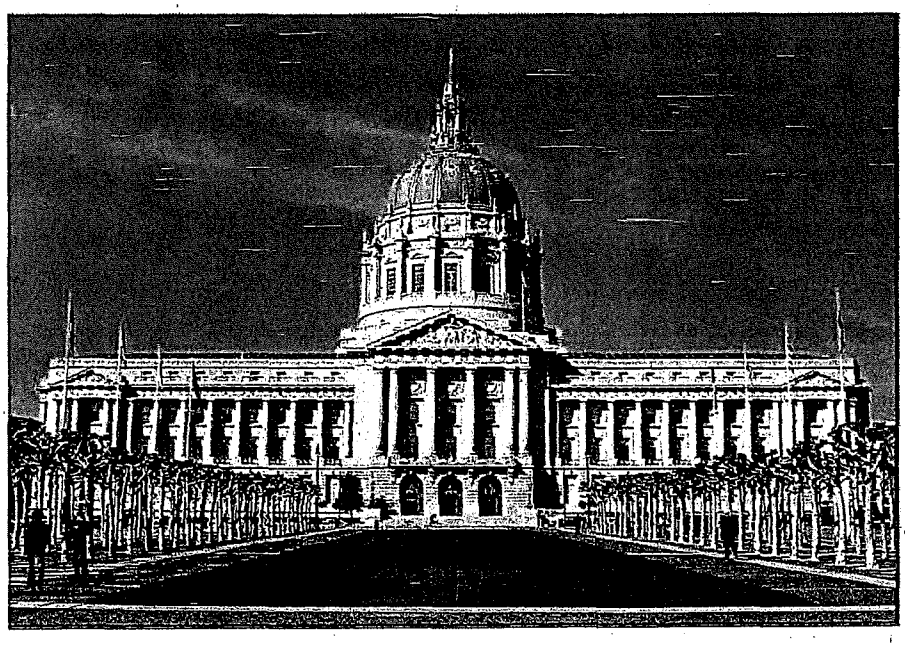
Kathie Lowry, Foreperson
2016-2017 Civil Grand Jury

2017 JUN 13 AM 11:04

CIVIL GRAND JURY | 2016-2017
CITY AND COUNTY OF SAN FRANCISCO

THE SAN FRANCISCO RETIREMENT SYSTEM

INCREASING UNDERSTANDING AND ADDING VOTER OVERSIGHT



JUNE 2017

THE CIVIL GRAND JURY

The Civil Grand Jury is a government oversight panel of volunteers who serve for one year. It makes findings and recommendations resulting from its investigations.

Reports of the Civil Grand Jury do not identify individuals by name. Disclosure of information about individuals interviewed by the jury is prohibited.

California Penal Code, section 929.

STATE LAW REQUIREMENT

Each published report includes a list of those public entities that are required to respond to the Presiding Judge of the Superior Court within 60 to 90 days as specified.

A copy must be sent to the Board of Supervisors. All responses are made available to the public.

For each finding, the response must:

1) agree with the finding, or
2) disagree with it, wholly or partially, and explain why.

As to each recommendation the responding party must report that:

1) the recommendation has been implemented, with a summary explanation; or
2) the recommendation has not been implemented but will be within a set timeframe as provided; or
3) the recommendation requires further analysis. The officer or agency head must define what additional study is needed. The Grand Jury expects a progress report within six months; or
4) the recommendation will not be implemented because it is not warranted or reasonable, with an explanation.

California Penal Code, Section 933.05

JURORS | 2016 – 2017

KATHIE LOWRY, FOREPERSON

KITSAUN KING, FOREPERSON PRO TEM

CHARLES HEAD, SECRETARY

CHRIS BACON

RICHARD BAKER-LEHNE

CONSTANCE BERNSTEIN

DONNA CASEY

PHYLLIS DEETS

JOHN ERICKSON

SANFORD GALLANTER

LAWRENCE GROO

YANE NORDHAV

ADAM RASKIN

RAE RAUCCI

DANIEL ROSENTHAL

MARVIN STENDER

DAVID TEJEDA

CHARLES THOMPSON

ELLEN LEE ZHOU

EXECUTIVE SUMMARY

The fiscal status of San Francisco's Retirement System threatens the financial future of the City. As of June 30, 2016, the City and County of San Francisco (City) owes its Retirement System $5.81 billion; this is more than half of the City's entire 2016 budget ($8.94 billion). The Retirement System is 77.6% funded. This means that there are not enough funds to pay the benefits to current and future retirees. In Fiscal Year 2015-2016, the City's annual contribution to the Retirement System was $526.8 million, $377.1 million of which was amortization payments on the unfunded pension liability. Where does the money come from to finance the underfunding? From the City's General Fund.

The General Fund pays for the City's services (such as public works, MUNI, police, and fire), and employee salaries and benefits. When more of the General Fund is spent on the underfunding of the Retirement System, City services and staff must be reduced to ensure a balanced budget.

There are several causes for the underfunding of the Retirement System, but the main underlying cause is the retroactive retirement benefit increases implemented by voter-approved propositions between 1996 and 2008. These retroactive increases were very expensive gifts to employees and retirees from taxpayers, paid for with money borrowed at a high interest rate from the Retirement System, and paid back over 20 years by taxpayers. The financial details of these retroactive increases were not disclosed to voters. As Warren Buffett stated:

> *There probably is more managerial ignorance on pension costs than any other cost item of remotely similar magnitude. And, as will become so expensively clear to citizens in future decades, there has been even greater electorate ignorance of governmental pension costs.*

The 2016-17 Civil Grand Jury investigated the Retirement Board, the Retirement System, Retirement System-related Propositions, and the public pension industry. Our purpose was to assess the effects of the costs of the current Retirement System, including the unfunded liability, on the City's financial health. Additionally, our purpose was to evaluate the ability of residents and voters to understand the financial ramifications of pension-related propositions based on information provided by the City. We conducted interviews with City staff and reviewed City and other documents. Our analysis led us to two major findings and four recommendations:

Finding 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.

Recommendation 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.

Recommendation 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.

Finding 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.

Recommendation 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. (Details about the recommended committee are presented in the Findings and Recommendations section of this report.)

Recommendation R2.2: That 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.

CONTENTS

BACKGROUND & METHODOLOGY

BACKGROUND

The City's Retirement Board and Retirement System is defined in the San Francisco (SF) Charter[1] and can only be changed by voter-approved propositions. The Retirement System is also known as the SF Employees' Retirement System (SFERS); this report will use Retirement System. The Retirement Board appoints an executive director, who in turn administers the Retirement System. The Retirement Board administers the Retirement Fund and makes all the investment decisions.

In the past decade, several attempts, some successful and others not, have been made to change the Retirement System. There have been two Civil Grand Jury (CGJ) reports and five significant propositions placed before the voters. Each of these reports and propositions are summarized below in chronological order.

