

Segal Valuation Analysis

Based on the analysis conducted by Segal Consulting (Segal), the actuaries for the Sonoma County Employees Retirement Association (SCERA), the net impact results is an increase in the County's annual contributions, as the actuarial assumptions included in prior valuations are not sufficient to cover the costs of all changes to salary and equity adjustments in the current fiscal year and over the next four fiscal years.

The analysis compares proposed labor changes to the following Sonoma County Employees' Retirement Association (SCERA) adopted salary assumptions:

- 3.5% applied to the December 31, 2016 and 2017 Actuarial Valuations used to establish employer and employee pension contribution rates for FY 2018-19 and 2019-20
- 3.25% used in the December 31, 2018 valuation, and to be used for the FY 2020-21, 2021-22, and 2022-23 contribution rates

The actuarial assumption variations offset increases and decreases, resulting in an overall net increase of \$724,900 over the five fiscal year period. This is primarily the result of increases to the total pensionable wages in 3 of the next 4 years exceeding the 3.25% labor inflation assumptions to be applied to future actuarial valuations. Segal's analysis of the annual impact over each fiscal year is summarized in the following table and detailed in the attached letters:

	Annual Employer Normal Cost	Annual UAAL amortized cost	Total Employer Annual Contribution
	(a)	(b)	(a + b)
Remaining 2018/19	\$ 189,500	\$271,400	\$460,900
Year 1 – 2019/20	\$ 95,500	\$160,000	\$255,000
Year 2 – 2020/21	\$33,000	\$54,000	\$87,000
Year 3 – 2021/22	-\$6,800	-\$11,800	-\$18,600
Year 4 – 2022/23	-\$21,600	-\$37,800	-\$59,400
Total	\$289,100	\$435,800	\$724,900



180 Howard Street Suite 1100 San Francisco, CA 94105-6147
T 415.263.8283 www.segalco.com

Andy Yeung ASA, MAAA, FCA, EA
Vice President & Actuary
ayeung@segalco.com

VIA E-MAIL

June 12, 2019

Ms. Julie Wyne
Chief Executive Officer
Sonoma County Employees' Retirement Association
433 Aviation Boulevard, Suite 100
Santa Rosa, CA 95403-1069

**Re: Sonoma County Employees' Retirement Association (SCERA)
Disclosure under Government Code Section 31515.5 in compliance with
Section 23026 – Salary Resolution – 2018/2019 Fiscal Year – SECOND REVISION**

Dear Julie:

As requested, we are providing this letter with our analysis of the impact of a change in elements of pay and the potential impact on cost to provide benefits through SCERA as required under California Government Code Section 31515.5 in compliance with Section 23026. We previously issued letters dated June 7, 2018 and July 6, 2018 on the analysis of several salary changes (referred to as Items 1-3 and 5-10 in Exhibit 1 attached). The results of those analyses concluded that the assumptions applied in the December 31, 2016 Valuation were not sufficient to cover the cost of those changes. This letter supersedes the information previously provided in our letters dated June 7, 2018 (that letter was not ultimately brought to the Board of Supervisors¹) and July 6, 2018 (Items 1-3 and 5-10 approved by the Board of Supervisors on July 10, 2018) to include an additional salary change (referred to as Item 4 in Exhibit 1) proposed for the remainder of the 2018/2019 Fiscal Year. This letter also reflects an adjustment to the cost estimate for Item 3 in Exhibit 1 as a result of a change in the amount by the County to that pay element.

The results presented in this letter are based on changes in elements of pay that were approved or proposed as of the issuance of this letter. Any additional changes that may be proposed for the 2018/2019 Fiscal Year would result in a revised cost impact to be provided at that time.

The contribution impact in this letter is based on the December 31, 2016 Actuarial Valuation, including the participant data and actuarial assumptions on which that valuation was based. In developing the contribution impact, it has been assumed that all actuarial assumptions would have been met after December 31, 2016, including the annual wage growth assumption of 3.50%

¹ Our letter dated June 7, 2018 was not brought to the Board of Supervisors for approval as information included in that letter was expanded and included in our July 6, 2018 letter.

for all General County and Safety County members, with the exception of the salary increases proposed for employees covered under Salary Resolution described herein.

The actual results of this analysis may differ to the extent that other experience varies from that which is assumed. In particular, the contribution impact presented within this letter would be mitigated to some extent if other County members do not receive the full 3.50% salary increase anticipated by the wage growth assumption. Furthermore, due to the one-time nature of some of the increases, the contribution impact may be offset in future actuarial valuations.

BACKGROUND

We have been asked to prepare a Disclosure for the above Government Code Sections regarding salary changes for approximately 749² General and 5 Safety County members covered under Salary Resolution. We issued our initial Disclosure letter for Salary Resolution on June 7, 2018 and a revised Disclosure letter for Salary Resolution on July 6, 2018. Subsequent to the issuance of those letters, a new element has been added and a further change in one of the original salary elements have been proposed for the remainder of the 2018/2019 Fiscal Year. All of the changes in salaries and benefits that we have reviewed were provided by the County and are outlined in Exhibit 1 attached.

Prior to authorizing changes in salaries or benefits, we understand that the above Government Code Sections require certain disclosures be provided, including an explanation of the financial impact that the proposed benefit change or salary increase will have on the funding status of the county employees' retirement system.

RESULTS

After reviewing the salary increases for employees covered under Salary Resolution as provided by the County and outlined in Exhibit 1, we have concluded that the assumptions applied in the December 31, 2016 Valuation to develop the employer costs for the 2018/2019 Fiscal Year for the General County and Safety County membership groups are not sufficient to cover the costs of the salary increases for these groups.

