BOARD of SUPERVISORS

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M E M O R A N D U M

TO: Jay Huish, Executive Director, Retirement Board

FROM: Erica Major, Assistant Clerk, Government Audit and Oversight Committee, Board of Supervisors

DATE: October 21, 2016

SUBJECT: LEGISLATION INTRODUCED

The Board of Supervisors' Government Audit and Oversight Committee has received the following proposed legislation, introduced by Supervisor Kim on October 18, 2016:

File No. 161134

Resolution urging the San Francisco Employees Retirement System Board to review executive compensation, evaluate best practices on salary compensation, hold a public hearing on the matter, and issue a report.

If you have any comments or reports to be included with the file, please forward them to me at the Board of Supervisors, City Hall, Room 244, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

c: Darlene Armanino

FILE NO. 161134 RESOLUTION NO.

[Urging the San Francisco Employees Retirement System Board to Review Executive Compensation]

Resolution urging the San Francisco Employees Retirement System Board to review executive compensation, evaluate best practices on salary compensation, hold a public hearing on the matter, and issue a report.

WHEREAS, The average U.S. worker's pay has remained stagnant, while from 1978 to 2014, Chief Executive Officer ("CEO") pay has increased by 997%; and

WHEREAS, In 2014, according to Standard & Poor's (S&P) 500 Index companies, the CEO-to-worker pay ratio was 373 to 1 and the CEO-to-minimum wage worker pay ratio which was 774 to 1; and

WHEREAS, Executive compensation (pay plus other benefits such as stock options) and accountability have been the topic of significant discussion as it pertains to being a contributing factor to the 2007 financial crisis; and

WHEREAS, One recent and glaring example of the disparity in treatment between top management and non-management workers in the corporate arena can be found in the consequences imposed after the United States Senate Banking Committee conducted a hearing on September 20, 2016, regarding "the widespread illegal practice of secretly opening unauthorized deposit and credit card accounts [by Wells Fargo Bank]," according to the Consumer Financial Protection Bureau; and

WHEREAS, While the 5,200 low-level Wells Fargo employees were fired for this practice, the executive of the Wells Fargo retail banking unit responsible for the retail banking unit and the actions of these employees will be retiring with $124.6 million via stock, options and restricted shares accrued, and the CEO of Wells Fargo Bank earned $19.3 million in 2015; and

WHEREAS, Executive mismanagement and excessive compensation impacts shareholders and the value of their stock, pension fund performance, and the confidence of the general public; and

WHEREAS, Best practices in corporate accountability link executive compensation to performance as well as racial and gender diversity; and

WHEREAS, The Dodd-Frank Wall Street Reform and Consumer Protection Act, which was signed into law in 2010, requires transparency from public companies with their shareholders by mandating that advisory votes on compensation, known as Say-on-Pay votes, are held every three years by each company; and

WHEREAS, As of January 1, 2017, the Securities and Exchange Commission will require that public companies disclose their pay ratio as it relates to the median income of company employees versus the Corporate Executive Officer's income; and

WHEREAS, There is growing momentum by Public Pension Plan proxies and representatives, such as the Ontario Teachers Pension Plan and Florida's public pension fund, to vote against excessive executive compensation with their Say-on-Pay votes; and

WHEREAS, The California State Teachers' Retirement System (CalSTRS), the largest teacher fund and the second largest public employee fund in the United States, developed a policy to review their portfolio and established an evaluation process regarding the efficacy of compensation programs; and

WHEREAS, The San Francisco Employees Retirement System ("SFERS") administers two benefit programs for active and retired members; and

WHEREAS, The Executive Director and senior staff of SFERS, via the purview of the SFERS board, manage the day-to-day activities of the system including investments; and

WHEREAS, SFERS Social Investment Policy states, that "The relationship of the corporation to the communities in which it operates shall be maintained as a good corporate citizen through observing proper environmental standards, supporting the local economic, social and cultural climate;" and

WHEREAS, The increasing racial and gender diversity on corporate boards has been recognized by leading institutional investors such as Blackrock, and the Business Roundtable as essential to "[S]trengthen the performance of a board of directors and promote the creation of long-term shareholder value;" now therefore, be it

RESOLVED, That the San Francisco Board of Supervisors urges SFERS to define "excessive" executive compensation, which should include the total summary compensation for any individual and not be limited to salary alone; and, be it

FURTHER RESOLVED, That the Board of Supervisors urges SFERS to develop guidelines and/or best practices regarding comprehensive evaluation of executive compensation and include a review of the pay ratios between CEO-to-worker and CEO-to-minimum wage worker of public companies within the current SFERS portfolio as well as a review of racial and gender diversity; and, be it

FURTHER RESOLVED, That the Board of Supervisors urges SFERS to make this report available and to discuss the report at a public meeting during which SFERS Board members and members of the public are able to discuss the issue of executive compensation; and, be it

FURTHER RESOLVED, That the Board of Supervisors urges SFERS to have its investment staff work with the Institutional Shareholder Services, consultants, and others to review Proxy Voting Policies and encourage proxy power in voting against any Board of Directors of companies in which there are excessive pay increases for executives and that the SFERS staff provide a list to the Board of Supervisors of companies that are in violation of the SFERS guidelines on excessive pay for top executives of companies in which SFERS owns shares.