

# CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA

Comprehensive Annual Financial Report  
Year Ended June 30, 2012



Prepared by:  
Office of the Controller

A handwritten signature in black ink, appearing to read "B. Rosenfield".

Ben Rosenfield  
Controller

**CITY AND COUNTY OF SAN FRANCISCO**  
**FIDUCIARY FUNDS**

Fiduciary Funds include all Trust and Agency Funds which account for assets held by the City as a trustee or as an agent for individuals or other governmental units.

**Trust Funds**

*Employees' Retirement System* – Accounts for the contributions from employees, City contributions and the earnings and profits from investments of monies. Disbursements are made for retirements, withdrawal, disability, and death benefits of the employees as well as administrative expenses.

*Health Service System* – Accounts for the contributions from active and retired employees, and surviving spouses, City contributions and the earnings and profits from investment of monies. Disbursements are made for medical expenses and to various health plans of the beneficiaries.

*Retiree Health Care Trust* - Accounts for the contributions from employees, City contributions and the earnings and profits from investment of monies. Disbursements are to be made for benefits, expenses and other charges properly allocable to the trust fund.

**Agency Funds**

Agency Funds are custodial in nature and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time.

*Assistance Program Fund* – Accounts for collections and advances received as an agent under various human welfare and community health programs. Monies are disbursed in accordance with legal requirements and program regulations.

*Deposits Fund* – Accounts for all deposits under the control of the City departments. Dispositions of the deposits are governed by the terms of the statutes and ordinances establishing the deposit requirement.

*Payroll Deduction Fund* – Accounts for monies held for payroll charges including federal, state and other payroll related deductions.

*State Revenue Collection Fund* – Accounts for various fees, fines and penalties collected by City departments for the State of California which are passed through to the State.

*Tax Collection Fund* – Accounts for monies received for current and delinquent taxes which must be held pending authority for distribution. Included are prepaid taxes, disputed taxes, duplicate payment of taxes, etc. This fund also accounts for monies deposited by third parties pending settlement of litigation and claims. Upon final settlement, monies are disbursed as directed by the courts or by parties to the dispute.

*Transit Fund* – Accounts for the quarter of one percent sales tax collected by the State Board of Equalization and deposited with the County of origin for local transportation support. The Metropolitan Transportation Commission, the regional agency responsible for administration of these monies, directs their use and distribution.

*Other Agency Funds* – Accounts for monies held as agent for a variety of purposes.

**CITY AND COUNTY OF SAN FRANCISCO**  
**Combining Statement of Fiduciary Net Assets – Fiduciary Funds**  
**Pension and Other Employee Benefit Trust Funds**  
June 30, 2012  
(In Thousands)

	Pension Trust Fund	Other Employee Benefit Trust Fund	Other Post- employment Benefit Trust Fund	Total
	Employees' Retirement System	Health Service System	Retiree Health Care	
<b>ASSETS</b>				
Deposits and investments with City Treasury.....	\$ 4,780	\$ 106,969	\$ 17,308	\$ 129,057
Deposits and investments outside City Treasury:				
Cash and deposits.....	28,516	-	-	28,516
Short term investments.....	706,721	-	-	706,721
Alternative investments.....	2,021,472	-	-	2,021,472
Debt securities.....	4,047,549	-	-	4,047,549
Equity securities.....	7,220,971	-	-	7,220,971
Real estate.....	1,403,412	-	-	1,403,412
Foreign currency contracts, net.....	(15,790)	-	-	(15,790)
Invested in securities lending collateral.....	914,105	-	-	914,105
Receivables:				
Employer and employee contributions.....	34,088	35,935	672	70,695
Brokers, general partners and others.....	317,884	-	-	317,884
Interest and other.....	33,467	3,553	10	37,030
Total assets.....	<u>16,717,175</u>	<u>146,457</u>	<u>17,990</u>	<u>16,881,622</u>
<b>Liabilities</b>				
Accounts payable.....	15,438	26,570	-	42,008
Estimated claims payable.....	-	9,358	-	9,358
Payable to brokers.....	463,386	-	-	463,386
Deferred Retirement Option Program liabilities.....	27,257	-	-	27,257
Payable to borrowers of securities.....	917,370	-	-	917,370
Deferred credits and other liabilities.....	-	57,310	-	57,310
Total liabilities.....	<u>1,423,451</u>	<u>93,238</u>	<u>-</u>	<u>1,516,689</u>
<b>Net Assets</b>				
Held in trust for pension benefits and other purposes..	<u>\$ 15,293,724</u>	<u>\$ 53,219</u>	<u>\$ 17,990</u>	<u>\$ 15,364,933</u>

