Legislation Text

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To: Board of Supervisors of Sonoma County, Board of Directors of the Sonoma County Water Agency, Board of Directors of the Sonoma County Agricultural Preservation and Open Space District, Board of Commissioners of the Community Development Commission
Department or Agency Name(s): County Administrator's Office, Sonoma County Employees' Retirement Association, Auditor-Controller-Treasurer-Tax Collector
Staff Name and Phone Number: Christina Rivera, Nikolas Klein, 707-565-5312; Julie Wyne, 707-565-8103; Erick Roeser, 707-565-3295
Vote Requirement: Informational Only
Supervisorial District(s): Countywide

Title:
2025 State of the Retirement System Annual Report

Recommended Action:
Receive the annual report on the state of the County's retirement system that highlights annual costs through Fiscal Year 2023-24, projected future costs, pension-related liabilities, plan membership data, historical investment experience, and results from the Sonoma County Employees' Retirement Association's December 2024 actuarial valuation.

Executive Summary:
The County's annual State of the Retirement System Report provides a comprehensive update on annual pension costs and pension-related liabilities through Fiscal Year 2023-24, as well as the Sonoma County Employees' Retirement Association's (SCERA) membership data, investment returns, and actuarial valuation results as of December 2024.

The County's FY 2023-24 pension-related costs totaled $119.3 million, a net decrease of $10.7 million compared to the prior fiscal year. Over the past 5 years, unfunded liabilities decreased by $210.2 million, or 33.9%, from $619.4 million in 2021 to $409.2 million in 2025. The SCERA pension fund continues demonstrating strong performance with a funded ratio of 93.68% and annualized investment returns over the past 30 years average 7.93%.

This update is part of the County's ongoing efforts to improve accountability and transparency with respect to reporting on the County's pension costs and liabilities, which is one of the Board's major pension reform goals. The FY 2014-15 Sonoma County Grand Jury Report, the July 2016 report of the Independent Citizens' Advisory Committee on Pension Matters, and the September 2018 report of the Board's Ad Hoc Committee on Pension Reform all recommended that the County provide these annual reports to communicate information to the public.

Discussion:
Pension Update
The County's FY 2023-24 pension-related costs totaled $119.3 million, a net decrease of $10.7 million

compared to the prior fiscal year. The County's pension contribution costs increased by $10.2 million due to expiration of certain employee group's supplemental contributions towards unfunded liabilities, which shifted costs to the County, plus actuarial assumption changes reflected in SCERA's 2021 valuation that impacted FY 2023-24 contribution rates. The higher contributions were more than offset by a $23.7 million reduction in Pension Obligation Bond debt service costs resulting from final payment of the 2003 bond issuance in FY 2022-23.

The County's unfunded pension liability, which includes outstanding Pension Obligation Bond debt, continues to decline due to strong performance of the pension fund coupled with pay down of pension bonds. Over the past 5 years, unfunded liabilities decreased by $210.2 million, or 33.9%, from $619.4 million in 2021 to $409.2 million in 2025.

The SCERA pension fund continues demonstrating strong performance as of its latest valuation dated December 31, 2024, with a funded ratio of 93.68% and annualized investment returns over the past 30 years average 7.93%. The December 2024 valuation calculated an average contribution rate increase of 0.27% of payroll, which will be incorporated into the County's contribution rates in upcoming FY 2026-27.

Overview of Report Contents

This annual State of the Retirement System Report, provided as **Attachment 1** to this summary, presents data and information on several topics related to Sonoma County's pension system:

- Historical pension expenses from FY 2019-20 through FY 2023-24.
- Measurement ratios showing pension expenses as a percentage of the County's total salaries and benefits, pensionable payroll, and operating revenue.
- Forecasted future year pension cost projections through FY 2032-33.
- Pension Obligation Bond debt issuances, including remaining principal balances, and inception-to-date returns for bond proceeds invested in the SCERA pension fund.
- Historical trends for the County's share of the pension system's Net Pension Liability and Unfunded Actuarial Accrued Liability.
- Accelerated payments towards unfunded pension liabilities.
- Results from SCERA's most recent December 2024 actuarial valuation.
- Major factors contributing to changes in SCERA's Unfunded Actuarial Accrued Liability in recent years.
- Changes to employer contribution rates in the 2024 valuation.
- SCERA's membership data and average member retirement benefits.
- Historical investment returns as of December 2024.
- Update regarding potential pension cost-of-living adjustments for retirees.
- There are no major legal developments to report.