"During the next decade, you will read a lot of news - bad news - about public pension plans." Warren Buffett 2014

2000 Proposition C[2]

This proposition was placed on the ballot by the Board of Supervisors and approved by the voters. It retroactively increased the retirement benefits for miscellaneous employees. The description of the proposed Charter Amendment from the Voter Pamphlet said that:

> *Proposition C is a Charter amendment that would increase retirement benefits for miscellaneous employees hired after 1976. An employee could get a pension of up to 75 percent of final salary. The pension amount would be based on years of service and a multiplier ranging from 1% per year of service at age 50 to 2% at age 60. The employee's "final salary" would mean the average monthly salary during a one-year period when the employee earned the highest salary.*

The City Controller provided the following statement on the fiscal impact of Proposition C in the Voter Pamphlet:

> *Should the proposed Charter amendment be adopted, in my opinion, it would increase the cost of government by an amount, estimated by the Retirement System Actuary, of $34 million per year for 20 years and then dropping to $17 million per year.*
>
> ***Even with this proposal, the City does not expect to have to make a contribution to the Retirement System for at least the next 15 years.*** (Bolding added)

2002 Proposition H[3]

This proposition was placed on the ballot by the Board of Supervisors and approved by the voters. It retroactively increased the retirement benefits for police officers and firefighters by increasing the amount of pensions to 2.4 percent of salary for each year they served if they retired at age 50 and 3 percent of salary for each year served if they retired at age 55. The description of the proposed Charter Amendment from the Voter Pamphlet said that:

> *Proposition H is a Charter amendment that would change the formula for police and firefighter retirement benefits. Police and firefighters who retire at age 50 would receive, for each year of service, 2.4 percent of the salary earned at the time of retirement. Police and firefighters who retire at age 55 would receive, for each year of service, 3 percent of the salary earned at the time of retirement. The maximum retirement benefit police and firefighters could receive would be 90 percent of the salary at the time of retirement. Police and firefighters who retire before January 1, 2003 would not be eligible for this increase.*

The City Controller provided the following statement on the fiscal impact of Proposition H in the Voter Pamphlet:

> *Should the proposed amendment be adopted, in my opinion, the cost to the City and County would increase, as estimated by the Retirement System Actuary, by about $28 million per year for the next 20 years, dropping after 20 years to an ongoing cost of approximately $8.2 million per year. However, no cash would be required since the City's Retirement System currently has a large surplus. While the cost of this proposal would reduce that surplus,* ***the City nonetheless should not be required to make employer contributions to the Retirement System for at least the next ten years.*** *The Amendment also provides that if the City is required to make employer contributions to the Retirement System,* ***the City will negotiate a cost-sharing agreement with the police officers and firefighters to cover all or part of the cost of providing the additional retirement benefits through employee contributions.***
> (Bolding added.)

Notwithstanding the Controller's statement with respect to both the 2000 Proposition C and the 2002 Proposition H, the City had to commence contributions to the Retirement System in 2005[4], and for FY 2016 the City had to make a $526.8 million contribution, $377.1 million of which was payment towards the unfunded pension liability.

June 2008 Proposition B[5]

This proposition was placed on the ballot by the Board of Supervisors and approved by the voters. The June 2008 Proposition B included Pension Benefits and Retiree Health Benefits; this report addresses only the Pension Benefits. The Voter Information Pamphlet described the changes to the Retirement System as follows:

> *In addition, Proposition B would make the following changes to retirement benefits and COLAs for miscellaneous City employees who retire on or after January 10, 2009:*
>
> *• The age factor for employees who retire at age 60 would increase to 2.1% and rise to 2.3% at age 62. Thus, employees with 20 years of service would receive 42% of their highest annual salary if they retire at age 60 or 46% if they retire at age 62.*
>
> *• The basic COLA benefit would be compounded annually based on the retirement benefits payable on June 30th of the prior year.*
>
> *• The supplemental COLA, which is paid when there is enough excess investment earnings, also would increase for a total adjustment of retirement benefits up to 3-1/2%.*
>
> *The City would freeze wages and other economic benefits for miscellaneous City employees from July 1, 2009 through June 30, 2010.*

This proposition is described in more detail under Proposition Costs & Disclosures.

As a result of the propositions increasing retirement benefits, the declining investment returns experienced by the Retirement System and the increasing cost to the City of the Retirement System, two Civil Grand Juries investigated the Retirement System:

2008-2009 CGJ Report: "Pensions Beyond Our Ability to Pay"[6]

This CGJ investigated both health care and pension benefits for City employees and focused much attention on pension spiking and a Deferred Retirement Option Program. In response to the findings they made regarding spiraling pension costs, the CGJ recommended:

> *A task force should be established to evaluate a change to a defined-contribution (DC) plan for all new employees of the City and County of San Francisco. By adopting a DC, the Mayor, the [Board of Supervisors], and [San Francisco Employee Retirement System] can do more to restore credibility to the public Retirement Systems than any other action they can take.*

The Mayor's Office responded[7] to the 2008-2009 CGJ report in general and also specifically to the recommendation listed above. The general comment from the

Mayor's office was that the Mayor did not believe that San Francisco was experiencing a pension crisis and that the Retirement System was among the most well-funded retirement systems in the country with a strong record of superior returns on its investments. Specifically, the Mayor disagreed with the recommendation to convert to a DC plan because he believed that the Retirement System's defined benefit (DB) plan offered a more secure investment strategy.

2009-2010 CGJ Report: Pension Tsunami: The Billion Dollar Bubble[8]

This CGJ investigated the ever-increasing Retirement System unfunded liability and its effects on City services since the City is financially responsible for the unfunded liability, as well as "pension-spiking." The investigation concluded, among other issues, that the current DB plan is financially unsustainable without cutbacks in jobs and City services. The investigation report recommended that the City consider a hybrid DB and DC plan for future employees and that no cost-of-living increases accrue to retirees unless the plan is fully funded. The Mayor's Office responded[9] to the finding of the CGJ report regarding the unsustainability of the Retirement System that:

> *San Francisco's Defined Benefit Plan is one of the most soundly funded and managed public retirement plans in the United States; the system itself is sustainable, despite the impact of the severe economic downturn. The City has faced economic downturns before, and, as it has in the past, our system will recover and remain financially sound.*

The Mayor's Office also disagreed with the recommendation that a hybrid DB and DC plan should be considered because of the risks associated with a DC plan.

"Pension reform can be hard to talk about. In the long run, reform now means fewer demands for layoffs and less draconian measures in the future. It's in the best interest of all Californians to fix this system now."
Jerry Brown

2010 Proposition D[10]

This proposition was placed on the ballot by the Board of Supervisors and approved by the voters. It changed the formula for determining the highest salary on which the pension benefits would be based from the highest average monthly salary within one year to the average salary in two consecutive fiscal years or 24 months prior to retirement. This proposition also changed the formula for City contributions to the Retirement System depending on the Retirement System's investment earnings. Specifically, the Voter Pamphlet said that:

> *For employees hired on and after July 1, 2010, "final compensation" would be calculated using a two-year formula. An employee's final compensation would be determined by averaging monthly compensation during:*
>
> - *any two consecutive fiscal years of earnings, or*
> - *the 24 months immediately before retirement.*

The final basis for retirement benefits would be the higher of the two figures. For safety employees and CalPERS members hired on and after July 1, 2010, the employee contribution to SFERS or CalPERS would increase to 9.0% of compensation. In years when the City's contribution to SFERS is less than expected because of large investment earnings, the amount saved would be deposited into the Retiree Health Care Trust Fund. The participating employers could choose to have this rule apply to them.

The City Controller provided the following statement on Proposition D:

Taken together, the change in the SFERS safety and CalPERS employee contribution rates from 7.5% to 9.0%, and the two year final compensation calculation, are expected to reduce the employer long-term cost (called the 'normal' cost) of pension funding by approximately 0.7% over the 25 year period between fiscal year 2011- 2012 and fiscal year 2035-2036. Cumulatively, the savings for that same 25 year period is estimated to range between $300 and $500 million depending on future wage and benefit rates for employees, and other factors.

2011 Proposition C[11]

This proposition was placed on the ballot by the Board of Supervisors and approved by the voters. It changed the pension benefits by increasing the age requirement for obtaining maximum retirement benefits and also required that retirement benefits be based on an average of the last three years of service, as well as limiting certain cost-of-living increases. Specifically, the Voter Information Pamphlet said that:

Proposition C is a Charter amendment that would change the way the City and current and future employees share in funding SFERS pension benefits. The base employee contribution rate would remain the same–7.5% for most employees–when the City contribution rate is between 11% and 12% of City payroll. Employees making at least $50,000 would pay an additional amount up to 6% of compensation when the City contribution rate is over 12% of City payroll. When the City contribution rate falls below 11%, employee contributions would be decreased proportionately.

