



Sonoma County Board of Supervisors

State of the Retirement System Annual Report (April 2022)

Prepared by: County of Sonoma, Sonoma County
Employees' Retirement Association & Segal



Background

- One of the County's primary pension reform goals is to improve accountability and transparency, including reports to the Board of Supervisors ("BOS") and public.
- Both the 2016 Citizens' Pension Advisory Committee and 2015 Grand Jury reports recommended that the County present annual pension reports.
 - Committee Report: <https://sonomacounty.ca.gov/CAO/Pension-Reform/Reports/>
 - Grand Jury Report: <http://sonoma.courts.ca.gov/info/administration/grand-jury>
- This fourth annual report presents County financial data through 06/30/21, and information from the Sonoma County Employees' Retirement Association's (SCERA) 12/31/2020 actuarial valuation.



County Pension Expenses by Fiscal Year

	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
<u>Pension Contribution Expenses</u>¹					
County of Sonoma (including CDC & Sonoma Water)	\$57,051,665	\$59,975,251	\$62,331,645	\$60,372,368	\$68,680,081
Normal Cost Share Reimbursement	\$1,917,134	\$3,455,813	\$3,427,756	\$3,347,936	\$3,149,289
Sub-total Pension Contribution Expenses	\$58,968,799	\$63,431,064	\$65,759,401	\$63,720,304	\$71,829,370
<u>Unfunded Liability Prepayments</u>²					
Accelerated UAAL Payment (One-time)	\$0	\$0	\$0	\$5,000,000	\$0
Accelerated UAAL Payment (Recurring)	\$0	\$0	\$0	\$1,722,016	\$1,810,962
Sub-total UAAL Prepayment	\$0	\$0	\$0	\$6,722,016	\$1,810,962
Total Pension Expenses	\$58,968,799	\$63,431,064	\$65,759,401	\$70,442,320	\$73,640,332
<u>Pension Obligation Bond Debt Service</u>					
2003A POB	\$21,167,370	\$22,243,337	\$23,359,489	\$24,530,109	\$25,750,766
2003B POB	\$1,075,200	\$1,075,200	\$1,075,200	\$1,075,200	\$1,075,200
2010 POB	\$21,903,048	\$23,034,117	\$24,014,753	\$24,749,250	\$25,535,350
Total POB Debt Expense	\$44,145,618	\$46,352,654	\$48,449,442	\$50,354,559	\$52,361,316
Grand Total Employer Expense (Pension + POB)	\$103,114,417	\$109,783,718	\$114,208,842	\$120,796,879	\$126,001,648

Note 1: Source data from audited annual financial reports.

Note 2: One-time prepayments authorized by the Board of Supervisors; recurring prepayments equal to 0.5% of payroll per County policy.



County Pension Expenses – Measurement Ratios

	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Total Employer Expense (Pension + POB)	\$103,114,417	\$109,783,718	\$114,208,842	\$120,796,879	\$126,001,648
Total Covered Payroll ¹	\$320,173,397	\$328,766,520	\$335,746,316	\$342,301,437	\$360,713,114
Total Salaries & Benefits ²	\$589,853,663	\$611,820,469	\$617,826,203	\$644,925,647	\$694,027,628
Total Operating Revenue ¹	\$1,103,317,902	\$1,187,913,235	\$1,245,348,027	\$1,271,321,979	\$1,607,841,159
Pension Expense as % of Covered Payroll	32.2%	33.4%	34.0%	35.3%	34.9%
Pension Expense as % of Total Salaries & Benefits	17.5%	17.9%	18.5%	18.7%	18.2%
Pension Expense as % of Operating Revenue					
Sonoma County (including Pension Bonds)	9.3%	9.2%	9.2%	9.5%	7.8%
Sonoma County (excluding Pension Bonds)	5.3%	5.3%	5.3%	5.5%	4.6%
Statewide Average ^{3 & 4}	8.4%	10.2%	9.1%	n/a	n/a
National Average ^{3 & 4}	6.0%	6.4%	6.2%	n/a	n/a

Note 1: Source data from audited annual financial reports.