General County

The salary increases under Items 1 through 4, as described herein, would increase the General County total employer and employee normal cost by approximately \$292,000 in the first year. When averaged over Plans A and B, a General County employee is expected to pay about 43% of the total normal cost³, resulting in an increase to the employer's normal cost

² Based on filled positions for Salary Resolution as of the issuance of the original June 7, 2018 letter, as provided by the County.

³ The 43% of the total normal cost expected to be paid by the General County employees reflects payment of 50% of the Normal Cost by Plan B members, however, for Plan A members it has been calculated prior to reflecting any additional contributions (i.e., above those determined under the County Employees

contribution of roughly \$167,000. Additionally, the salary increases would increase the General County Unfunded Actuarial Accrued Liability (UAAL) by \$3,767,000, which translates to an increase in the amortization payment of approximately \$269,000 in the first year, for a total employer contribution increase of about \$436,000.

The paid parental leave under Item 5 was estimated to increase the General County total employee and employer normal cost contributions by approximately \$35,000 in the first year. When averaged over Plans A and B, a General County employee is expected to pay about 43% of the total normal cost, resulting in an increase to the employer's normal cost contribution of roughly \$20,000. This increase combined with the contribution increase of about \$436,000 calculated above results in a total employer contribution increase of about \$456,000.

Safety County

The salary increases under Items 1 through 4, as described herein, would increase the Safety County total employer and employee normal cost by approximately \$2,400 in the first year. When averaged over Plans A and B, a Safety County employee is expected to pay about 35% of the total normal cost⁴, resulting in an increase to the employer's normal cost contribution of roughly \$1,500. Additionally, the salary increases would increase the Safety County Unfunded Actuarial Accrued Liability (UAAL) by \$34,000, which translates to an increase in the amortization payment of approximately \$2,400 in the first year, for a total employer contribution increase of about \$3,900.

The paid parental leave under Item 5 was estimated to increase the Safety County total employee and employer normal cost contributions by approximately \$2,000 in the first year. When averaged over Plans A and B, a Safety County employee is expected to pay about 35% of the total normal cost, resulting in an increase to the employer's normal cost contribution of roughly \$1,000. This increase combined with the contribution increase of about \$3,900 calculated above results in a total employer contribution increase of about \$4,900.

We understand Items 1 and 2 in Exhibit 1 to be one-time lump sum payments, and that Item 3 is to be paid over a one-year period. Due to the one-time nature of these changes, the above costs associated with Items 1 through 3 may be offset to some extent in future actuarial valuations should the employees' salary revert back to the lower salary amounts. However, if some Plan A members subsequently retire from SCERA with these salary increases included in their final average salary determination, then SCERA may not realize the cost reduction for those members.

Retirement Law of 1937 for Plan A members) that may have been agreed to be paid by those employees covered under Salary Resolution.

⁴ The 35% of the total normal cost expected to be paid by the Safety County employees reflects payment of 50% of the Normal Cost by Plan B members, however, for Plan A members it has been calculated prior to reflecting any additional contributions (i.e., above those determined under the County Employees Retirement Law of 1937 for Plan A members) that may have been agreed to be paid by those employees covered under Salary Resolution.

ANALYSIS

Exhibit 1 (attached) outlines the changes to the elements of pay. For those changes of pay elements that are deemed to be pensionable, we have included our analysis below.

Pensionable Elements of Pay

The employer costs developed in our Actuarial Valuation and Review as of December 31, 2016 include a 3.50% annual wage growth assumption that is applied to project all future salary amounts for pension purposes.

General County

In Exhibit 1, the total increase in General County pensionable elements of pay for Items 1 through 4 is expected to be approximately \$4,031,741. This is equivalent to \$5,383 each over the 749 General Salary Resolution positions that have been communicated to us by the County. Even though we do not have complete data as to the exact employees who would be eligible for the changes, if we take the average salary increase stated above of \$5,383 and divide it by the average General Salary Resolution member salary of \$96,333 (as provided by the County), we estimate an average increase in salary of 5.59% as a result of the changes. This increase is greater than our 3.50% wage increase assumption by 2.09%. Please refer to the Results section of this letter for the contribution increase from these salary changes.

Also in Exhibit 1 we have listed the estimated increase in pensionable pay for Item 5. In our December 31, 2016 valuation, the normal cost rates have been calculated assuming all members would work prospectively on a full time basis. In practice, if members subsequently take an unpaid leave then the County would recognize a normal cost contribution savings during that time (as no such contributions would be made). Under the approved paid parental leave, a portion of the leave that would previously have been unpaid will now be paid by the County. We have estimated this increase in pay to be \$180,856, as detailed in Exhibit 1. Since the total normal cost contribution for a General County member (weighted for Plan A and Plan B members) is 19.39%, then the additional total normal cost contributions as a result of this approved increase would be approximately \$35,000. Please refer to the Results section of this letter for the derivation of the employer contribution increase due to the paid parental leave.

Safety County

In Exhibit 1, the total increase in Safety County pensionable elements of pay for Items 1 through 4 is expected to be approximately \$37,952. This is equivalent to \$7,590 each over the 5 Safety Salary Resolution positions that have been communicated to us by the County. Even though we do not have complete data as to the exact employees who would be eligible for the changes, if we take the average salary increase stated above of \$7,590 and divide it by the average Safety Salary Resolution member salary of \$165,753 (as provided by the County), we estimate an average increase in salary of 4.58% as a result

of the changes. This increase is greater than our 3.50% wage increase assumption by 1.08%. Please refer to the Results section of this letter for the contribution increase from these salary changes.

Also in Exhibit 1 we have listed the estimated increase in pensionable pay for Item 5. In our December 31, 2016 valuation, the normal cost rates have been calculated assuming all members would work prospectively on a full time basis. In practice, if members subsequently take an unpaid leave then the County would recognize a normal cost contribution savings during that time (as no such contributions would be made). Under the approved paid parental leave, a portion of the leave that would previously have been unpaid will now be paid by the County. We have estimated this increase in pay to be \$6,352, as detailed in Exhibit 1. Since the total normal cost contribution for a Safety County member (weighted for Plan A and Plan B members) is 26.40%, then the additional total normal cost contributions as a result of this approved increase would be approximately \$2,000. Please refer to the Results section of this letter for the derivation of the employer contribution increase due to the paid parental leave.