**CITY AND COUNTY OF SAN FRANCISCO**

**Combining Statement of Changes in Fiduciary Net Assets – Fiduciary Funds  
Pension and Other Employee Benefit Trust Funds  
Year ended June 30, 2012  
(In Thousands)**

	<b>Pension Trust Fund</b>	<b>Other Employee Benefit Trust Fund</b>	<b>Other Post- employment Benefit Trust Fund</b>	<b>Total</b>
	<b>Employees' Retirement System</b>	<b>Health Service System</b>	<b>Retiree Health Care</b>	
<b>Additions:</b>				
Employees' contributions.....	\$ 198,160	\$ 110,902	\$ 6,141	\$ 315,203
Employer contributions.....	410,797	612,743	3,070	1,026,610
Total contributions.....	<u>608,957</u>	<u>723,645</u>	<u>9,211</u>	<u>1,341,813</u>
Investment income/loss:				
Interest.....	195,517	716	261	196,494
Dividends.....	170,759	-	-	170,759
Net appreciation/(depreciation) in fair value of investments....	(246,965)	667	-	(246,298)
Securities lending income.....	4,718	-	-	4,718
Total investment income.....	<u>124,029</u>	<u>1,383</u>	<u>261</u>	<u>125,673</u>
Less investment expenses:				
Securities lending borrower rebates and expenses.....	913	-	-	913
Other investment expenses.....	(44,540)	-	-	(44,540)
Total investment expenses.....	<u>(43,627)</u>	<u>-</u>	<u>-</u>	<u>(43,627)</u>
Total additions, net.....	<u>689,359</u>	<u>725,028</u>	<u>9,472</u>	<u>1,423,859</u>
<b>Deductions:</b>				
Benefit payments.....	968,528	699,295	-	1,667,823
Refunds of contributions.....	11,030	-	-	11,030
Administrative expenses.....	14,916	-	44	14,960
Total deductions.....	<u>994,474</u>	<u>699,295</u>	<u>44</u>	<u>1,693,813</u>
Change in net assets.....	(305,115)	25,733	9,428	(269,954)
Net assets at beginning of year.....	15,598,839	27,486	8,562	15,634,887
Net assets at end of year.....	<u>\$ 15,293,724</u>	<u>\$ 53,219</u>	<u>\$ 17,990</u>	<u>\$ 15,364,933</u>

**CITY AND COUNTY OF SAN FRANCISCO**

Notes to Basic Financial Statements (continued)

June 30, 2012

(Dollars in Thousands)

OPEB plan was for retiree healthcare benefits and was 12.9% funded based on actuarial value of plan assets of \$1.9 million and an accrued actuarial liability of \$14.4 million resulting in an unfunded actuarial accrued liability of \$12.5 million as of June 30, 2011, the plan's most recent actuarial valuation date.

Details of the Successor Agency's OPEB plan may be found in its financial statements for the five months' period ended June 30, 2012. Financial statements for the Successor Agency can be obtained from its finance and administrative offices at 1 South Van Ness Avenue, 5<sup>th</sup> Floor, San Francisco, CA 94102.

The following table shows the components of the Successor Agency's OPEB cost for the five months' period, the amount contributed to the plan, and changes in its net OPEB obligation:

Annual required contribution	\$ 536
Interest on Net OPEB obligation	14
Adjustment to annual required contribution	<u>(17)</u>
Annual OPEB cost	533
Contribution made	<u>(345)</u>
Increase in net OPEB obligation	188
Net OPEB obligation - February 1, 2012	<u>733</u>
Net OPEB obligation - June 30, 2012	<u><u>\$ 921</u></u>

Three-year trend information is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010 *	\$ 1,296	93%	\$ 643
6/30/2011 *	1,346	113%	470
1/31/2012 **	747	65%	733
6/30/2012 ***	533	65%	921

\* Represents trend information for the former Agency for the fiscal year.

\*\* Represents trend information for the former Agency for the period July 1, 2011 through January 31, 2012.

\*\*\* For the period February 1, 2012 through June 30, 2012.