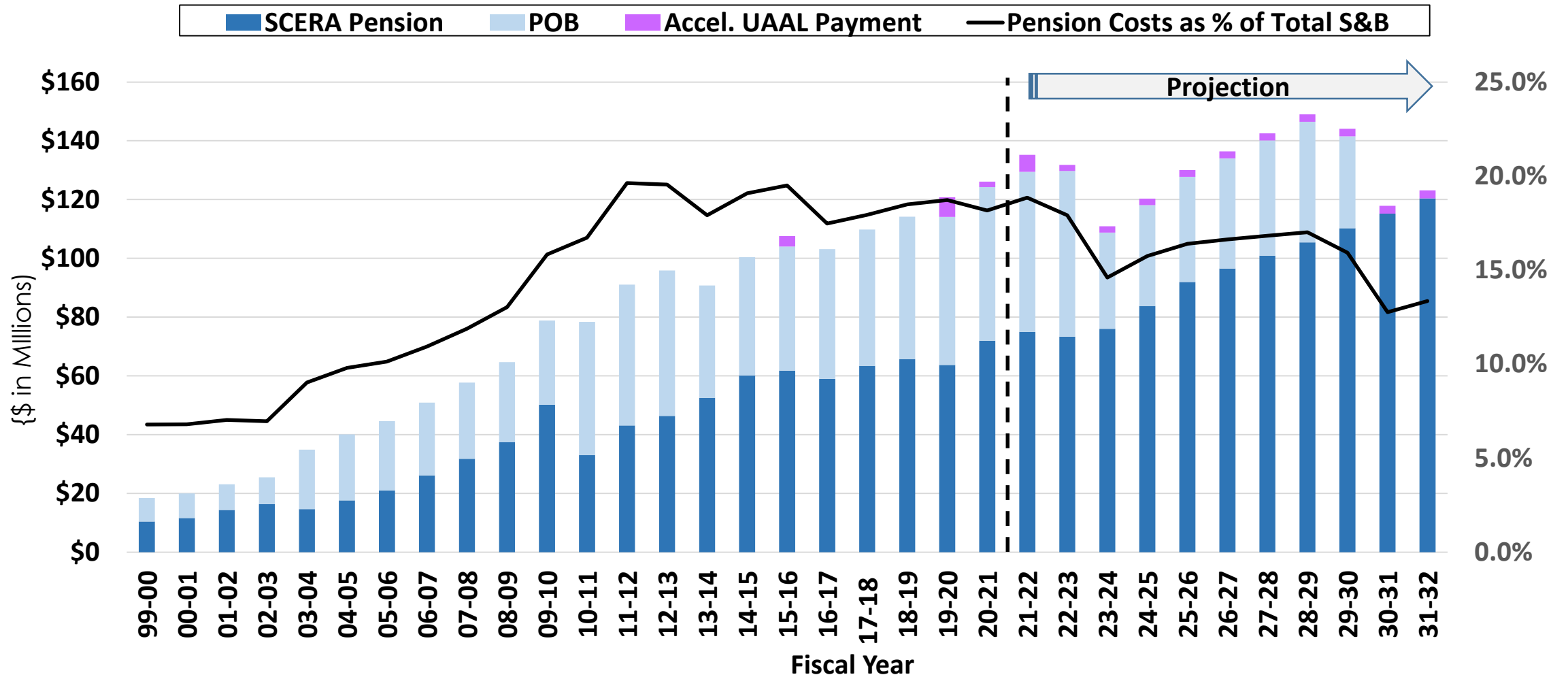
Note 2: Total Salaries & Benefits cost data from the County's Enterprise Financial System.

Note 3: Sourced from the Public Plans Database state data for California (<https://publicplansdata.org/quick-facts/by-state/state/?state=CA>). Data unavailable for FY 19-20 and FY 20-21 (as of March 2022).

Note 4: It is not clear if Statewide/National data includes local jurisdictions' respective Pension Obligation Bond costs. As a result, the County's pension costs and ratio measures reported here would be comparatively **higher** when factoring in both pension and POB expenses.



Pension Cost Forecast



Pension Obligation Bonds

- POB Debt = County refinanced Unfunded Pension Liability to an interest rate lower than SCERA's 8% or 8.25% discount rate assumed at the time of each bond issuance.
- Bond proceeds deposited in the SCERA pension fund upon issuance, and invested to continually earn an annual return over time.
- County pays debt service to bond holders, not to SCERA, per fixed payment schedules.