Proposition C would also create new retirement plans for employees hired on or after January 7, 2012, that would:

- *For miscellaneous employees, increase the minimum retirement age to 53 with 20 years of service or 65 with 10 years;*
- *For safety employees, the minimum retirement age would remain at 50 with five years of service, but the age for maximum benefits would increase to 58;*
- *For all employees, limit covered compensation, calculate final compensation from a three-year average, and change the multipliers used to calculate pension benefits, and*
- *For miscellaneous employees, raise the age of eligibility to receive vesting allowances to 53 and reduce by half the City's contribution to vesting allowances.*

The Voter Information Pamphlet also stated that:

> *Proposition C would limit cost-of-living adjustments for SFERS retirees.*

The City Controller provided the following statement on the fiscal impact of Proposition C:

> *Should the proposed Charter amendment be approved by the voters and implemented, in my opinion, the City's costs to fund employee retirement benefits will be reduced by approximately $40 to $50 million in fiscal year (FY) 2012–13. City costs will be reduced by approximately $1 billion to $1.3 billion cumulatively over the ten years between FY 2012–13 and FY 2021– 22, of which $85 million is attributable to retiree health benefit savings, and the balance to pension contribution savings.*

Unfortunately, much of the predicted City savings from Proposition C have not materialized as a result of litigation between Protect Our Benefits[12] and the City regarding the interpretation of Proposition C's provisions limiting cost-of-living adjustments.

The California Rule

In the 1955 case of *Allen v City of Long Beach*[13], the California Supreme Court established what became known as "The California Rule" for public employee pensions which has been interpreted as constitutionally prohibiting any reduction of pension benefits for current employees and retirees as an infringement of the right of contract. The Great Recession of 2008-09 drastically diminished the market value of pension funds and, along with demographic factors such as longer life expectancy, resulted in a nationwide increase in the underfunding of pension plans. Although lowering benefits for *prospective* employees is allowed under the California Rule such a lowering of future pension obligations is insufficient to solve the underfunding which has been variously estimated nationwide as between two to over four trillion dollars and, as a California Court of Appeals sardonically noted, "*As so often occurs California was in first place.*" Under the City's Charter the City is obligated to contribute to the Retirement System to compensate for underfunding, but actuarial predictions show that only lowering benefits for current employees can bring the system to full funded status[14].

As that Court of Appeals' decision (which is presently before the California Supreme Court) held, a current public employee's pension may be reduced so long as such reduction does not "*deprive the employee of a 'reasonable' pension.*" The final determination of the scope of the California Rule remains to be determined by the California Supreme Court, but if it upholds the lower court's decision there may be an opportunity to begin the process of bringing pension plans in California, including the City's Retirement System, into a fully funded condition.

Financial Economics and Public Pension Plans

Financial Economics and its use with public pension plans is a topic we came across late in our investigation. We have not been able to study it in detail, but wanted to point it out as an important, and controversial, topic. Currently, public pension plans use the long-term investment return of assets to value liabilities. This is challenged by those who say public pension plan liabilities should be valued using risk-free interest rates. Below are some helpful links on this topic:

Pensions & Investments 8/3/2016 article:
Actuarial leaders disband task force, object to paper on public plan liabilities

The paper mentioned in the article:
Financial Economics Principles Applied to Public Pension Plans

Joint AAA (American Academy of Actuaries)/SOA (Society of Actuaries) Task Force on Financial Economics and the Actuarial Model:
Pension Actuary's Guide to Financial Economics, 2006

Hoover Institution essay: Hidden Debt, Hidden Deficits: 2017 Edition, How Pension Promises Are Consuming State and Local Budgets

METHODOLOGY

During our investigation, we reviewed numerous reports and studies, and interviewed City staff regarding the Retirement System. A list of our sources is included in Appendix A.

We reviewed:

- Prior CGJ reports on the Retirement System;
- Prior propositions dealing with the Retirement System;
- Retirement System Annual Reports, Actuarial Valuation Reports, Government Accounting Standards Board (GASB) 67/68 Reports, and Financial Reports
- San Francisco Comprehensive Annual Financial Reports (CAFR)
- Press articles, academic articles and studies dealing with pension reform throughout the United States.
- Reform efforts by other public retirement systems.

We interviewed:

- Present and former staff of the Controller's Office;
- Present and former staff of the Retirement System;
- Present and former staff of the Mayor's Office;
- Members of the Retirement Board.

We consulted with outside experts familiar with retirement systems.

DISCUSSION & ANALYSIS

The Retirement System is a defined-benefit pension plan which provides a specified retirement benefit that is based on the member's retirement age, service length, and final salary. The Retirement System is governed by a seven-member Retirement Board; three are employees or retirees elected by all employees and retirees, three are Mayoral appointees, and one is a Board of Supervisors (BOS) member appointed by the BOS President. Elected officials, including the Mayor, the Board of Supervisors, and the Controller, are members of the Retirement System.

"We cannot continue. Our pension costs and health care costs for our employees are going to bankrupt this city."
Michael Bloomberg

The Retirement Board appoints the Retirement System's Executive Director and an Actuary. The Executive Director administers the Retirement System; the Actuary advises the Retirement Board on actuarial matters and monitors an independent consulting actuarial firm, Cheiron, which prepares the Retirement System's annual Actuarial Valuation and GASB 67/68[15] Reports, and other actuarial analyses. The Retirement System publishes an Annual Report, an annual Financial Statements and Required Supplementary Information Report, and the Retirement Systems' CPA, MGO Certified Public Accountants, performs an audit of the Financial Statements and produces an audit report.

The Retirement Board receives advice from the Retirement System's Chief Investment Office (CIO) and the investment staff, and it makes all the investment decisions for the Retirement Fund.

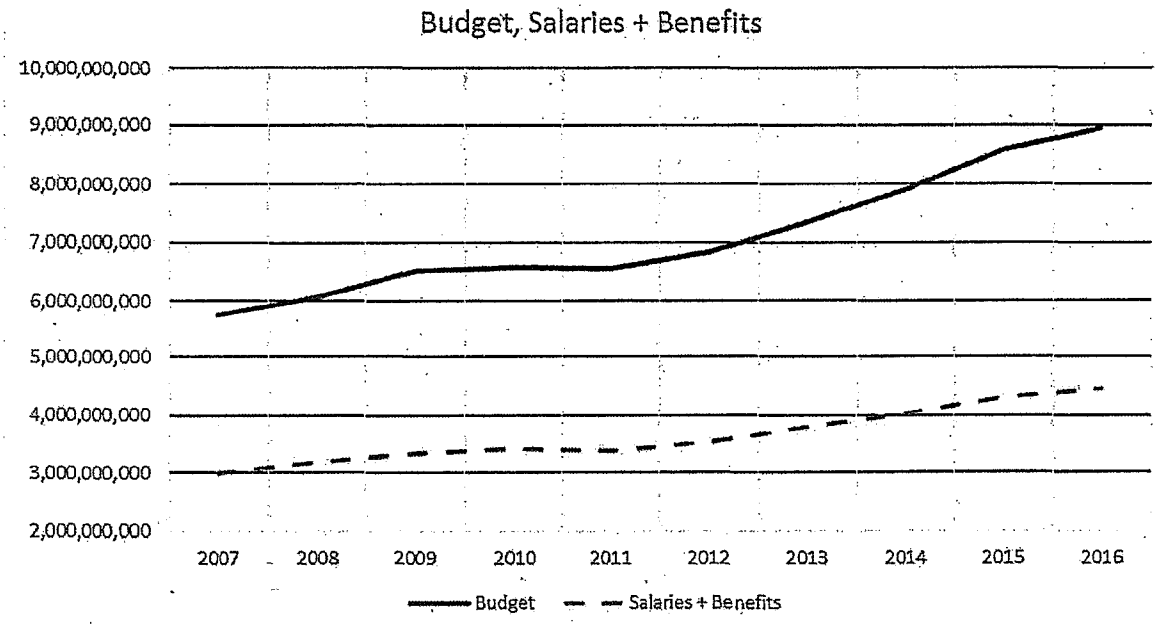
Health care for the City's employees and retirees is a significant portion of benefits, but it is not in the scope of this report. The SF Deferred Compensation Plan is also not within this report's scope.

