

1 [Board Response - Civil Grand Jury Report - Investment Policies and Practices of the San
2 Francisco Employees' Retirement System]

3 **Resolution responding to the Presiding Judge of the Superior Court on the findings**
4 **and recommendations contained in the 2011-2012 Civil Grand Jury report entitled**
5 **"Investment Policies and Practices of the San Francisco Employees' Retirement**
6 **System" and urging the Mayor to cause the implementation of accepted findings and**
7 **recommendations through his/her department heads and through the development of**
8 **the annual budget.**

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

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

19 WHEREAS, The 2011-2012 Civil Grand Jury Report entitled "Investment Policies and
20 Practices of the San Francisco Employees' Retirement System" is on file with the Clerk of the
21 Board of Supervisors in File No. 120844 which is hereby declared to be a part of this
22 resolution as if set forth fully herein; and

23 WHEREAS, The Civil Grand Jury has requested that the Board of Supervisors respond
24 to Finding Nos. 1, 2, 3, 4, 5, 6, and 7 as well as Recommendations 1, 2, 3, 4, 5, and 6
25 contained in the subject Civil Grand Jury report; and

1 WHEREAS, Finding No. 1 states: “The San Francisco Employees' Retirement System
2 Pension Fund is currently underfunded by more than \$2 billion;” and

3 WHEREAS, Finding No. 2 states: “The San Francisco Employees' Retirement System
4 Board did not complete a "failure analysis" subsequent to the funding loss suffered in 2008-
5 2009;” and

6 WHEREAS, Finding No. 3 states: “The City must pay increasing contributions to the
7 Fund due to underfunding;” and

8 WHEREAS, Finding No. 4 states: “The increases in pension contributions by the City
9 are growing at a faster rate than expenditures on most other City services since 1999;” and

10 WHEREAS, Finding No. 5 states: “The Fund can artificially reduce the City's estimated
11 liabilities by increasing its investment return assumptions for future years;” and

12 WHEREAS, Finding No. 6 states: “The unrealistically high, assumed investment return
13 rate of 7.66% is driven by concern for the mandated member and City contributions, with little
14 regard for prudent management;” and

15 WHEREAS, Finding No. 7 states: “Studies show that public funds with low-risk
16 investment policies perform as well as or better than those with high-risk policies;” and

17 WHEREAS, the Recommendation No. 1 states: "San Francisco Employees' Retirement
18 System Board address the \$2 billion dollar underfunding of the San Francisco Employees'
19 Retirement System Pension Fund by forming a high-level task force with City officials, a panel
20 of experts, community groups, and the public to develop courses of action;” and

21 WHEREAS, the Recommendation No. 2 states: "Adopt a realistic and consistent
22 formula for estimating the assumed expected investment return rate;” and

23 WHEREAS, the Recommendation No. 3 states: "The San Francisco Employees'
24 Retirement System Board undertake an in-depth investigation and "failure analysis" study of
25 its investment policy and report its findings to its members and to the public;” and

1 WHEREAS, the Recommendation No. 4 states: "Investigate, quantify and address all
2 the major risks in the portfolio and make this information public;" and

3 WHEREAS, the Recommendation No. 5 states: "Investigate less volatile and risky
4 investment policies that would attain sufficient returns for the San Francisco Employees'
5 Retirement System Pension Fund;" and

6 WHEREAS, the Recommendation No. 6 states: "Replicate the Stanford, Upjohn, and
7 *The New York Times* evidence-based comparison studies using San Francisco data, to apply
8 their findings to the San Francisco Employees' Retirement System Pension Fund;" and

9 WHEREAS, in accordance with Penal Code Section 933.05(c), the Board of
10 Supervisors must respond, within 90 days of receipt, to the Presiding Judge of the Superior
11 Court on Finding Nos. 1, 2, 3, 4, 5, 6, and 7 as well as Recommendations 1, 2, 3, 4, 5, and 6
12 contained in the subject Civil Grand Jury report; now, therefore, be it

13 RESOLVED, That the Board of Supervisors reports to the Presiding Judge of the
14 Superior Court that it {agrees/disagrees} 1, 2, 3, 4, 5, 6, and 7, for reasons as
15 follows _____; and, be it

16 FURTHER RESOLVED, That the Board of Supervisors reports that it
17 {agrees/disagrees} Recommendations 1, 2, 3, 4, 5, and 6 for reasons as follows _____;
18 and, be it

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

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