Summary of Pension Obligation Bonds (\$ in Millions)										
Description	Bond Information			Total Debt Issuance			Balance as of 6/30/21			% Remaining (P+ I)
	Interest Rate	Term (Years)	Final Maturity (FY)	Principal	Interest	Total	Principal	Interest	Total	
Series 1993	6.72%	20	2013	\$97.4	\$96.1	\$193.5	\$0.0	\$0.0	\$0.0	0.0%
Series 2003A	4.80%	20	2023	\$210.2	\$135.9	\$346.1	\$33.7	\$1.2	\$34.9	10.1%
Series 2003B	5.18%	20	2023	\$21.0	\$20.9	\$41.9	\$21.0	\$1.6	\$22.6	54.0%
Series 2010A	5.90%	20	2030	\$289.3	\$242.9	\$532.2	\$232.0	\$73.1	\$305.1	57.3%
Grand Total				\$617.9	\$495.8	\$1,113.7	\$286.7	\$75.9	\$362.6	32.6%



Sonoma County's Return on Pension Obligation Bonds

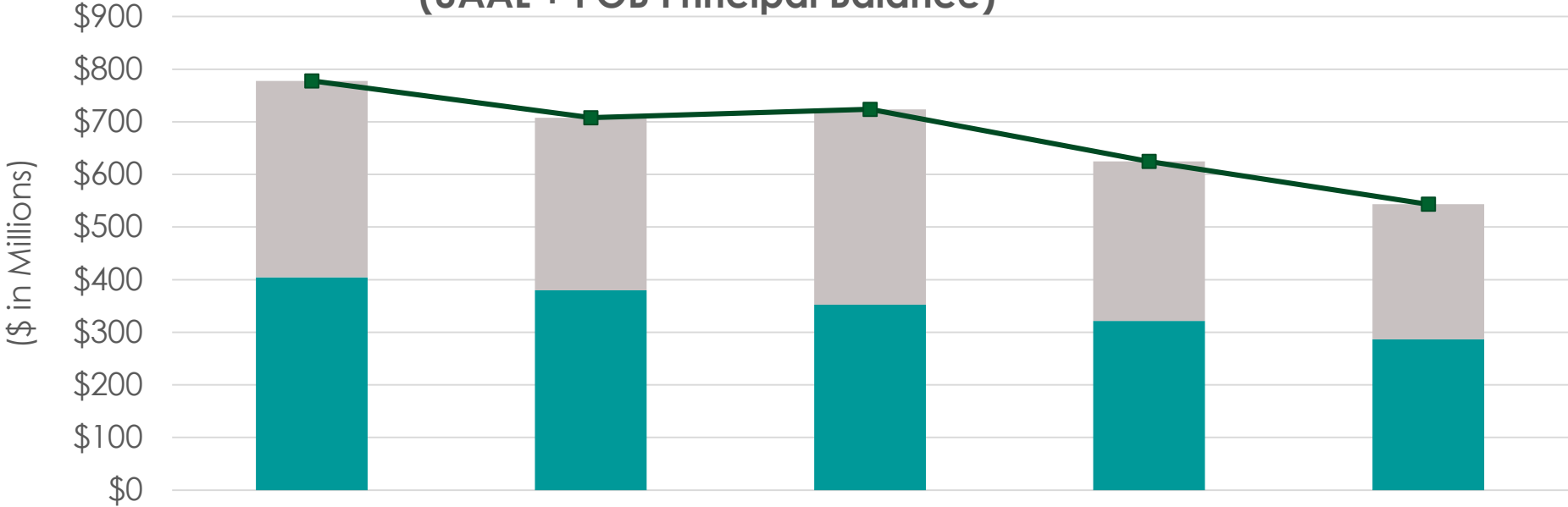
- To date, the County has experienced a positive return on its investment in Pension Obligation Bonds deposited in SCERA's pension fund, in comparison to the bonds' interest rates.

POB Issuance	Interest Rate	Inception-to-Date Return	Measurement Date
Series 1993	6.72%	7.42%	10/31/2013
Series 2003A/B	4.80% – 5.18%	8.02%	06/30/2021
Series 2010	5.90%	10.18%	06/30/2021



Total Unfunded Pension Liability Based on UAAL

Sonoma County's Unfunded Pension Liability
(UAAL + POB Principal Balance)



	06/30/17	06/30/18	06/30/19	06/30/20	06/30/21
County Share of UAAL	\$374	\$328	\$371	\$303	\$257
County POB Balance	\$404	\$380	\$352	\$321	\$287
Total	\$778	\$708	\$724	\$625	\$543



Unfunded Liability Prepayments

- Board of Supervisors financial policy adopted June 2019 authorizes annual prepayments towards UAAL, equal to 0.5% of Pensionable/Covered Payroll, plus the option for additional one-time payments if funding is available.
 - “Pensionable/Covered Payroll” only includes elements of employee compensation that factor into employees’ final salary calculations for the purpose of determining retirement benefits, and excludes overtime.
 - Recurring annual UAAL Prepayments estimated to avoid ~**\$10.7 million** of interest costs over 15 years, and more over time.
 - One-time prepayment of \$3.5M authorized for FY 15-16 estimated to avoid ~**\$2.8 million** of interest costs over 15 years.
 - One-time prepayment of \$5.0M authorized for FY 19-20 estimated to avoid ~**\$4.0 million** of interest costs over 15 years.
 - One-time prepayment of \$3.75M authorized for FY 21-22 estimated to avoid ~**\$3.0 million** of interest costs over 15 years.