Any defined-benefit pension plan is hard for the average person to understand. A mortgage covers 30 years and is complex; a pension plan can cover 60 years or more, and is very complex. Predicting how much an individual makes each year, if or when they quit, if they're married or have kids, if they become disabled, when they retire, or when they die – is impossible. But for a large group of people, actuaries can, and do, make reasonably accurate predictions about these events. Predicting what investments will do in the future is far more uncertain. The Great Recession of 10 years ago is a prime example.

A pension plan must take the long view, at least 60 years. Making decisions based on a shorter view almost always turns out badly. The stock market booms in the late 1990s and the 2000s led to some short-term pension decisions, and we are currently facing the results. Any solution to the current situation needs to take the long view.

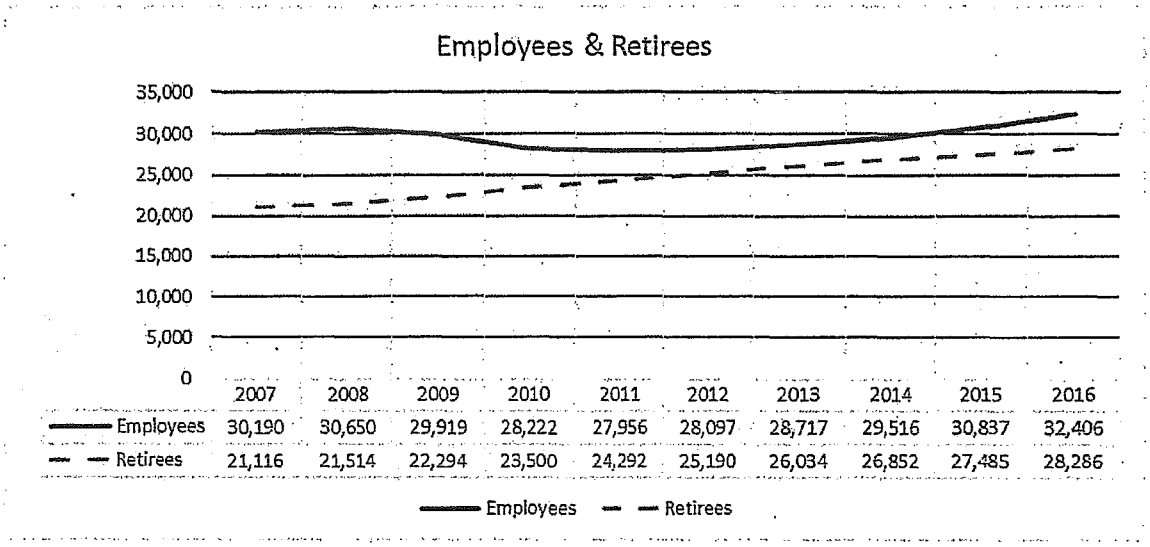
THE CITY & ITS EMPLOYEES

The chart below provides a 10-year overview of the City's Budget and employees' Salaries and Benefits[16]. After adjusting for inflation[17], the Budget has increased by 40%, and Salaries and Benefits by 33%, in the last 10 years. Salaries and Benefits have been 50-53% of the Budget in each of the last 10 years. Keep in mind that inflation has been very low for the last 10 years, but it will likely pick up in the future. The 3/23/17 update of the City's Five-Year Financial Plan for FY 2017-18 through FY 2021-22[18] estimates Salaries and Benefits increasing by 51% over the next five years.



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Budget	5,749,169,447	6,079,785,411	6,531,467,931	6,586,787,453	6,562,658,343	6,833,766,939	7,354,311,244	7,908,801,656	8,581,831,912	8,938,774,083
Salaries + Benefits	2,996,227,877	3,192,230,671	3,333,905,306	3,415,844,176	3,382,826,671	3,526,508,012	3,789,360,557	4,021,165,840	4,309,497,053	4,455,556,464

The chart below provides a FY 2007 through FY 2016 overview of the number of City Employees and Retirees[19]. Employees have increased by 7.3%, and Retirees by 34.0%, over the last 10 years. As the Baby-Boomers continue to retire, it is possible there will be more Retirees than Employees in the future.

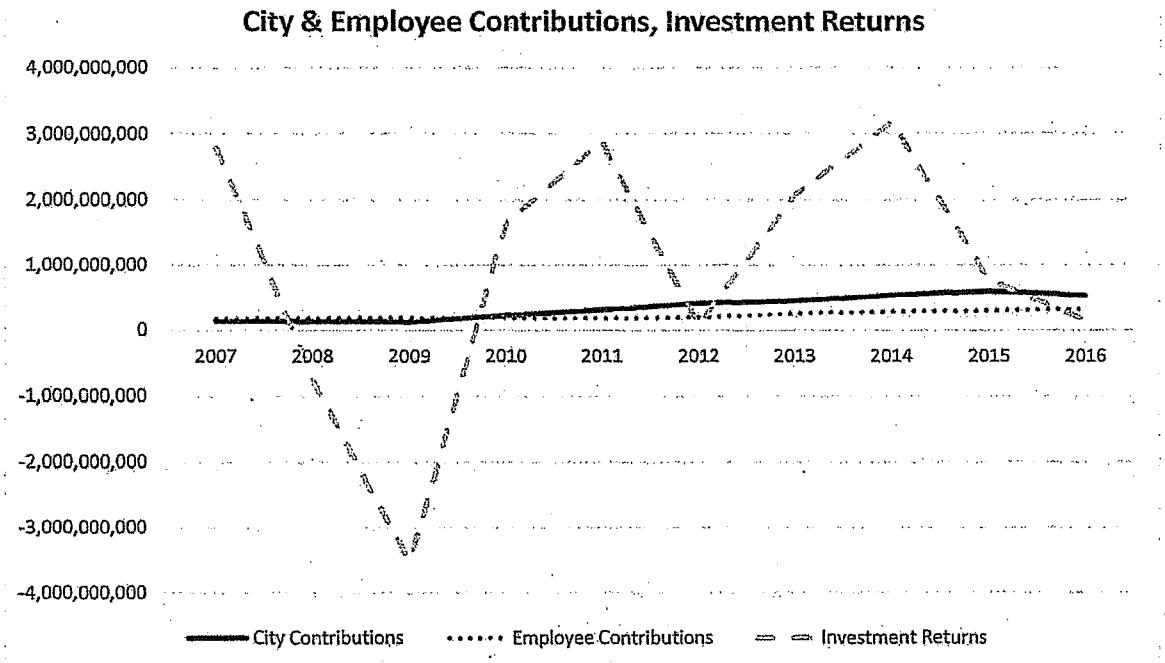


	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Employees	30,190	30,650	29,919	28,222	27,956	28,097	28,717	29,516	30,837	32,406
Retirees	21,116	21,514	22,294	23,500	24,292	25,190	26,034	26,852	27,485	28,286

RETIREMENT SYSTEM – FUNDING

The Retirement System is funded by contributions from the City and its employees, and by investment returns[20]. The City's contributions include amortization payments on the unfunded liability debt. The chart below shows these funding sources between FY 2007 and FY 2016. The table below the chart shows the amounts. The wide swings in Investment Returns, and their size in relation to City and Employee Contributions, illustrate the market's risks and rewards. For example, during the Great Recession in FY 2008 and FY 2009 the Retirement System lost more than $4.2 billion, in FY 2014 it made $3.2 billion, and in FY 2016 made only $150 million.

