Resolution responding to the Presiding Judge of the Superior Court on the findings and recommendations contained in the 2011-2012 Civil Grand Jury Report entitled “Investment Policies and Practices of the San Francisco Employees’ Retirement System” 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 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, The 2011-2012 Civil Grand Jury Report entitled “Investment Policies and Practices of the San Francisco Employees' Retirement System” is on file with the Clerk of the Board of Supervisors in File No. 120844, 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. 1, 2, 3, 4, 5, 6, and 7 as well as Recommendations 1, 2, 3, 4, 5, and 6 contained in the subject Civil Grand Jury report; and
WHEREAS, Finding No. 1 states: "The San Francisco Employees' Retirement System Pension Fund is currently underfunded by more than $2 billion;" and

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

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

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

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

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

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

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

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

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

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

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

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

WHEREAS, in accordance with 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. 1, 2, 3, 4, 5, 6, and 7 as well as Recommendations 1, 2, 3, 4, 5, and 6 contained in the subject Civil Grand Jury report; now, therefore, be it

RESOLVED, That the Board of Supervisors reports to the Presiding Judge of the Superior Court that it agrees with Finding 1; and, be it

FURTHER RESOLVED, That the Board of Supervisors reports that it disagrees with Finding 2 for reasons as follows: The Board did perform a thorough review of the funding losses sustained in 2008-2009; and, be it

FURTHER RESOLVED, That the Board of Supervisors reports that it agrees with Finding 3; and, be it

FURTHER RESOLVED, That the Board of Supervisors reports that it agrees with Finding 4; and, be it

FURTHER RESOLVED, That the Board of Supervisors reports that it partially disagrees with Finding 5 for reasons as follows: The Board recognizes that the Finding is factually correct, though there is no evidence that this is actually occurring; and, be it
FURTHER RESOLVED, That the Board of Supervisors reports that it disagrees with Finding 6 for reasons as follows: The Board, out of the concern for prudent management of City pension fund investments, hosted many hearings on the assumed rate of return; and, be it

FURTHER RESOLVED, That the Board of Supervisors reports that it disagrees with Finding 7 for reasons as follows: The Board of Supervisors does not think they should be limited to looking at low-risk investment policies; and, be it

FURTHER RESOLVED, That the Board of Supervisors reports that it will not implement Recommendation 1 for reasons as follows: The City has been very proactive with regards to this recommendation, including through the passage of Prop C by the electorate, which provided for the formation of ad hoc groups of City officials, experts, and community members to decide how to move forward with the City Pension Fund; and, be it

FURTHER RESOLVED, That the Board of Supervisors reports that Recommendation 2 has been implemented for reasons as follows: In keeping with Actuarial Standards of Practice set out by the Actuarial Standards Board, the San Francisco Employees' Retirement System Board has a long-standing policy of reviewing and adopting updated investment return assumptions; and, be it

FURTHER RESOLVED, That the Board of Supervisors reports that Recommendation 3 has been implemented for reasons as follows: The San Francisco Employees' Retirement System Board has embedded fiduciary due diligence in its investment policies and procedures; and, be it

FURTHER RESOLVED, That the Board of Supervisors reports that Recommendation 4 has been implemented for reasons as follows: The San Francisco Employees' Retirement System (SFERS) Board has an existing business initiative to analyze, quantify and report
investment risks in the SFERS portfolio, and this information is made public through the SFERS Strategic Plan; and, be it

FURTHER RESOLVED, That the Board of Supervisors reports that Recommendation 5 has been implemented for reasons as follows: The Board of Supervisors is always looking to minimize risks associated with the City Pension Fund, while simultaneously sustaining sufficient returns; and, be it

FURTHER RESOLVED, That the Board of Supervisors reports that it will not implement Recommendation 6 for reasons as follows: The City does enough analysis on the Pension Fund; and, be it

FURTHER RESOLVED, That the Board of Supervisors urges the Mayor to cause the implementation of accepted findings and the recommendation through his/her department heads and through the development of the annual budget.
Resolution responding to the Presiding Judge of the Superior Court on the findings and recommendations contained in the 2011-2012 Civil Grand Jury report entitled "Investment Policies and Practices of the San Francisco Employees' Retirement System" 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.

November 19, 2012 Government Audit and Oversight Committee - AMENDED, AN AMENDMENT OF THE WHOLE BEARING SAME TITLE

November 19, 2012 Government Audit and Oversight Committee - RECOMMENDED AS AMENDED

December 04, 2012 Board of Supervisors - ADOPTED

Ayes: 10 - Avalos, Campos, Chiu, Chu, Elsbernd, Farrell, Kim, Mar, Olague and Wiener
Absent: 1 - Cohen

I hereby certify that the foregoing Resolution was ADOPTED on 12/4/2012 by the Board of Supervisors of the City and County of San Francisco.

Angela Calvillo
Clerk of the Board

I hereby certify that the foregoing resolution, not being signed by the Mayor within the time limit as set forth in Section 3.103 of the Charter, became effective without his approval in accordance with the provision of said Section 3.103 of the Charter.

Angela Calvillo
Clerk of the Board