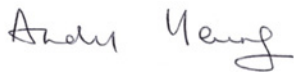
Non-Pensionable Elements of Pay

It is our understanding that SCERA and the County have rendered a determination that Items 6-14 in Exhibit 1 are non-pensionable elements of pay. Therefore, these items will not have any impact on the level of benefits and will not increase the employer cost of the plan.

The undersigned is a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please let us know if you have any questions on this information.

Sincerely,



Andy Yeung

MAM/bbf
Enclosure

Exhibit 1

Summary of Elements of Pay – Salary Resolution

Item	Pensionable Elements of Pay	Estimated Amount Fiscal Year 2018/2019	
		General ⁵ :	Safety ⁵ :
1	Bargaining Units 00 & 51: One-time lump sum of \$2,170	\$362,390	\$0
2	Bargaining Units 50 & 52: One-time lump sum of \$3,154	\$1,819,858	\$15,770
3	Bargaining Units 49, 50 & 52: Biweekly management allowance (Plan A members) Effective: 7/2/2018 through 1/14/2019 only	\$1,806,230	\$21,565
4	Bargaining Units 00, 50, 51 & 52: Equity Adjustments ⁷ – New Effective: 6/4/2019	\$43,263	\$617
5	Paid parental leave	\$180,856	\$6,352
Non-Pensionable Elements of Pay			
6	Bargaining Units 00, 50, 51 & 52: 8 hours of floating holiday time each calendar year		
7	Bargaining Units 00, 49, 50, 51 & 52: Increase in County's contributions for dental premiums		
8	Bargaining Units 49, 50 & 52: Biweekly management allowance for Plan B members		
9	Bargaining Units 00, 49, 50, 51 & 52: 8 hours of holiday time on Cesar Chavez day		
10	Bargaining Units 00 & 51: Increase in Compensatory Time bank maximum number of hours		

⁵ The estimated costs during Fiscal Year 2018/2019 for Items 1 and 2 have been calculated by Segal by multiplying the eligible employee count for Item 1 (167 General and 0 Safety) and Item 2 (577 General and 5 Safety) by the respective values of the lump sums.

⁶ The estimated costs during Fiscal Year 2018/2019 for Items 3 and 4 were provided directly by the County.

⁷ Includes Living Wage Adjustments for Bargaining Unit 51.

⁸ The cost for Item 5 has been estimated by Segal using the following data items and formula: (i) number of eligible employees taking this leave (as provided by the County) times (ii) the average General/Safety Salary Resolution member salary (as provided by the County) times (iii) the ratio of the number of hours of paid parental leave to the full-time equivalent number of hours (i.e., eight 40-hour weeks over 2088 hours) times (iv) the amount of leave that would have otherwise been unpaid (as provided by the County).

Exhibit 1 (continued)

Summary of Elements of Pay – Salary Resolution

	Non-Pensionable Elements of Pay (Continued)
11	Bargaining Units 00, 50, 51 & 52: Increase in County's contributions for medical premiums – New
12	Bargaining Units 50 & 52: Increase to vacation cap from 480 hours to 500 hours – New
13	Bargaining Unit 52: 2.50% premium for Appointed Department Heads (Plan B) – New
14	Bargaining Units 00 & 51: 0.90% increase to deferred compensation – New



180 Howard Street Suite 1100 San Francisco, CA 94105-6147
T 415.263.8283 www.segalco.com

Andy Yeung ASA, MAAA, FCA, EA
Vice President & Actuary
ayeung@segalco.com

VIA E-MAIL

June 12, 2019

Ms. Julie Wyne
Chief Executive Officer
Sonoma County Employees' Retirement Association
433 Aviation Boulevard, Suite 100
Santa Rosa, CA 95403-1069

**Re: Sonoma County Employees' Retirement Association (SCERA)
Disclosure under Government Code Section 31515.5 in compliance with
Section 23026 – Salary Resolution – 2019/2020 Fiscal Year**

Dear Julie:

As requested, we are providing this letter with our analysis of the impact of several proposed changes in elements of pay and their potential impact on the cost to provide benefits through SCERA as required under California Government Code Section 31515.5 in compliance with Section 23026.

The results presented in this letter are based on changes in elements of pay that were bargained as of the issuance of this letter. Any additional changes that may be bargained for the 2019/2020 Fiscal Year would result in a revised cost impact to be provided at that time.

The contribution impact in this letter is based on the December 31, 2017 Actuarial Valuation, including the participant data and actuarial assumptions on which that valuation was based. In developing the contribution impact, it has been assumed that all actuarial assumptions would have been met after December 31, 2017, including the annual wage growth assumption of 3.50% for all General County and Safety County members, with the exception of the salary increases proposed for employees covered under Salary Resolution described herein.

The actual results of this analysis may differ to the extent that other experience varies from that which is assumed. In particular, the contribution impact present within this letter would be mitigated to some extent if other County members do not receive the full 3.50% salary increase anticipated by the wage growth assumption.

BACKGROUND

We have been asked to prepare a Disclosure for the above Government Code Sections regarding salary changes proposed for approximately 805 General and 5 Safety County members covered

under Salary Resolution.¹ All of the changes in salaries and benefits that we have reviewed in this Disclosure were provided by the County and are outlined in Exhibit 1 attached.

Prior to authorizing changes in salaries or benefits, we understand that the above Government Code Sections require certain disclosures be provided, including an explanation of the financial impact that the proposed benefit change or salary increase will have on the funding status of the county employees' retirement system.