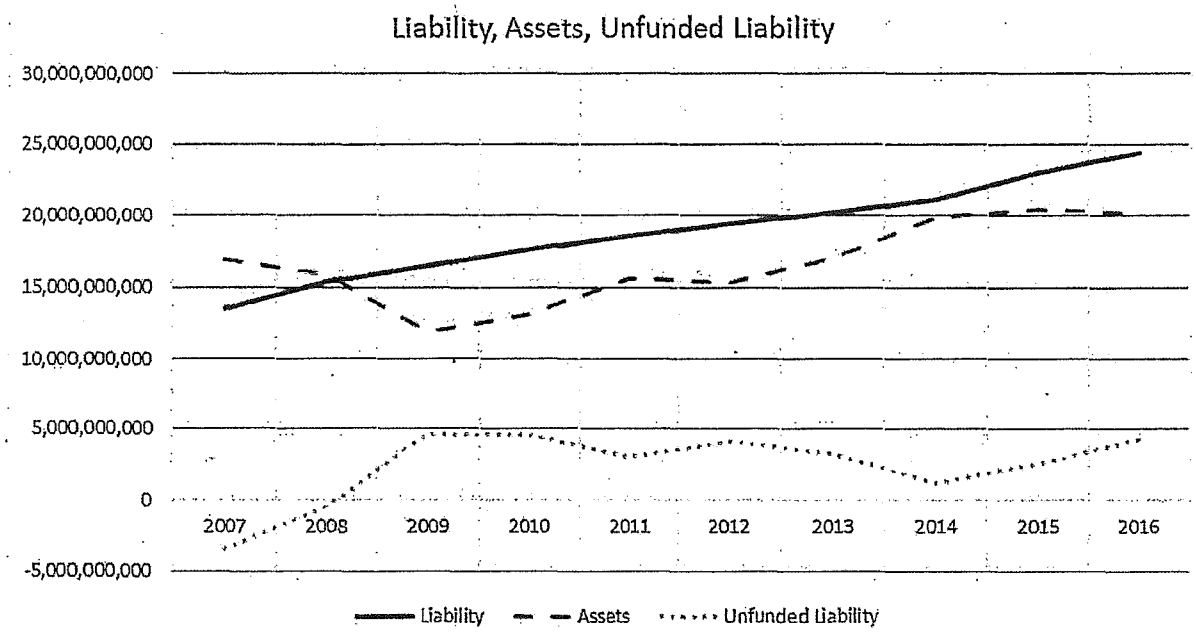
After adjusting for inflation[21], the City's Contributions have increased by 71%, and the Employee Contributions by 37%, in the last 10 years.



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
City Contributions	132,601,000	134,060,000	126,101,000	223,614,000	308,823,000	410,797,000	442,870,000	532,882,000	592,643,000	526,805,000
Employee Contributions	175,747,000	185,123,000	192,954,000	189,948,000	181,755,000	198,160,000	258,726,000	289,020,000	301,662,000	322,764,000
Investment Returns	2,796,839,000	(735,432,000)	(3,512,850,000)	1,655,101,000	2,887,575,000	80,402,000	2,064,550,000	3,175,431,000	763,429,000	150,190,000

RETIREMENT SYSTEM – LIABILITY, ASSETS, UNFUNDED LIABILITY

The chart below shows the Retirement System's Liability, Assets, and Unfunded Liability for FY 2007 to FY 2016[22]. Unfunded Liability = Liability – Assets. After adjusting for inflation[23], Liability has increased by 35%, and Assets by 3%, over the last 10 years. Between FY 2007 and FY 2009, the Retirement System went from being $3.4 billion overfunded to $4.6 billion underfunded, an $8.0 billion swing in three years. Between FY 2009 and FY 2014, Assets almost caught up with Liability, but since then Liability has continued to increase while Assets have been relatively flat.



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Liability	13,541,388,000	15,358,823,000	16,498,649,000	17,643,394,000	18,598,728,000	19,393,854,000	20,224,776,000	21,122,567,000	22,970,892,000	24,403,882,000
Assets	16,952,043,000	15,832,521,000	11,886,729,000	13,136,786,000	15,598,839,000	15,293,724,000	17,011,500,000	19,920,607,000	20,428,100,000	20,154,503,000
Unfunded Liability	-3,410,655,000	-473,697,000	4,611,920,000	4,506,608,000	2,999,888,000	4,100,130,000	3,213,232,000	1,201,960,000	2,542,823,000	4,249,379,000

PROPOSITION COSTS & DISCLOSURES

For most pension retirement benefits, the City and its employees make payments each pay period during the employees' time of service. Those payments are invested and earn money over time. Retroactive pension increases do not work the same. The total projected future costs of a proposition's retroactive pension increase are calculated for all employees and retirees for their lifetime; this is usually a large amount. When the proposition's pension increase goes into effect, that total becomes a proposition debt owed by the City to the Retirement System – employees and retirees owe nothing. The proposition debt is added to the Unfunded Actuarial Liability[24] of the Retirement System. The proposition debt is expressed as a percentage of the City's payroll, so it increases each year based upon the Salary Increase Rate[25] percentage (3.75% - 4.50%), and increases or decreases in the number of employees. The proposition debt is paid back over 20 years at the Discount Rate (7.50% – 8.00%).

"Local and state financial problems are accelerating, in large part because public entities promised pensions they couldn't afford."
Warren Buffet

A list of retroactive retirement benefit increase propositions from 1996 – 2008 can be found in Appendix B.

The Little Hoover Commission is an independent state oversight agency that was created in 1962. The Commission's mission is to investigate state government operations and – through reports, recommendations and legislative proposals – promote efficiency, economy and improved service. The Commission published a report, "Public Pensions for Retirement Security"[26] on February 24, 2011. The report's cover letter starts with:

> *California's pension plans are dangerously underfunded, the result of overly generous benefit promises, wishful thinking and an unwillingness to plan prudently. Unless aggressive reforms are implemented now, the problem will get far worse, forcing counties and cities to severely reduce services and layoff employees to meet pension obligations.*

As part of the report's Recommendations 3 and 4, it states:

> *To minimize risk to taxpayers, the responsibility for funding a sustainable pension system must be spread more equally among parties.*
>
> - *The Legislature must prohibit retroactive pension increases.*
>
> *To improve transparency and accountability, more information about pension costs must be provided regularly to the public.*
>
> - *The Legislature must require government retirement boards to restructure their boards to add a majority or a substantial minority of independent, public members to ensure greater representation of taxpayer interests.*
> - *All proposed pension increases must be submitted to voters in their respective jurisdictions. The ballot measures must by accompanied by sound actuarial information, written in a clear and concise format.*

Governor Brown published a "Twelve Point Pension Reform Plan" on October 27, 2011[27]. One of the points was to "Prohibit Retroactive Pension Increases." It states:

> *In the past, a number of public employers applied pension benefit enhancements like earlier retirement and increased benefit amounts to work already performed by current employees and retirees. Of course, neither employee nor employer pension contributions for those past years of work accounted for those increased benefits. As a result, billions of dollars in unfunded liabilities continue to plague the system.* ***My plan will ban this irresponsible practice.***
> (Bolding added)

June 2008 Proposition B - Changing Qualifications for Retiree Health and Pension Benefits and Establishing a Retiree Health Care Trust Fund[28]

The June 2008 Proposition B includes Pension Benefits and Retiree Health Benefits; this report addresses only the Pension Benefits. The Voter Information Pamphlet for the June 2008 Proposition B includes the standard Controller's statement on the fiscal impact of Proposition B:

> *Should the proposed charter amendment be approved by the voters, in my opinion, the City will have both significant added costs in the near and medium term for the cost of employee pension benefits and significant savings in the near term under its labor contracts and in the long term for the cost of retiree health benefits.*
>
> ***Pension Benefits:*** *The Charter amendment would increase the maximum retirement benefit available to City miscellaneous employees from the current 2% of final pay at 60 years of age, up to 2.3% of final pay at age 62 and enhance cost of living increases for pension recipients. These changes would add approximately 3.5% of salary to the cost of funding an average employee's retirement benefits, or an ongoing annual cost to the City of approximately $84 million for the next 20 years, dropping after 20 years to an ongoing annual cost of 1.1% of salary or approximately $27 million at current rates.*
>
> *To partially pay for this increased retirement benefit, the amendment freezes wages for the 2009-2010 fiscal year. This provision is estimated to save the City approximately 2.1% of salary or an estimated $35 million on an annual basis. These savings estimates are based on an assumption that the City would otherwise have provided wage increases at percentage rates at or near the projected consumer price index for that period and is consistent with the City's historical experience in negotiated labor contracts. Finally, the Charter amendment specifies that the City's ongoing expenditures for improved retirement benefits under this proposal must be considered the equivalent of wages in future labor arbitration proceedings. Note that these provisions do not apply to the labor contracts for police, firefighters, sheriffs, nurses and transit operators.*