***Proposition B – A City Charter Amendment Changing Qualifications for Retiree Health and Pension Benefits and Establishing a Retiree Health Care Trust Fund***

Proposition B was passed by voters on June 3, 2008, and increased the years of service required to qualify for employer-funded retiree health benefits for City employees and certain employees of the San Francisco Unified School District, San Francisco Community College District, and the San Francisco Superior Court who retire under the San Francisco Employees Retirement System and were hired on or after January 10, 2009. Employees hired before January 10, 2009, became eligible to participate in the retirement health care system after 5 years of service and the employer paid 100% of the contribution. Now it states that between 5-10 years of service, there is no employer contribution, at 10-15 years there is a 50% contribution, between 15-20 years there is 75% contribution and only after 20 years of service will the employer pay 100% of the contribution.

Proposition B also stated that a separate Retiree Health Care Trust Fund would be created to pay for the City's future costs related to retiree health care. This trust fund will be funded by employer and employee contributions for employees hired on or after January 10, 2009. These new employees would contribute up to 2% of their pre-tax pay and employers would contribute 1%. The San

## CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements (continued)

June 30, 2012

(Dollars in Thousands)

Francisco Community College District and San Francisco Unified School District have the option to participate in and contribute to this trust fund if approved by their governing boards.

The City established the Retiree Health Care Trust Fund to receive contributions for the purpose of providing a funding source for certain post-employment benefits other than pension. The Retiree Health Care Trust Fund is administered by a Retiree Health Care Board of Administration governed by five trustees, one selected by the City Controller, one by the City Treasurer, one by the Executive Director of the San Francisco Employees' Retirement System, and two elected by the active and retired members of the City's Health Service System.

### ***Proposition C – A City Charter Amendment Changing Qualifications for Retiree Health and Pension Benefits and Establishing a Retiree Health Care Trust Fund***

Proposition C was passed by voters on November 8, 2011, created new Retirement System benefit plans for Miscellaneous and Safety employees commencing employment on or after January 7, 2012, which raise the minimum service retirement age for Miscellaneous members from 50 to 53; limit covered compensation to 85% of the IRC §401(a)(17) limits for Miscellaneous members and 75% of the IRC §401(a)(17) limits for Safety members; calculate final compensation using highest three-year average compensation; and decrease vesting allowances for Miscellaneous members by lowering the City's funding for a portion of the vesting allowance from 100% to 50%; provided that employees commencing employment on or after January 7, 2012, otherwise eligible for membership in CalPERS may become members of the Retirement System.

Effective July 1, 2012, Proposition C provides for an increase or decrease of employee contributions to the Retirement System for certain Retirement System members based on the employer contribution rate set by the Retirement Board for that year. (For example, Miscellaneous employees who earn less than \$50,000 per year would pay the minimum Charter-mandated employee contribution rate; Miscellaneous employees who earn between \$50,000 and \$100,000 per year would pay a fluctuating contribution rate in the range of +4% to -4% of the Charter-mandated employee contribution rate; and Miscellaneous employees who earn \$100,000 or more per year would pay a fluctuating contribution rate in the range of +5% to -5% of the Charter-mandated employee contribution rate. Similar fluctuating employee contributions are required from Safety employees also); and provides that, effective July 1, 2012, no Supplemental COLA will be paid unless the Retirement System is fully funded on a market value of assets basis and, for employees hired on or after January 7, 2012, Supplemental COLA benefits will not be permanent adjustments to retirement benefits - in any year when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire.

The San Francisco Retiree Health Care Trust Fund (RHCTF) was established in December 2010 by the Retiree Health Trust Fund Board of the City and County of San Francisco. The RHCTF was established to receive employer and employee contributions prescribed by the Charter for the purpose of pre-funding certain postretirement health benefits. Proposition B requires employees hired on or after January 10, 2009 to contribute 2% of pay and the employer to contribute 1% of pay. Between January 10, 2009 and the establishment of the RHCTF, contributions were set aside and deposited into the RHCTF when it was established. Proposition C also requires all employees hired on or before January 9, 2009 to contribute 0.25% of pay to the RHCTF commencing July 1, 2016, increasing annually by 0.25% to a maximum of 1.0% of pay. The employer is required to contribute an equal amount. The RHCTF is currently invested in short-term fixed income securities. The RHCTF may not pay benefits from the Trust before January 1, 2020.

### **(10) SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY**

The San Francisco County Transportation Authority (SFCTA) was created in 1989 by a vote of the San Francisco electorate. The vote approved Proposition B, which imposed a sales tax of one-half of one percent (0.5%), for a period not to exceed 20 years, to fund essential transportation projects. The types of projects to be funded with the proceeds from the sales tax are set forth in the San Francisco County Transportation Expenditure Plan (the Plan), which was approved as part of Proposition B. The SFCTA was organized pursuant to Sections 131000 et seq. of the Public Utilities Code. Collection of