RESULTS

After reviewing the proposed salary increases for employees covered under Salary Resolution as provided by the County and outlined in Exhibit 1, we have concluded that the assumptions applied in the December 31, 2017 Valuation to develop the employer costs for the 2019/2020 Fiscal Year for the General County and Safety County membership groups are not sufficient to cover the costs of the proposed salary increases for these groups.

General County

The salary increases under Items 1 through 5, as described herein, would increase the General County total employer and employee normal cost by approximately \$166,000 in the first year. When averaged over Plans A and B, a General County employee is expected to pay about 44% of the total normal cost², resulting in an increase to the employer's normal cost contribution by roughly \$93,000. Additionally, the proposed salary increases would increase the General County Unfunded Actuarial Accrued Liability (UAAL) by \$2,193,000, which translates to an increase in the amortization payment by approximately \$156,000 in the first year, for a total employer contribution increase of about \$249,000.

Safety County

The salary increases under Items 1 through 5, as described herein, would increase the Safety County total employer and employee normal cost by approximately \$4,000 in the first year. When averaged over Plans A and B, a Safety County employee is expected to pay about 35% of the total normal cost³, resulting in an increase to the employer's normal cost contribution by roughly \$2,000. Additionally, the proposed salary increases would increase the Safety

¹ According to the County, these are based on budgeted full-time equivalent positions for Fiscal Year 2018/2019.

² The 44% of the total normal cost expected to be paid by the General County employees reflects payment of 50% of the Normal Cost by Plan B members, however, for Plan A members it has been calculated prior to reflecting any additional contributions (i.e., above those determined under the County Employees Retirement Law of 1937 for Plan A members) that may have been agreed to be paid by those employees covered under Salary Resolution.

³ The 35% of the total normal cost expected to be paid by the Safety County employees reflects payment of 50% of the Normal Cost by Plan B members, however, for Plan A members it has been calculated prior to reflecting any additional contributions (i.e., above those determined under the County Employees Retirement Law of 1937 for Plan A members) that may have been agreed to be paid by those employees covered under Salary Resolution.

County Unfunded Actuarial Accrued Liability (UAAL) by \$49,000, which translates to an increase in the amortization payment by approximately \$4,000 in the first year, for a total employer contribution increase of about \$6,000.

ANALYSIS

Exhibit 1 (attached) outlines the proposed changes to the elements of pay. For those changes of pay elements that are deemed to be pensionable, we have included our analysis below.

Pensionable Elements of Pay

The employer costs developed in our Actuarial Valuation and Review as of December 31, 2017 include a 3.50% annual wage growth assumption that is applied to project all future salary amounts for pension purposes.

General County

In Exhibit 1, the total increase in General County pensionable elements of pay for Items 1 through 5 is approximately \$3,866,199. This is equivalent to \$4,803 each over the total 805 General Salary Resolution positions that have been communicated to us by the County. Even though we do not have complete data as to the exact employees who would be eligible for the proposed changes, if we take the average salary increase stated above of \$4,803 and divide it by the average General Salary Resolution member salary of \$106,366 (as provided by the County), we estimate an average increase in salary of 4.52% as a result of the proposed changes. This increase is greater than our 3.50% wage increase assumption by 1.02%. Please refer to the Results section of this letter for the contribution increase from these salary changes.

Safety County

In Exhibit 1, the total increase in Safety County pensionable elements of pay for Items 1 through 5 is approximately \$50,750. This is equivalent to \$10,150 each over the total 5 Safety Salary Resolution positions that have been communicated to us by the County. Even though we do not have complete data as to the exact employees who would be eligible for the proposed changes, if we take the average salary increase stated above of \$10,150 and divide it by the average Safety Salary Resolution member salary of \$212,260 (as provided by the County), we estimate an average increase in salary of 4.78% as a result of the proposed changes. This increase is greater than our 3.50% wage increase assumption by 1.28%. Please refer to the Results section of this letter for the contribution increase from these salary changes.

Non-Pensionable Elements of Pay

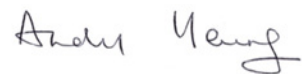
It is our understanding that SCERA and the County have rendered a determination that Items 6 through 12 in Exhibit 1 are non-pensionable elements of pay. Therefore, these items will not have any impact on the level of benefits and will not increase the employer cost of the plan.

Ms. Julie Wyne
June 12, 2019
Page 4

The undersigned is a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please let us know if you have any questions on this information.

Sincerely,

A handwritten signature in cursive script, appearing to read "Andy Yeung".

Andy Yeung

MAM/
Enclosure

Exhibit 1

Summary of Elements of Pay – Salary Resolution

Item	Pensionable Elements of Pay	
		Estimated Amount Fiscal Year 2019/2020 ⁴
1	Bargaining Units 00, 50, 51 & 52: Cost-of-Living Adjustment Effective: 7/2/2019	General: \$2,581,260 Safety: \$32,320
2	Bargaining Units 00, 50, 51 & 52: Equity Adjustments ⁵ Effective: 6/4/2019	General: \$1,081,585 Safety: \$15,422
3	Bargaining Units 00, 50, 51 & 52: Cost-of-Living Adjustment Effective: 6/2/2020	General: \$102,679 Safety: \$1,299
4	Bargaining Units 00, 50, 51 & 52: Equity Adjustments Effective: 5/19/2020	General: \$28,075 Safety: \$1,209
5	Bargaining Units 00, 50, 51 & 52: Cell Phone Stipend (Plan A) Effective: 9/10/2019	General: \$72,600 Safety: \$500
	Non-Pensionable Elements of Pay	
6	Bargaining Units 00, 49, 50, 51 & 52: Increase in contributions into retiree HRA	
7	Bargaining Units 00, 50, 51 & 52: Increase in County's contributions for medical premiums	
8	Bargaining Units 00, 49, 50, 51 & 52: Cell Phone Stipend (Plan B)	
9	Bargaining Units 49, 50 & 52: \$200 per year increase in staff development	
10	Bargaining Units 50 & 52: Increase to vacation cap from 480 hours to 500 hours	
11	Bargaining Unit 52: 2.50% premium for Appointed Department Heads (Plan B)	
12	Bargaining Units 00 & 51: 0.90% increase to deferred compensation	

⁴ The estimated costs during Fiscal Year 2019/2020 for Items 1 through 5 were provided directly by the County.

