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Andy Yeung ASA, MAAA, FCA, EA
Vice President & Actuary
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VIA E-MAIL

July 1, 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 – SCDPDAA – 2019/2020 Fiscal Year – REVISED**

Dear Julie:

As requested, we are providing this letter with our analysis of changes in elements of pay and the potential impact on the cost to provide benefits through SCERA as required under California Government Code Section 31515.5 in compliance with Section 23026. We previously issued a letter on the analysis of a salary change dated March 5, 2019 (Item 1 in Exhibit 1 approved by the Board of Supervisors on March 12, 2019). The result of that analysis concluded that the assumptions applied in the December 31, 2017 Valuation were sufficient to cover the cost of that change. This letter supersedes the information previously provided in our March 5, 2019 letter to include additional salary changes (Items 2 through 8 in Exhibit 1) proposed for the 2019/2020 Fiscal Year.

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 Sonoma County Deputy Public Defender Attorneys' Association (SCDPDAA) 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.

BACKGROUND

We have been asked to prepare a Disclosure for the above Government Code Sections regarding salary changes for 28 General County members covered under SCDPDAA. We issued our initial Disclosure letter for SCDPDAA on March 5, 2019. Subsequent to the issuance of that letter, further changes in salary have been proposed for the 2019/2020 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 salary increase or benefit change will have on the funding status of the county employees' retirement system.

RESULTS

After reviewing the previously approved and newly proposed salary increases for employees covered under SCDPDAA 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 membership group are not sufficient to cover the costs of the salary increases for this group.

The salary increases under Items 1 through 6, as described herein, would increase the General County total employer and employee normal cost by approximately \$43,000 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 cost¹, resulting in an increase to the employer's normal cost contribution by roughly \$24,000. Additionally, the salary increases would increase the General County Unfunded Actuarial Accrued Liability (UAAL) by \$567,000, which translates to an increase in the amortization payment by approximately \$40,000 in the first year, for a total employer contribution increase of about \$64,000.

ANALYSIS

Exhibit 1 (attached) outlines the previously approved and newly 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.

¹ 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 SCDPDAA.

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.

In Exhibit 1, the total increase in General County pensionable elements of pay for Items 1 through 6 is expected to be approximately \$363,798. This is equivalent to \$12,993 each over the 28 General SCDPDAA 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 \$12,993 and divide it by the average General SCDPDAA member salary of \$140,731² (as provided by the County), we estimate an average increase in salary of 9.23% as a result of the changes. This increase is greater than our 3.50% wage increase assumption by 5.73%. Please refer to the Results section of this letter for the contribution impact from these salary changes.

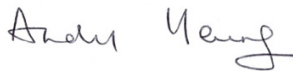
Non-Pensionable Elements of Pay

It is our understanding that SCERA and the County have rendered a determination that Items 7 and 8 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

EK/MAM:bqb

Enclosure

² The average salary for General SCDPDAA members has been revised subsequent to the issuance of our March 5, 2019 letter to reflect total allocated positions, consistent with the cost impacts provided in Exhibit 1.

Exhibit 1

Summary of Elements of Pay – SCDPDAA

Item	Pensionable Elements of Pay	
		Estimated Amount Fiscal Year 2019/2020 ³
1	Salary adjustment	General: \$92,798
2	Equity Adjustment – New Effective: 7/16/2019	General: \$135,000
3	Cash Allowance Roll-In – New Effective: 7/16/2019	General: \$1,000
4	Cost-of-Living Adjustment – New Effective: 7/30/2019	General: \$105,000
5	Equity Adjustment – New Effective: 5/5/2020	General: \$20,000
6	Cost-of-Living Adjustment – New Effective: 5/19/2020	General: \$10,000
	Non-Pensionable Elements of Pay	
7	Increase in County's contributions for medical premiums	
8	Increase in Staff Development Allowance	

³ The estimated costs during Fiscal Year 2019/2020 for Items 1 through 6 were provided directly by the County. The County has directed us to use the rounded values specified above for Items 2 through 6.