The actuary's analysis of Proposition B[29] prior to the election shows an estimated increase in Unfunded Liability of $674 million. When Proposition B came into effect,

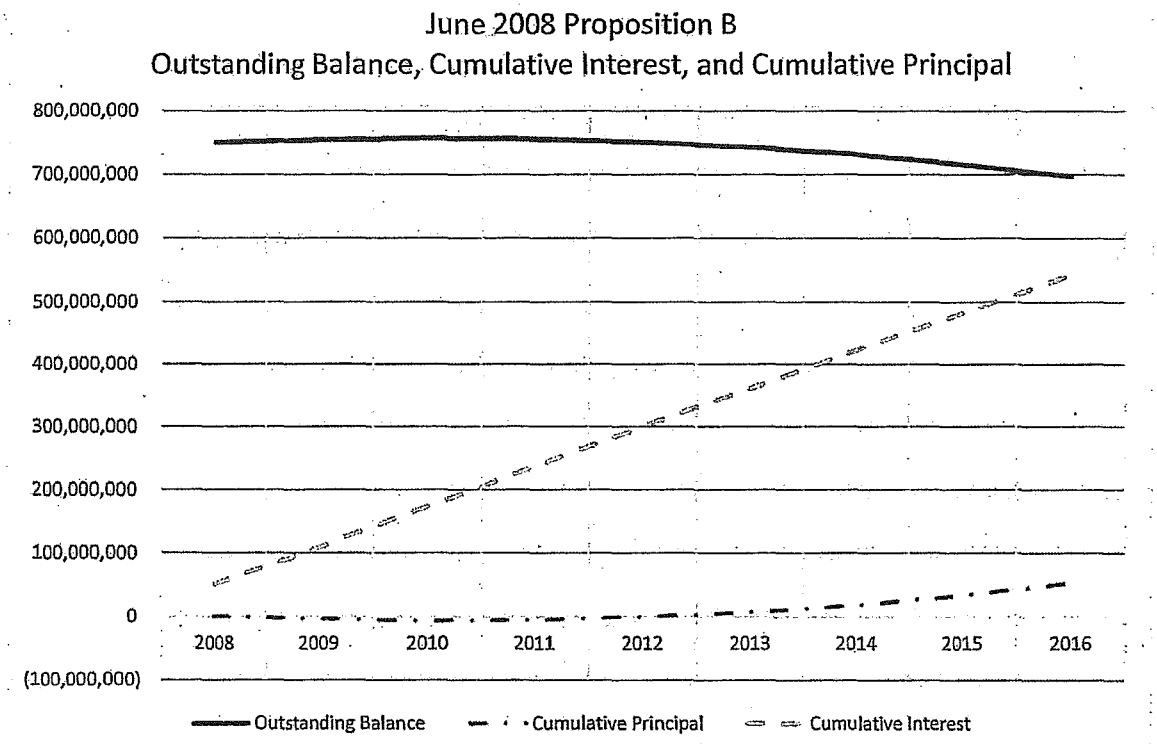
the Unfunded Liability was increased by $750 million, a debt that 8 years later the City has paid $595 million on, $542 million in interest and $53 million in principal. The debt will not be paid off until 2028.

Reviewing the Voter Information Pamphlet's arguments for and against Proposition B, it's clear that they focused on the Retiree Health Benefits and the Retiree Health Care Trust Fund, and considered the Pension Benefits to be a minor change. Several of the proponents stated that it would save $1.4 billion in healthcare costs over 30 years. No one noted that the pension increases would cost $1.68 billion over 20 years. Some quotes from the arguments:

> *Increases Cost of Living Adjustments (COLA) for retirees and modestly improves pensions for employees who retire at or after age 60*
>
> *Proposition B is just the latest minor proposal to appear on the ballot in a City Charter election, costing taxpayers a mountain of money for a molehill of municipal employee law change.*

The June 2008 Proposition B chart below shows the Outstanding Balance due to be paid by the City to the Retirement System, the Cumulative Interest paid, and the Cumulative Principal paid[30]. Note that after eight years the City has paid $542 million in Interest, $53 million in Principal, and has an Outstanding Balance of $697 million. The Outstanding Balance increased during the first four years, and over the next twelve years it will be paid down to zero.

All retroactive pension increase propositions will have a similar pattern of interest and principal costs over time.



Year	2008	2009	2010	2011	2012	2013	2014	2015	2016
Outstanding Balance	750,222,000	754,222,000	757,112,000	755,565,000	750,849,000	742,760,000	731,568,000	716,399,000	697,465,000
Cumulative Interest	50,248,000	107,775,000	173,178,000	236,577,000	299,283,000	361,198,000	422,622,000	482,792,000	542,022,000
Cumulative Principal	0	(4,000,000)	(6,890,000)	(5,343,000)	(627,000)	7,462,000	18,654,000	33,823,000	52,757,000

RETIREMENT SYSTEM REPORTS

Each fiscal year there are five financial documents published by the Controller and SFERS that describe the City's Retirement System: 1) the Controller's Comprehensive Annual Financial Report (CAFR); 2) the SFERS Annual Report; 3) the SFERS Financial Statements; 4) the SFERS Actuarial Valuation Report; and 5) the SFERS GASB 67/68 Report. These reports are described below.

"Unfortunately, pension mathematics today remain a mystery to most Americans." Warren Buffet

An actuarial report was produced by the SFERS Actuary and sent to the Board of Supervisors, the Mayor, and the Controller for each proposition that retroactively increased retirement benefits. Each actuarial report estimated the detailed costs of the proposition and was the basis of the Controller's estimate provided in the Voter Information Pamphlet. These actuarial reports could not be found online.

For the most part, these reports are not meant for the average City taxpayer, employee, or retiree. There are no other readily available sources of information about the Retirement System's finances. This results in there being little transparency or accountability to the public for the Retirement System's finances. Taxpayers have not had the information needed to make an informed decision about the retroactive retirement benefit increase propositions. However, the Mayor, the Board of Supervisors, and the Controller understood these reports, but failed to communicate it to voters in a clear and complete manner.

Comprehensive Annual Financial Report
Produced by: Controller's Office
Audience: Accountants, auditors
Complexity: Very High
Size: 235 pages, ~25 pages on the Retirement System
Notes:
This report describes all the finances for the City.

SFERS Annual Report
Produced by: SFERS
Audience: Employees, retirees, public
Complexity: Medium/High
Size: 79 pages
Notes:
Its Financial, Investment, Statistical, and Deferred Compensation Plan Sections are clear, and much of the Actuarial Section is as well, but the "Actuarial Analysis of Financial Experience", "Schedule of Funding Progress", and "Actuarial Solvency Test" tables have no description of the tables, the data they contain, or why the data ends with the previous Fiscal Year.

SFERS Financial Statements
Produced by: SFERS
Audited by: MGO Certified Public Accountants
Audience: Accountants, auditors
Complexity: High
Size: 52 pages

SFERS Actuarial Valuation Report
Produced by: Cheiron, the SFERS' Actuary
Audience: SFERS, actuaries, auditors
Complexity: Extremely High
Size: 94 pages
Notes:
This report is for funding purposes, i.e., to determine the City's annual contribution. It contains many tables, most of which are clear and understandable, but there are many that have no description of the tables or the data they contain.

SFERS GASB 67/68 Report
Produced by: Cheiron, the SFERS' Actuary
Audience: SFERS, actuaries, auditors
Complexity: Very High
Size: 35 pages
Notes:
This report is for financial reporting purposes. It is required by the Government Accounting Standards Board (GASB) Statement No. 67, "Financial Reporting for Retirement Systems", and Statement No. 68, "Accounting and Financial Reporting for Pensions."