⁵ Includes Living Wage Adjustments for Bargaining Unit 51.



180 Howard Street Suite 1100 San Francisco, CA 94105-6147
T 415.263.8283 www.segalco.com

Andy Yeung ASA, MAAA, FCA, EA
Vice President & Actuary
ayeung@segalco.com

VIA E-MAIL

June 12, 2019

Ms. Julie Wyne
Chief Executive Officer
Sonoma County Employees' Retirement Association
433 Aviation Boulevard, Suite 100
Santa Rosa, CA 95403-1069

**Re: Sonoma County Employees' Retirement Association (SCERA)
Disclosure under Government Code Section 31515.5 in compliance with
Section 23026 – Salary Resolution – 2020/2021 Fiscal Year**

Dear Julie:

As requested, we are providing this letter with our analysis of the impact of several proposed changes in elements of pay and their potential impact on the cost to provide benefits through SCERA as required under California Government Code Section 31515.5 in compliance with Section 23026.

The results presented in this letter are based on changes in elements of pay that were bargained as of the issuance of this letter. Any additional changes that may be bargained for the 2020/2021 Fiscal Year would result in a revised cost impact to be provided at that time.

The contribution impact in this letter is based on the December 31, 2018 Actuarial Valuation, including the participant data and actuarial assumptions on which that valuation was based. In developing the contribution impact, it has been assumed that all actuarial assumptions would have been met after December 31, 2018, including the annual wage growth assumption of 3.25% for all General County and Safety County members, with the exception of the salary increases proposed for employees covered under Salary Resolution described herein.

The actual results of this analysis may differ to the extent that other experience varies from that which is assumed. In particular, the contribution impact present within this letter would be mitigated to some extent if other County members do not receive the full 3.25% salary increase anticipated by the wage growth assumption.

BACKGROUND

We have been asked to prepare a Disclosure for the above Government Code Sections regarding salary changes proposed for approximately 805 General and 5 Safety County members covered under Salary Resolution. All of the changes in salaries and benefits that we have reviewed in this

Disclosures were provided by the County and are outlined in Exhibit 1 attached. The changes in salaries include an estimated 3.00% cost-of-living adjustment effective June 1, 2021, as provided by the County.¹ The results in this letter are subject to change if the actual cost-of-living adjustment differs from 3.00%.

Prior to authorizing changes in salaries or benefits, we understand that the above Government Code Sections require certain disclosures be provided, including an explanation of the financial impact that the proposed benefit change or salary increase will have on the funding status of the county employees' retirement system.

RESULTS

After reviewing the proposed salary increases for employees covered under Salary Resolution as provided by the County and outlined in Exhibit 1, we have concluded that the assumptions applied in the December 31, 2018 Valuation to develop the employer costs for the 2020/2021 Fiscal Year for the General County and Safety County membership groups are not sufficient to cover the costs of the proposed salary increases for these groups.

General County

The salary increases under Items 1 through 5, as described herein, would increase the General County total employer and employee normal cost by approximately \$53,000 in the first year. When averaged over Plans A and B, a General County employee is expected to pay about 44% of the total normal cost², resulting in an increase to the employer's normal cost contribution by roughly \$30,000. Additionally, the proposed salary increases would increase the General County Unfunded Actuarial Accrued Liability (UAAL) by \$719,000, which translates to an increase in the amortization payment by approximately \$51,000 in the first year, for a total employer contribution increase of about \$81,000.

Safety County

The salary increases under Items 1 through 5, as described herein, would increase the Safety County total employer and employee normal cost by approximately \$4,000 in the first year.

¹ We understand that the cost-of-living adjustment effective June 1, 2021 will be based on the lesser of the Consumer Price Index-Urban Consumers for the San Francisco-Oakland-Hayward Area as of December for the preceding year or the County Secured Property Tax Growth year over year divided by 1.5. The County has provided us with a historical calculation of the County Secured Property Tax Growth rate, and they have asked for input on alternative assumption to consider in lieu of their 3.00% cost-of-living adjustment assumption. As we are not an expert in how changes in price inflation are to be taken into consideration in the County's Secured Property Tax Growth rate calculations, we are not qualified to express any opinion on what inflation assumption to use. We have therefore used the 3.00% cost-of-living adjustment assumption provided by the County.

² The 44% of the total normal cost expected to be paid by the General County employees reflects payment of 50% of the Normal Cost by Plan B members, however, for Plan A members it has been calculated prior to reflecting any additional contributions (i.e., above those determined under the County Employees Retirement Law of 1937 for Plan A members) that may have been agreed to be paid by those employees covered under Salary Resolution.

When averaged over Plans A and B, a Safety County employee is expected to pay about 35% of the total normal cost³, resulting in an increase to the employer's normal cost contribution by roughly \$3,000. Additionally, the proposed salary increases would increase the Safety County Unfunded Actuarial Accrued Liability (UAAL) by \$49,000, which translates to an increase in the amortization payment by approximately \$3,000 in the first year, for a total employer contribution increase of about \$6,000.

ANALYSIS

Exhibit 1 (attached) outlines the proposed changes to the elements of pay. For those changes of pay elements that are deemed to be pensionable, we have included our analysis below.