Pension Expense Data Assumptions and Sources

The financial data presented in the Annual Pension Report is gathered from several sources, and the scope of the report is limited to certain County and County-affiliated agencies/districts. Pension contribution expenses, pensionable payroll, operating revenue, and net pension liability amounts are based on data from Annual Comprehensive Financial Reports:

- The "County of Sonoma" category includes all Governmental and Business-Type activities reported in the County's Annual Financial Reports, such as County departments, Open Space District, and affiliated

agencies such as SCERA, Sonoma County Fair, First 5 Sonoma County, Law Library, Local Agency Formation Commission, Waste Management, and Northern Air Pollution Control District.
- Water Agency (Sonoma Water) as reported in its annual financial reports.
- Community Development Commission as reported in its annual financial reports.
- Reported costs exclude non-County entities participating in SCERA's pension plan: Superior Court of Sonoma County, Sonoma Valley Fire Protection District, and Sonoma County Transportation Authority.

Additionally, please note the County's reported annual pension costs in any given fiscal year do not match annual contributions calculated in SCERA's actuarial valuations for the following reasons:
- The County's fiscal year is July 1 - June 30, whereas the SCERA valuation aligns with the calendar year;
- SCERA's valuation uses estimates of expected future payroll costs, but the County reports actual costs; and
- 18-month delayed contribution rate implementation (SCERA's December 2024 valuation contribution rates will be implemented in County Fiscal Year 2026-27).

SCERA's annual valuations account for the difference between expected versus actual contributions when setting contribution rates for the future year to ensure the County's contribution costs are ultimately paid over time.

Ongoing review of the County's pension costs, and long-term liabilities keeps the Board and public apprised of how these obligations affect the County's fiscal health. Presenting the annual actuarial valuation of the retirement system to the Board of Supervisors helps improve transparency and public understanding of pension matters. SCERA's December 2024 actuarial valuation, as well as prior year valuations, are available for review on its website: <http://scretire.org/Financial/Actuarial-Reports/> <http://scretire.org/Financial/Actuarial-Reports/>.

Pension System Overview Document (New)
In addition to the annual report, the newly created Pension System Overview document provided as **Attachment 2** to this summary includes information about a variety of topics: pension system governance; calculation of pension benefits; explanation of different retirement tiers; design of the County's ad-hoc pension cost-of-living-adjustment program; funding of the pension plan; cost sharing with employees; and issuance of Pension Obligation Bonds.

Strategic Plan:

N/A

Racial Equity:

Was this item identified as an opportunity to apply the Racial Equity Toolkit?
No

Prior Board Actions:
10-22-2024 - Received the sixth Annual State of the Retirement System Report

05-09-2023 - Received the fifth Annual State of the Retirement System Report
04-05-2022 - Received the fourth Annual State of the Retirement System Report
05-11-2021 - Received the third Annual State of the Retirement System Report
03-20-2020 - Received the second Annual State of the Retirement System Report
12-08-2018 - Received the first Annual State of the Retirement System Report
09-18-2018 - Approved Pension Ad Hoc Report recommendations
07-12-2016 - Received final report of the Independent Citizens Advisory Committee.

FISCAL SUMMARY

Expenditures	**FY25-26 Adopted**	**FY26-27 Projected**	**FY27-28 Projected**
Budgeted Expenses			
Additional Appropriation Requested			
Total Expenditures			
Funding Sources			
General Fund/WA GF			
State/Federal			
Fees/Other			
Use of Fund Balance			
General Fund Contingencies			
Total Sources			

Narrative Explanation of Fiscal Impacts:
N/A

Staffing Impacts:			
Position Title (Payroll Classification)	**Monthly Salary Range (A-I Step)**	**Additions (Number)**	**Deletions (Number)**

Narrative Explanation of Staffing Impacts (If Required):
N/A

Attachments:
1) 2025 State of the Retirement System Annual Report
2) Pension System Overview

Related Items "On File" with the Clerk of the Board:
N/A