FINDINGS & RECOMMENDATIONS

Finding 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)[31]. However, the principal underlying cause is the estimated $3.5 billion[32] in retroactive retirement benefit increases implemented by voter-approved propositions between 1996 and 2008.

Recommendation 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.

Recommendation 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.

Finding 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.

Recommendation 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 (Section 6254, et seq., of the Government Code of the State of California) and the City's Sunshine Ordinance (Chapter 67 of this Code). The committee shall issue regular reports on the results of its activities. A report shall be issued at least once a year. Minutes of the proceedings of the committee and all documents received and reports issued shall be a matter of public record and be made available on the Board's website.
4. Membership
    a. Two-thirds of the members will be Public members and one-third will be Representative members.
    b. Public members.
        i. Public members must be voters.
        ii. Public members cannot be members of the Retirement System.
        iii. Each Supervisor will appoint a single Public member.
        iv. The Mayor will appoint all other Public members.
        v. Public members can only be removed for cause.
        vi. Public members shall be experienced in life insurance, actuarial science, employee pension planning, investment portfolio management, labor negotiations, accounting, mathematics, statistics, economics, or finance.
        vii. Public members will receive no compensation.
        viii. Four-year term, staggered so that one-fourth of the Public members' terms expire each year.

ix. No more than two consecutive terms.

c. Representative members
   i. Mayor's Office representative.
   ii. Board of Supervisors' representative.
   iii. Controller's Office representative.
   iv. Human Resources Department representative.
   v. Safety Unions' representative.
   vi. Miscellaneous Unions' representative.

5. Committee Costs
   a. The Board of Supervisors will decide how best to fund the Committee.

Recommendation 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.

FINDING 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.

RECOMMENDATION 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.

RECOMMENDATION 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.

FINDING 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.

RECOMMENDATION 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.

RECOMMENDATION 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.

REQUEST FOR RESPONSES

FINDING 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.	**RESPONDERS** Mayor Board of Supervisors Retirement Board
RECOMMENDATION 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.	
RECOMMENDATION 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.	

FINDING 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.	**RESPONDERS** Mayor Board of Supervisors Retirement Board Controller
RECOMMENDATION 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.

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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.

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

b. Public members.

i. Public members must be voters.

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

iii. Each Supervisor will appoint a single Public member.

iv. The Mayor will appoint all other Public members.

v. Public members can only be removed for cause.

vi. Public members shall be experienced in life insurance, actuarial science, employee pension planning, investment portfolio management, labor negotiations, accounting, mathematics, statistics, economics, or finance.
vii. Public members will receive no compensation.
viii. Four-year term, staggered so that one-fourth of the Public members' terms expire each year.
ix. No more than two consecutive terms.

c. Representative members
i. Mayor's Office representative.
ii. Board of Supervisors' representative.
iii. Controller's Office representative.
iv. Human Resources Department representative.
v. Safety Unions' representative.
vi. Miscellaneous Unions' representative.

5. Committee Costs
a. The Board of Supervisors will decide how best to fund the Committee.

RECOMMENDATION 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.

FINDING 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.

RECOMMENDATION 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.

RECOMMENDATION 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.

RESPONDERS

Elections Commission
Department of Elections
Controller

FINDING 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.	**RESPONDERS** Retirement Board Controller
RECOMMENDATION 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.	
RECOMMENDATION 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.	

Appendix A: Sources

CITY AND COUNTY OF SAN FRANCISCO

San Francisco Charter (http://www.amlegal.com/codes/client/san-francisco_ca/)

Article XII: Employee Retirement and Health Service Systems

Appendix A: Employment Provisions

San Francisco Employees' Retirement System

Website Home Page: http://mysfers.org

Agendas & Minutes: http://mysfers.org/about-sfers/agendas-minutes/

Publications – Annual Reports: http://mysfers.org/resources/publications/annual-reports/

Publications – Actuarial Valuation Reports:
http://mysfers.org/resources/publications/sfers-actuarial-valuations/

Publications – Audited Financial Statements:
http://mysfers.org/resources/publications/sfers-audited-financial-statements/

Office of the Controller

Comprehensive Annual Financial Reports (CAFR):
http://openbook.sfgov.org/webreports/search.aspx?searchString=&year=1986&year2=2017&type=CAFR&index=0&index2=4&index3=0

City Budgets & Reports:
http://openbook.sfgov.org/webreports/search.aspx?searchString=&year=1986&year2=2017&type=CityBudgets&index=0&index2=3&index3=0

SF OpenBook: http://openbook.sfgov.org/

Proposed Five-Year Financial Plan, FY 2017-18 – 2021-22, 12/16/2016:
http://sfcontroller.org/sites/default/files/Documents/Budget/Five%20Year%20Financial%20Plan%20FY17-18%20through%20FY21-22%20%28Proposed%29%20FINAL.pdf

The City's Five Year Financial Plan Update, 3/23/2017:
http://sfcontroller.org/sites/default/files/Documents/Budget/FY17-18%20Five%20Year%20Plan%20Update%20FINAL%203.23.pdf

San Francisco Civil Grand Jury

2008-09 Pensions Beyond Our Ability to Pay: http://civilgrandjury.sfgov.org/2008_2009.html
2009-10 Pension Tsunami: The Billion Dollar Bubble: http://civilgrandjury.sfgov.org/2009_2010.html

OTHER RESOURCES

California Actuarial Advisory Panel (CAAP): http://www.sco.ca.gov/caap.html

Calpensions: https://calpensions.com/

Hoover Institution, Hidden Debt, Hidden Deficits: 2017 Edition, How Pension Promises Are Consuming State and Local Budgets:
http://www.hoover.org/sites/default/files/research/docs/rauh_hiddendebt2017_final_webreadypdf1.pdf

Joint AAA (American Academy of Actuaries)/SOA (Society of Actuaries) Task Force on Financial Economics and the Actuarial Model, Pension Actuary's Guide to Financial Economics, 2006:
https://www.soa.org/Files/Sections/actuary-journal-final.pdf

League of California Cities – Pension Information Center:
http://www.cacities.org/Policy-Advocacy/Hot-Issues/Pension-Information-Center

Little Hoover Commission – Public Pensions for Retirement Security:
http://www.lhc.ca.gov/studies/204/report204.html

Los Angeles Times – The Pension Gap:
http://www.latimes.com/projects/la-me-pension-crisis-davis-deal/

Pension Finance Institute, Financial Economics Principles Applied to Public Pension Plans:
www.pensionfinance.org/papers/PubPrin.pdf

Rockefeller Institute of Government – Government Finance – Pension Reform:
http://www.rockinst.org/government_finance/pension.aspx

Appendix B: Retirement System Propositions

These are the retroactive retirement benefit increase propositions placed on the ballot by the Board of Supervisors between 1996 and 2008. The dollar amounts are the City Controller estimates from the Voter Information Pamphlet for each proposition. The actual costs for the propositions are not reported by the Retirement Board or by the Controller's Office.