Pensionable Elements of Pay

The employer costs developed in our Actuarial Valuation and Review as of December 31, 2018 include a 3.25% annual wage growth assumption⁴ that is applied to project all future salary amounts for pension purposes.

General County

In Exhibit 1, the total increase in General County pensionable elements of pay for Items 1 through 5 is expected to be approximately \$3,183,177. This is equivalent to \$3,954 each over the total 805 General Salary Resolution positions that have been communicated to us by the County. Even though we do not have complete data as to the exact employees who would be eligible for the proposed changes, if we take the average salary increase stated above of \$3,954 and divide it by the average General Salary Resolution member salary of \$110,970 (as provided by the County), we estimate an average increase in salary of 3.56% as a result of the proposed changes. This increase is greater than our 3.25% wage increase assumption by 0.31%. Please refer to the Results section of this letter for the contribution increase from these salary changes.

Safety County

In Exhibit 1, the total increase in Safety County pensionable elements of pay for Items 1 through 5 is expected to be approximately \$49,722. This is equivalent to \$9,944 each over the total 5 Safety Salary Resolution positions that have been communicated to us by the County. Even though we do not have complete data as to the exact employees who would be eligible for the proposed changes, if we take the average salary increase stated above of \$9,944 and divide it by the average Safety Salary Resolution member salary of

³ The 35% of the total normal cost expected to be paid by the Safety County employees reflects payment of 50% of the Normal Cost by Plan B members, however, for Plan A members it has been calculated prior to reflecting any additional contributions (i.e., above those determined under the County Employees Retirement Law of 1937 for Plan A members) that may have been agreed to be paid by those employees covered under Salary Resolution.

⁴ For the purposes of developing employer and employee contribution rate requirements, 3.25% is the long-term assumption we use to project the growth in annual wages in our actuarial valuation.

\$221,932 (as provided by the County), we estimate an average increase in salary of 4.48% as a result of the proposed changes. This increase is greater than our 3.25% wage increase assumption by 1.23%. Please refer to the Results section of this letter for the contribution increase from these salary changes.

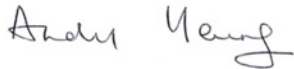
Non-Pensionable Elements of Pay

There were no non-pensionable elements of pay that were communicated to us by the County besides those included in the Salary Resolution disclosure letter for the 2019/2020 Fiscal Year.

The undersigned is a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please let us know if you have any questions on this information.

Sincerely,

A handwritten signature in cursive script that reads "Andy Yeung".

Andy Yeung

MAM/bbf
Enclosure

Exhibit 1

Summary of Elements of Pay – Salary Resolution

Item	Pensionable Elements of Pay	
		Estimated Amount Fiscal Year 2020/2021 ⁵
1	Bargaining Units 00, 50, 51 & 52: Cost-of-Living Adjustment Effective: 6/2/2020	General: \$2,566,968 Safety: \$32,463
2	Bargaining Units 00, 50, 51 & 52: Equity Adjustments Effective: 5/19/2020	General: \$336,907 Safety: \$14,511
3	Bargaining Units 00, 50, 51 & 52: Estimated 3.00% Cost-of-Living Adjustment Effective: 6/1/2021	General: \$105,770 Safety: \$1,341
4	Bargaining Units 50 & 52: Equity Adjustments Effective: 5/18/2021	General: \$732 Safety: \$207
5	Bargaining Units 00, 50, 51 & 52: Cell Phone Stipend (Plan A) Effective: 9/10/2019	General: \$172,800 Safety: \$1,200
	Non-Pensionable Elements of Pay	
	None	

⁵ The estimated costs during Fiscal Year 2020/2021 for Items 1 through 5 were provided directly by the County.



180 Howard Street Suite 1100 San Francisco, CA 94105-6147
T 415.263.8283 www.segalco.com

Andy Yeung ASA, MAAA, FCA, EA
Vice President & Actuary
ayeung@segalco.com

VIA E-MAIL

June 12, 2019

Ms. Julie Wyne
Chief Executive Officer
Sonoma County Employees' Retirement Association
433 Aviation Boulevard, Suite 100
Santa Rosa, CA 95403-1069

**Re: Sonoma County Employees' Retirement Association (SCERA)
Disclosure under Government Code Section 31515.5 in compliance with
Section 23026 – Salary Resolution – 2021/2022 and 2022/2023 Fiscal Years**

Dear Julie:

As requested, we are providing this letter with our analysis of the impact of several proposed changes in elements of pay and their potential impact on the cost to provide benefits through SCERA as required under California Government Code Section 31515.5 in compliance with Section 23026.

The results presented in this letter are based on changes in elements of pay that were bargained as of the issuance of this letter. Any additional changes that may be bargained for the 2021/2022 and 2022/2023 Fiscal Years would result in a revised cost impact to be provided at that time.

The contribution impacts in this letter are based on the December 31, 2018 Actuarial Valuation, including the participant data and actuarial assumptions on which that valuation was based. Although the December 31, 2018 Actuarial Valuation is not going to be used to set the contribution rates for the 2021/2022 and 2022/2023 Fiscal Years¹, it is the most recent Actuarial Valuation available at the time of this writing, and we have therefore used that valuation to illustrate the potential cost impact of the proposed salary increases. The results in this letter may be subject to change depending on the assumptions, methods, demographic profile and results of the December 31, 2019 and 2020 Actuarial Valuations.

In developing the contribution impact, it has been assumed that all actuarial assumptions would have been met after December 31, 2018, including the annual wage growth assumption of 3.25% for all General County and Safety County members, with the exception of the salary increases proposed for employees covered under Salary Resolution described herein. We have also

¹ Contribution rates for the 2021/2022 and 2022/2023 Fiscal Years will be set using the December 31, 2019 and 2020 valuations, respectively.

assumed that there will be no changes in the assumptions, methods and the demographic profile between the December 31, 2018 valuation and the December 31, 2019 and 2020 valuations.