SCERA Administrator Update



SCERA Actuarial Analysis of Plan Experience (as of Dec. 2020)

SCERA Actuarial Analysis of Financial Experience						
(K\$)	2020	2019	2018	2017	2016	5 Year Total
Beginning of the Year UAAL Liability (Surplus)	\$332,031	\$404,732	\$359,557	\$408,227	\$405,922	
Source of Actuarial (Gain) Loss:						
Compensation Increase Greater/(Less) than Expected	17,286	(34,651)	11,293	4,586	5,983	4,497
Investment Experience recognized	(41,110)	(32,718)	13,629	(44,256)	891	(103,564)
Other Experience	(983)	(2,786)	661	(3,890)	(859)	(7,857)
(Greater)/Less than Expected Contributions	(255)	12,332	(493)	4,568	4,094	20,246
Composite (Gain) Loss for the Year - Total	(25,062)	(57,823)	25,090	(38,992)	10,109	(86,678)
Other Items Impacting UAAL:						
Assumption Change (Economic and Demographic)			31,798			31,798
Interest Accrual on UAAL Balance	22,003	27,009	24,876	28,358	28,249	130,495
County's Additional UAAL Payment	(7,128)					(7,128)
Expected employer/member contributions less Normal Cost	(39,129)	(41,887)	(36,589)	(38,036)	(36,053)	(19,1694)
Other Items Impacting UAAL - Total	(24,254)	(14,878)	20,085	(9,678)	(7,804)	(36,529)
End of the Year UAAL Liability (Surplus)	\$282,715	\$332,031	\$404,732	\$359,557	\$408,227	



SCERA Membership (as of Dec. 2020)

Active General				Active Safety			
Plan	Number	Avg. Age	Avg. Service	Plan	Number	Avg. Age	Avg. Service
Plan A Legacy	1663	50.8	15.3	Plan A Legacy	440	45.7	15.3
Plan B PEPRA	1705	41.6	3.7	Plan B PEPRA	282	34.1	3.5
Total	3368			Total	722		
Total Active Plan A 2103 (51.4%)				Total Active Plan B 1987 (48.6%)			