Year-Mon	Ltr	Title	$/Year 20 Years	Total 20 Years	$/Year after 20
1996 Nov	C	Retired Employee Benefits	n/a	n/a	n/a
1996 Nov	D	Firefighters Retirement Benefits	3,500,000	70,000,000	1,750,000
1998 Nov	A	Police Retirement Benefits	3,900,000	78,000,000	2,300,000
1998 Nov	C	Paramedic Retirement Benefits	485,000	9,700,000	
2000 Nov	C	City Worker Retirement Benefits (Misc)	34,000,000	680,000,000	17,000,000
2002 Mar	B	Cost of Living Benefits	19,100,000	382,000,000	7,400,000
2002 Nov	H	Police & Firefighter Retirement Benefits	28,000,000	560,000,000	8,200,000
2003 Nov	F	Targeted Early Retirement (Misc 3+3, 1 of 3)	n/a	n/a	n/a
2003 Nov	F	Targeted Early Retirement (Misc 3+3, 2 of 3)	n/a	n/a	n/a
2003 Nov	F	Targeted Early Retirement (Misc 3+3, 3 of 3)	n/a	n/a	n/a
2004 Nov	E	Police and Fire Survivor Benefits	1,000,000	20,000,000	
2008 June	B	New Misc Ret Bfts and Compound COLA	84,000,000	1,680,000,000	27,000,000
		Totals:		3,479,700,000	63,650,000

Year-Mon	Ltr	Title	Voter Information Pamphlet
1996 Nov	C	Retired Employee Benefits	https://sfpl4.sfpl.org/pdf/main/gic/elections/November5_1996short.pdf
1996 Nov	D	Firefighters Retirement Benefits	https://sfpl4.sfpl.org/pdf/main/gic/elections/November5_1996short.pdf
1998 Nov	A	Police Retirement Benefits	https://sfpl.org/pdf/main/gic/elections/November3_1998short.pdf
1998 Nov	C	Paramedic Retirement Benefits	https://sfpl.org/pdf/main/gic/elections/November3_1998short.pdf
2000 Nov	C	City Worker Retirement Benefits (Misc)	https://sfpl.org/pdf/main/gic/elections/November7_2000.pdf
2002 Mar	B	Cost of Living Benefits	https://sfpl4.sfpl.org/pdf/main/gic/elections/March5_2002.pdf
2002 Nov	H	Police & Firefighter Retirement Benefits	http://sfpl.org/pdf/main/gic/elections/November5_2002.pdf
2003 Nov	F	Targeted Early Retirement	https://sfpl.org/pdf/main/gic/elections/November4_2003.pdf
2004 Nov	E	Police and Fire Survivor Benefits	http://sfpl.org/pdf/main/gic/elections/November2_2004.pdf
2008 June	B	New Misc Ret Bfts and Compound COLA	https://sfpl4.sfpl.org/pdf/main/gic/elections/June3_2008.pdf

ENDNOTES

[1] San Francisco Charter, Article XII: Employee Retirement and Health Service Systems, and Appendix A: Employment Provisions. http://library.amlegal.com/nxt/gateway.dll?f=templates&fn=default.htm&vid=amlegal:sanfrancisco_ca

[2] 2000 Proposition C, Voter Information Pamphlet: https://sfpl.org/pdf/main/gic/elections/November7_2000.pdf

[3] 2002 Proposition H, Voter Information Pamphlet: http://sfpl.org/pdf/main/gic/elections/November5_2002.pdf

[4] SFERS Audited Financial Statements 2006, page 8. "In order to maintain the fiscal soundness of the Plan, employer contributions were required from the City and County during the year ended June 30, 2005. This was the first year since the year ended June 30, 1997 in which employer contributions were required.

[5] June 2008 Proposition B, Voter Information Pamphlet: https://sfpl4.sfpl.org/pdf/main/gic/elections/June3_2008.pdf

[6] SF CGJ 2008-2009 Report: Pensions, Beyond Our Ability to Pay: http://civilgrandjury.sfgov.org/2008_2009/Pensions_Beyond.pdf

[7] Office of the Controller, Status of the Recommendations by the Civil Grand Jury 2008-09, 2010 Department Responses, page 11: http://civilgrandjury.sfgov.org/2008_2009/ControllersAudit_2008-2009_Report.pdf

[8] SF CGJ 2009-2010 Report: Pension Tsunami, The Billion Dollar Bubble: http://civilgrandjury.sfgov.org/2009_2010/Pension_Tsunami.pdf

[9] Office of the Controller, Status of the Recommendations by the Civil Grand Jury 2008-09, 2010 Department Responses, page 15: http://civilgrandjury.sfgov.org/2009_2010/Controllers_Audit_2009-2010_Reports.pdf

[10] 2010 Proposition D, Voter Information Pamphlet: https://sfpl4.sfpl.org/pdf/main/gic/elections/June8_2010.pdf

[11] 2011 Proposition C, Voter Information Pamphlet: https://sfpl4.sfpl.org/pdf/main/gic/elections/november8_2011.pdf

[12] Protect Our Benefits, http://www.protectourbenefits.org/

[13] *Allen v. City of Long Beach* (1955) 45 Cal.2d 128, 131

[14] Little Hoover Commission, Public Pensions for Retirement Security, page v, http://www.lhc.ca.gov/studies/204/report204.html

[15] GASB 67/68 is the Government Accounting Standards Board Statement No. 67, "Financial Reporting for Retirement Systems", and Statement No. 68, "Accounting and Financial Reporting for Pensions."

[16] Budget, Salaries and Benefits data is from SF OpenBook: http://openbook.sfgov.org/openbooks/cgi-bin/cognosisapi.dll?b_action=cognosViewer&ui.action=run&ui.object=/content/folder%5B%40name%3D%27Reports%27%5D/report%5B%40name%3D%27Budget%27%5D&ui.name=20Budget&run.outputFormat=&run.prompt=false

[17] The cumulative rate of inflation between FY 2007 and FY 2016 is 15.8%, according to the US Inflation Calculator (www.usinflationcalculator.com). The 2007 amount is multiplied by 1.158 to adjust it to its 2016 equivalent, and then the percentage increase is calculated.

[18] The City's Five Year Financial Plan Update, 3/23/2017, page 2: http://sfcontroller.org/sites/default/files/Documents/Budget/FY17-18%20Five%20Year%20Plan%20Update%20FINAL%203.23.pdf

[19] Employee and Retiree counts are from the 2007-2016 SFERS Actuarial Valuation Reports. http://mysfers.org/resources/publications/sfers-actuarial-valuations/

[20] City and Employee Contributions, and Investment Returns are from the 2007-2016 SFERS Actuarial Valuation Reports. http://mysfers.org/resources/publications/sfers-actuarial-valuations/

[21] The cumulative rate of inflation between FY 2007 and FY 2016 is 15.8%, according to the US Inflation Calculator (www.usinflationcalculator.com). The 2007 amount is multiplied by 1.158 to adjust it to its 2016 equivalent, and then the percentage increase is calculated.

[22] Liability, Assets, and Unfunded amounts are from the 2007-2016 SFERS Actuarial Valuation Reports. http://mysfers.org/resources/publications/sfers-actuarial-valuations/

[23] The cumulative rate of inflation between FY 2007 and FY 2016 is 15.8%, according to the US Inflation Calculator (www.usinflationcalculator.com). The 2007 amount is multiplied by 1.158 to adjust it to its 2016 equivalent, and then the percentage increase is calculated.

[24] Actuarial Liability is the difference between the present value of all future system benefits and the present value of total future normal costs. This is also referred to by some actuaries as the "accrued liability" or "actuarial accrued liability." Unfunded Actuarial Liability represents the difference between Actuarial Liability and valuation assets. This value is sometimes referred to as "unfunded actuarial accrued liability."

[25] The Salary Increase Rate is a combination of the Wage Inflation and Merit Increase percentages; these are Actuarial Assumptions. All Actuarial Assumptions are reviewed and set by the Retirement Board each year.

[26] Little Hoover Commission – Public Pensions for Retirement Security: http://www.lhc.ca.gov/studies/204/report204.html

[27] http://gov.ca.gov/docs/Twelve_Point_Pension_Reform_10.27.11.pdf

[28] June 2008 Proposition B, Voter Information Pamphlet: https://sfpl4.sfpl.org/pdf/main/gic/elections/June3_2008.pdf

[29] SFERS letter from the Executive Director and Acting Actuary to the Clerk of the Board, 2/11/2008, Re: File No. 071663, with attached letter from Towers Perrin, "Estimated Costs of Potential Changes to SFERS Plan Provisions." File name: "20080211_ActuarialAnalysis.pdf." Could not find it online. Request it from the Retirement Board's Secretary.

[30] The Outstanding Balance, Cumulative Interest, and Cumulative Principal are from the 2007-2016 SFERS Actuarial Valuation Reports. http://mysfers.org/resources/publications/sfers-actuarial-valuations/

[31] SFERS FY 2016 GASB 67/68 Report, page 2.

[32] See Appendix B: Retirement System Propositions.