The actual results of this analysis may differ to the extent that other experience varies from that which is assumed. In particular, the contribution impact present within this letter would be mitigated to some extent if other County members do not receive the full 3.25% salary increase anticipated by the wage growth assumption.

BACKGROUND

We have been asked to prepare a Disclosure for the above Government Code Sections regarding salary changes proposed for approximately 805 General and 5 Safety County members covered under Salary Resolution. All of the changes in salaries and benefits that we have reviewed in this Disclosure were provided by the County and are outlined in Exhibit 1 attached. The changes in salaries include estimated 3.00% cost-of-living adjustments effective June 1, 2021 and May 31, 2022, as provided by the County.² The results in this letter are subject to change if the actual cost-of-living adjustments differ from 3.00%.

Prior to authorizing changes in salaries or benefits, we understand that the above Government Code Sections require certain disclosures be provided, including an explanation of the financial impact that the proposed benefit change or salary increase will have on the funding status of the county employees' retirement system.

RESULTS

Fiscal Year 2021/2022

General County

After reviewing the proposed salary increases for employees covered under Salary Resolution as provided by the County and outlined in Exhibit 1, we have concluded that the assumptions applied in the December 31, 2018 Valuation would be sufficient to cover the costs of the proposed salary increases for the 2021/2022 Fiscal Year for the General County membership group when measured as of December 31, 2018.

The salary increases under Items 1 through 4 (Fiscal year 2021/2022), as described herein, would decrease the General County total employer and employee normal cost by approximately \$12,000 in the first year. When averaged over Plans A and B, a General

² We understand that the cost-of-living adjustments effective June 1, 2021 and May 31, 2022 will be based on the lesser of the Consumer Price Index-Urban Consumers for the San Francisco-Oakland-Hayward Area as of December for the preceding year or the County Secured Property Tax Growth year over year divided by 1.5. The County has provided us with a historical calculation of the County Secured Property Tax Growth rate, and they have asked for input on alternative assumptions to consider in lieu of their 3.00% cost-of-living adjustment assumptions. As we are not an expert in how changes in price inflation are to be taken into consideration in the County's Secured Property Tax Growth rate calculations, we are not qualified to express any opinion on what inflation assumptions to use. We have therefore used the 3.00% cost-of-living adjustment assumptions provided by the County.

County employee is expected to pay about 44% of the total normal cost³, resulting in a decrease to the employer's normal cost contribution by roughly \$7,000. Additionally, the proposed salary increases would decrease the General County Unfunded Actuarial Accrued Liability (UAAL) by \$168,000, which translates to a decrease in the amortization payment by approximately \$12,000 in the first year, for a total employer contribution decrease of about \$19,000.

Safety County

After reviewing the proposed salary increases for employees covered under Salary Resolution as provided by the County and outlined in Exhibit 1, we have concluded that the assumptions applied in the December 31, 2018 Valuation would not be sufficient to cover the costs of the proposed salary increases for the 2021/2022 Fiscal Year for the Safety County membership group when measured as of December 31, 2018.

The salary increases under Items 1 through 4 (Fiscal year 2021/2022), as described herein, would increase the Safety County total employer and employee normal cost by approximately \$300 in the first year. When averaged over Plans A and B, a Safety County employee is expected to pay about 35% of the total normal cost⁴, resulting in an increase to the employer's normal cost contribution by roughly \$200. Additionally, the proposed salary increases would increase the Safety County Unfunded Actuarial Accrued Liability (UAAL) by \$3,000, which translates to an increase in the amortization payment by approximately \$200 in the first year, for a total employer contribution increase of about \$400.

Fiscal Year 2022/2023

General County

After reviewing the proposed salary increases for employees covered under Salary Resolution as provided by the County and outlined in Exhibit 1, we have concluded that the assumptions applied in the December 31, 2018 Valuation would be sufficient to cover the costs of the proposed salary increases for the 2022/2023 Fiscal Year for the General County membership group when measured as of December 31, 2018.

The salary increases under Items 5 and 6 (Fiscal year 2022/2023), as described herein, would decrease the General County total employer and employee normal cost by approximately

³ The 44% of the total normal cost expected to be paid by the General County employees reflects payment of 50% of the Normal Cost by Plan B members, however, for Plan A members it has been calculated prior to reflecting any additional contributions (i.e., above those determined under the County Employees Retirement Law of 1937 for Plan A members) that may have been agreed to be paid by those employees covered under Salary Resolution.

⁴ The 35% of the total normal cost expected to be paid by the Safety County employees reflects payment of 50% of the Normal Cost by Plan B members, however, for Plan A members it has been calculated prior to reflecting any additional contributions (i.e., above those determined under the County Employees Retirement Law of 1937 for Plan A members) that may have been agreed to be paid by those employees covered under Salary Resolution.

\$38,000 in the first year. When averaged over Plans A and B, a General County employee is expected to pay about 44% of the total normal cost, resulting in a decrease to the employer's normal cost contribution by roughly \$21,000. Additionally, the proposed salary increases would decrease the General County Unfunded Actuarial Accrued Liability (UAAL) by \$519,000, which translates to a decrease in the amortization payment by approximately \$37,000 in the first year, for a total employer contribution decrease of about \$58,000.

Safety County

After reviewing the proposed salary increases for employees covered under Salary Resolution as provided by the County and outlined in Exhibit 1, we have concluded that the assumptions applied in the December 31, 2018 Valuation would be sufficient to cover the costs of the proposed salary increases for the 2022/2023 Fiscal Year for the Safety County membership group when measured as of December 31, 2018.