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

Dear Julie:

As requested, we are providing this letter with our analysis of the impact of proposed changes in elements of pay and the 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 Sonoma County Deputy Public Defender Attorneys' Association (SCDPDAA) 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 3.25% 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 28 General County members covered under SCDPDAA. 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 are based on an estimated 2.85% cost-of-living adjustment effective May 18, 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 2.85%.

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 SCDPDAA 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 membership group are not sufficient to cover the costs of the proposed salary increases for this group.

The salary increases under Items 1 through 6, as described herein, would increase the General County total employer and employee normal cost by approximately \$26,000 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 \$14,000. Additionally, the proposed salary increases would increase the General County Unfunded Actuarial Accrued Liability (UAAL) by \$349,000, which translates to an increase in the amortization payment by approximately \$25,000 in the first year, for a total employer contribution increase of about \$39,000.

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.

¹ We understand that the cost-of-living adjustment effective May 18, 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, then applied to a sliding scale where a value of 2.00% results in an effective cost-of-living adjustment of 1.90% and a value of 4.00% results in an effective cost-of-living adjustment of 3.80%. 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 2.85% cost-of-living adjustment assumption (which we note to be the average of the above 1.90% and 3.80% adjustments). 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 2.85% 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 SCDPDAA.

Pensionable Elements of Pay

The employer costs developed in our Actuarial Valuation and Review as of December 31, 2018 includes a 3.25% annual wage growth assumption³ that is applied to project all future salary amounts for pension purposes.

In Exhibit 1, the total increase in General County pensionable elements of pay for Items 1 through 6 is expected to be approximately \$271,000. This is equivalent to \$9,679 each over the total 28 General SCDPDAA 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 \$9,679 and divide it by the average General SCDPDAA member salary of \$150,114 (as provided by the County), we estimate an average increase in salary of 6.45% as a result of the proposed changes. This increase is greater than our 3.25% wage increase assumption by 3.20%. 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 Item 7 in Exhibit 1 is a non-pensionable element of pay. Therefore, this item 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/hy
Enclosure

³ 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.

Exhibit 1

Summary of Elements of Pay – SCDPDAA

Item	Pensionable Elements of Pay	
		Estimated Amount Fiscal Year 2020/2021 ⁴
1	Equity Adjustment Effective: 7/16/2019	General: \$15,000
2	Cost-of-Living Adjustment Effective: 7/30/2019	General: \$15,000
3	Equity Adjustment Effective: 5/5/2020	General: \$110,000
4	Cash Allowance Roll-In Effective: 5/5/2020	General: \$1,000
5	Cost-of-Living Adjustment Effective: 5/19/2020	General: \$120,000
6	Estimated 2.85% Cost-of-Living Adjustment Effective: 5/18/2021	General: \$10,000
	Non-Pensionable Elements of Pay	
7	Increase in County's contributions for medical premiums	

⁴ The estimated costs during Fiscal Year 2020/2021 for Items 1 through 6 were provided directly by the County. The County has directed us to use the rounded values specified above.



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

Dear Julie:

As requested, we are providing this letter with our analysis of changes in elements of pay and the 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 Sonoma County Deputy Public Defender Attorneys' Association (SCDPDAA) described herein. We have also assumed that there will be no changes

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

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 presented 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 for 28 General County members covered under SCDPDAA. All of the changes in salaries and benefits that we have reviewed were provided by the County and are outlined in Exhibit 1 attached. The changes in salaries are based on an estimated 2.85% cost-of-living adjustment effective May 18, 2021,² and an estimated 3.00% cost-of-living adjustment effective May 3, 2022,³ as provided by the County. The results in this letter are subject to change if the actual cost-of-living adjustment differs from 2.85% or 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 salary increase or benefit change will have on the funding status of the county employees' retirement system.

² We understand that the cost-of-living adjustment effective May 18, 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, then applied to a sliding scale where a value of 2.00% results in an effective cost-of-living adjustment of 1.90%, and a value of 4.00% results in an effective cost-of-living adjustment of 3.80%. The County has provided us with a historical calculation of the County Secured Property Tax Growth rate, and they have asked for input on an alternative assumption to consider in lieu of their 2.85% cost-of-living adjustment assumption (which we note to be the average of the above 1.90% and 3.80% adjustments). 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 2.85% cost-of-living adjustment assumption provided by the County.