2020 Retirees	
Gen Plan A	3793
Gen Plan B	30
Safety Plan A	871
Safety Plan B	5
Total	4699

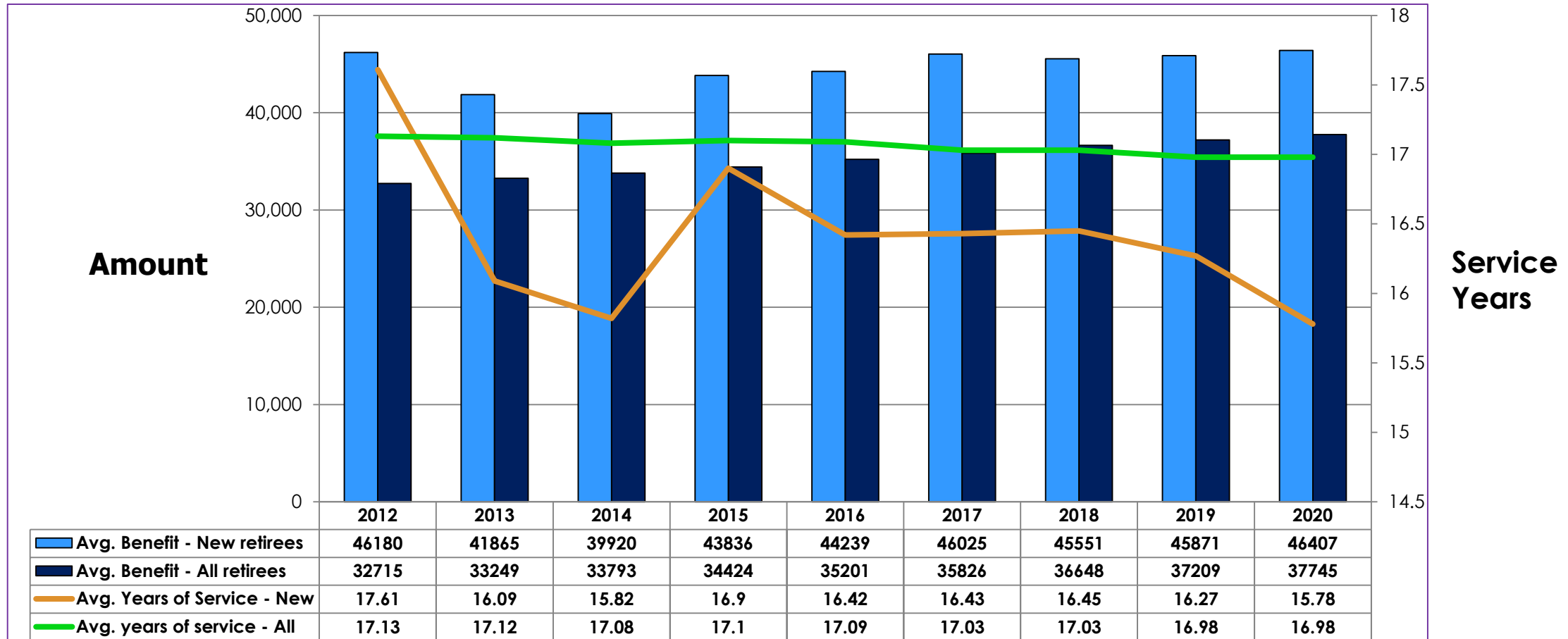
Deferred (Inactive)					
Plan - General	Number	Avg. Age	Plan - Safety	Number	Avg. Age
Plan A Legacy	712	49.4	Plan A Legacy	165	45.2
Plan B PEPRA	505	41.3	Plan B PEPRA	63	32.4
Total	1217			228	

2020 Beneficiaries	
Gen Plan A	515
Gen Plan B	1
Safety Plan A	132
Safety Plan B	0
Total	648

*Starting with the Dec. 2021 valuation, pre-2003 retirees will be separated from the Plan A Legacy counts.



SCERA Average Annual Retirement Benefit (as of Dec. 2020)



SCERA Annualized Investment Returns

	Annualized Return 12/31/20	Annualized Return 12/31/19	Annualized Return 12/31/18	Annualized Return 12/31/17	Annualized Return 12/31/16
1 Year	8.08%	16.27%	-3.3%	16.4%	8.8%
3 Year	6.71%	9.35%	7.0%	8.8%	5.3%
5 Year 2016 - 2020	8.99%	7.66%	5.6%	10.2%	9.7%
10 Year 2011 - 2020	8.51%	8.95%	9.1%	5.7%	4.9%
15 Year 2006 - 2020	6.62%	6.65%	6.3%	8.1%	6.1%
20 Year 2001 - 2020	5.99%	5.54%	5.5%	6.4%	6.6%
30 Year 1991 - 2020	8.15%	8.05%	8.1%	8.7%	8.2%

Sourced from Aon Hewitt Investment Consulting



Actuarial Assumptions – Recently Completed 2021 Experience Study

Experience Study (January 1, 2018 to December 31, 2020)

- Demographic
 - When benefits will be payable
 - Amount of benefits
- Economic
 - How assets grow
 - How salaries and benefits increase

• Results

- Changed both demographic and economic assumptions
 - Lowered actuarial assumed investment return assumption from 7% to 6.75%
 - Lowered inflation assumption from 2.75% to 2.5%
 - Lowered salary growth assumption from 3.25% to 3.00%
 - Benefit weighted mortality assumption



Valuation Results (\$ in thousands)

	12/31/2020	12/31/2019
Market Value of Assets (MVA)	\$3,073,675	\$2,916,890
Valuation Value of Assets (VVA)	\$2,981,688	\$2,811,292
Actuarial Accrued Liability (AAL)	\$3,264,403	\$3,143,323
Unfunded AAL (AAL less VVA)	\$282,715	\$332,031
Funded Percentage (VVA Basis)	91.3%	89.4%
Funded Percentage with recognition of deferred gains/losses	94.2%	92.8%



Deterministic Scenario Testing based on December 31, 2020 Valuation

- Shows impact of 2021 return more or less than assumed
- Scenario 1: 0%
- Scenario 2: 7% (baseline)
- Scenario 3: 14%

Projected Employer Contribution Rates Under Three Hypothetical Market Return Scenarios for 2021 (% of Payroll)