The salary increases under Items 5 and 6 (Fiscal year 2022/2023), as described herein, would decrease the Safety County total employer and employee normal cost by approximately \$900 in the first year. When averaged over Plans A and B, a Safety County employee is expected to pay about 35% of the total normal cost, resulting in a decrease to the employer's normal cost contribution by roughly \$600. Additionally, the proposed salary increases would decrease the Safety County Unfunded Actuarial Accrued Liability (UAAL) by \$11,000, which translates to a decrease in the amortization payment by approximately \$800 in the first year, for a total employer contribution decrease of about \$1,400.

ANALYSIS

Exhibit 1 (attached) outlines the proposed changes to the elements of pay. For those changes of pay elements that are deemed to be pensionable, we have included our analysis below.

Pensionable Elements of Pay

The employer costs developed in our Actuarial Valuation and Review as of December 31, 2018 include a 3.25% annual wage growth assumption⁵ that is applied to project all future salary amounts for pension purposes.

Fiscal Year 2021/2022

General County

In Exhibit 1, the total increase in General County pensionable elements of pay for Items 1 through 4 (Fiscal Year 2021/2022) is expected to be approximately \$2,934,785. This is equivalent to \$3,646 each over the total 805 General Salary Resolution positions that have been communicated to us by the County. Even though we do not have complete data as to the exact employees who would be eligible for the proposed changes, if we take the

⁵ For the purposes of developing employer and employee contribution rate requirements, 3.25% is the long-term assumption we use to project the growth in annual wages in our actuarial valuation.

average salary increase stated above of \$3,646 and divide it by the average General Salary Resolution member salary of \$114,740 (as provided by the County), we estimate an average increase in salary of 3.18% as a result of the proposed changes. This increase is less than our 3.25% wage increase assumption by 0.07%. Please refer to the Results section of this letter for the contribution decrease from these salary changes.

Safety County

In Exhibit 1, the total increase in Safety County pensionable elements of pay for Items 1 through 4 (Fiscal Year 2021/2022) is expected to be approximately \$38,583. This is equivalent to \$7,717 each over the total 5 Safety Salary Resolution positions that have been communicated to us by the County. Even though we do not have complete data as to the exact employees who would be eligible for the proposed changes, if we take the average salary increase stated above of \$7,717 and divide it by the average Safety Salary Resolution member salary of \$231,828 (as provided by the County), we estimate an average increase in salary of 3.33% as a result of the proposed changes. This increase is greater than our 3.25% wage increase assumption by 0.08%. Please refer to the Results section of this letter for the contribution increase from these salary changes.

Fiscal Year 2022/2023

General County

In Exhibit 1, the total increase in General County pensionable elements of pay for Items 5 and 6 (Fiscal Year 2022/2023) is expected to be approximately \$2,896,380. This is equivalent to \$3,598 each over the total 805 General Salary Resolution positions that have been communicated to us by the County. Even though we do not have complete data as to the exact employees who would be eligible for the proposed changes, if we take the average salary increase stated above of \$3,598 and divide it by the average General Salary Resolution member salary of \$118,168 (as provided by the County), we estimate an average increase in salary of 3.04% as a result of the proposed changes. This increase is less than our 3.25% wage increase assumption by 0.21%. Please refer to the Results section of this letter for the contribution decrease from these salary changes.

Safety County

In Exhibit 1, the total increase in Safety County pensionable elements of pay for Items 5 and 6 (Fiscal Year 2022/2023) is expected to be approximately \$35,919. This is equivalent to \$7,184 each over the total 5 Safety Salary Resolution positions that have been communicated to us by the County. Even though we do not have complete data as to the exact employees who would be eligible for the proposed changes, if we take the average salary increase stated above of \$7,184 and divide it by the average Safety Salary Resolution member salary of \$239,337 (as provided by the County), we estimate an average increase in salary of 3.00% as a result of the proposed changes. This increase is less than our 3.25% wage increase assumption by 0.25%. Please refer to the Results section of this letter for the contribution decrease from these salary changes.

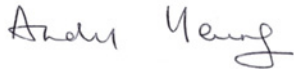
Non-Pensionable Elements of Pay

There were no non-pensionable elements of pay that were communicated to us by the County besides those included in the Salary Resolution disclosure letter for the 2019/2020 Fiscal Year.

The undersigned is a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein.

Please let us know if you have any questions on this information.

Sincerely,

A handwritten signature in cursive script that reads "Andy Yeung".

Andy Yeung

MAM/bbf
Enclosure

Exhibit 1

Summary of Elements of Pay – Salary Resolution

Item	Pensionable Elements of Pay	
		Estimated Amount Fiscal Year 2021/2022 ⁶
1	Bargaining Units 00, 50, 51 & 52: Estimated 3.00% Cost-of-Living Adjustment Effective: 6/1/2021	General: \$2,644,252 Safety: \$33,514
2	Bargaining Units 50 & 52: Equity Adjustments Effective: 5/18/2021	General: \$8,790 Safety: \$2,480
3	Bargaining Units 00, 50, 51 & 52: Estimated 3.00% Cost-of-Living Adjustment Effective: 5/31/2022	General: \$108,943 Safety: \$1,389
4	Bargaining Units 00, 50, 51 & 52: Cell Phone Stipend (Plan A) Effective: 9/10/2019	General: \$172,800 Safety: \$1,200
		Estimated Amount Fiscal Year 2022/2023 ⁶
5	Bargaining Units 00, 50, 51 & 52: Estimated 3.00% Cost-of-Living Adjustment Effective: 5/31/2022	General: \$2,723,580 Safety: \$34,719
6	Bargaining Units 00, 50, 51 & 52: Cell Phone Stipend (Plan A) Effective: 9/10/2019	General: \$172,800 Safety: \$1,200
	Non-Pensionable Elements of Pay	
	None	

⁶ The estimated costs during Fiscal Year 2021/2022 for Items 1 through 4 and during Fiscal Year 2022/2023 for Items 5 and 6 were provided directly by the County.