³ We understand that the cost-of-living adjustment effective May 3, 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 an 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.

RESULTS

Fiscal Year 2021/2022

After reviewing the proposed salary increases for employees covered under SCDPDAA 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 salary increases 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 increase the General County total employer and employee normal cost by approximately \$1,200 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 cost⁴, resulting in an increase to the employer's normal cost contribution by roughly \$700. Additionally, the salary increases would increase the General County Unfunded Actuarial Accrued Liability (UAAL) by \$16,000, which translates to an increase in the amortization payment by approximately \$1,000 in the first year, for a total employer contribution increase of about \$1,700.

Fiscal Year 2022/2023

After reviewing the proposed salary increases for employees covered under SCDPDAA 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 salary increases for the General County membership group when measured as of December 31, 2018.

The salary increase under Item 5 (Fiscal Year 2022/2023), as described herein, would decrease the General County total employer and employee normal cost by approximately \$6,000 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 \$3,000. Additionally, the salary increases would decrease the General County Unfunded Actuarial Accrued Liability (UAAL) by \$75,000, which translates to a decrease in the amortization payment by approximately \$5,000 in the first year, for a total employer contribution decrease of about \$8,000.

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.

⁴ 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 SCDPDAA.

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

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 \$151,000. This is equivalent to \$5,393 each over the 28 General SCDPDAA 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 \$5,393 and divide it by the average General SCDPDAA member salary of \$158,970 (as provided by the County), we estimate an average increase in salary of 3.39% as a result of the changes. This increase is greater than our 3.25% wage increase assumption by 0.14%. Please refer to the Results section of this letter for the contribution impact from these salary changes.

Fiscal Year 2022/2023

In Exhibit 1, the total increase in General County pensionable elements of pay for Item 5 (Fiscal Year 2022/2023) is expected to be approximately \$120,000. This is equivalent to \$4,286 each over the 28 General SCDPDAA 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 \$4,286 and divide it by the average General SCDPDAA member salary of \$163,614 (as provided by the County), we estimate an average increase in salary of 2.62% as a result of the changes. This increase is less than our 3.25% wage increase assumption by 0.63%. Please refer to the Results section of this letter for the contribution impact from these salary changes.

Non-Pensionable Elements of Pay

It is our understanding that SCERA and the County have rendered a determination that Item 6 in Exhibit 1 is a non-pensionable element of pay. Therefore, this item will not have any impact on the level of benefits and will not increase the employer cost of the plan.

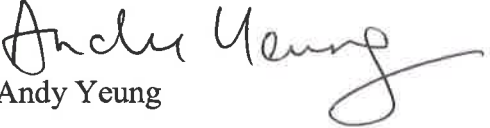
⁵ For the purposes of developing employer and employee contribution rate requirements, 3.25% is the long-term assumption we use to project the growth in annual wages in our actuarial valuation.

Ms. Julie Wyne
July 1, 2019
Page 5

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/hy
Enclosure

Exhibit 1

Summary of Elements of Pay – SCDPDAA

Item	Pensionable Elements of Pay	Estimated Amount Fiscal Year 2021/2022 ⁶	
		General:	
1	Equity Adjustment Effective: 5/4/2021	General:	\$10,000
2	Cash Allowance Roll-In Effective: 5/4/2021	General:	\$1,000
3	Estimated 2.85% Cost-of-Living Adjustment Effective: 5/18/2021	General:	\$120,000
4	Estimated 3.00% Cost-of-Living Adjustment Effective: 5/3/2022	General:	\$20,000
		Estimated Amount Fiscal Year 2022/2023 ⁶	
5	Estimated 3.00% Cost-of-Living Adjustment Effective: 5/3/2022	General:	\$120,000
	Non-Pensionable Elements of Pay		
6	Increase in County's contributions for medical premiums		

⁶ The estimated costs during Fiscal Year 2021/2022 for Items 1 through 4 and during Fiscal Year 2022/2023 for Item 5 were provided directly by the County. The County has directed us to use the rounded values specified above.