

ANNUAL REPORT

For the Period Ended June 30, 1996

BOARD OF RETIREMENT

ALLAN KAPLAN, Chairman

DAVID HERSMAN, Vice Chairman

GARY L. FERAMISCO, Treasurer

ROY GASKIN, Secretary

ROBERT E. ACQUISTAPACE, Member

BERNICE JAMES, Member

DEAN MINOR, Member

JEANNE GRAFFY, Member

RAYMOND B. ROMERO, Member

RON BRUNS, Safety Member Alternate

GEORGE BOBOLIA, Retired Member Alternate

* * * *

STEPHEN SHANE STARK, Legal Advisor

SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM
COMPARATIVE BALANCE SHEETS
JUNE 30, 1996 AND 1995

| | 1996 | 1995 |
|--|--------------------------------|--------------------------------|
| <u>ASSETS</u> | | |
| Cash | \$ 28,754,078.08 | \$ 32,345,232.28 |
| Receivables: | | |
| Contributions | 1,210,624.94 | 1,086,791.64 |
| Investment Income & Principal | 5,964,160.24 | 4,444,542.10 |
| Trades | 3,687,277.18 | 1,168,007.09 |
| Investments, at cost; | | |
| (market 6/30/96 \$707,494,205) | | |
| (market 6/30/95 \$595,226,573) | <u>591,934,290.92</u> | <u>502,074,950.75</u> |
| TOTAL ASSETS | <u>\$631,550,431.36</u> | <u>\$541,119,523.86</u> |
| <u>LIABILITIES AND FUND EQUITY</u> | | |
| Liabilities: | | |
| Accounts Payable | \$ 335,259.70 | \$ 184,093.73 |
| Benefits Payable | 473,683.60 | 562,226.40 |
| Trades Payable | <u>12,242,921.28</u> | <u>3,869,877.21</u> |
| Total Liabilities | 13,051,864.58 | 4,616,197.34 |
| Fund Equity: | | |
| Member Deposit Reserves | 71,097,575.83 | 65,424,678.89 |
| Member Supplemental Reserve | 9,182,962.60 | 6,349,382.71 |
| County & District Advance Reserves | 225,793,929.89 | 198,650,615.30 |
| Health Coverage Reserve | 34,529,940.47 | 33,858,301.25 |
| Employer Supplemental Reserve | 6,703,583.09 | (2,291,995.27) |
| Retired Member Reserves | 223,292,325.07 | 208,387,774.65 |
| Retired Supplemental Reserves | | |
| Designated: | | |
| Special Allowance | 19,727,557.04 | 19,878,721.28 |
| Supplemental Health Coverage | 5,761,084.64 | 5,373,829.00 |
| Death Benefit | 228,753.50 | 218,891.92 |
| Undesignated | 9,549,846.02 | 653,126.79 |
| Investment Contingency Reserve (2%) | <u>12,631,008.63</u> | <u>.00</u> |
| Total Fund Equity | 618,498,566.78 | 536,503,326.52 |
| TOTAL LIABILITIES AND FUND EQUITY | <u>\$631,550,431.36</u> | <u>\$541,119,523.86</u> |

The accompanying notes are an integral part of these financial statements.

UNAUDITED

SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM
 COMPARATIVE STATEMENTS OF REVENUES, EXPENSES,
 AND CHANGES IN FUND EQUITY
 FOR THE FISCAL YEARS ENDED JUNE 30, 1996 AND 1995

| | <u>1996</u> | <u>1995</u> |
|--------------------------------|-------------------------|-------------------------|
| Revenues: | | |
| Member Contributions | \$ 4,917,240.43 | \$ 4,187,639.53 |
| Employer Contributions | 26,105,267.65 | 22,611,052.61 |
| Investment Income | 30,159,450.73 | 26,849,999.72 |
| Gain on Sale of Investments | <u>88,012,395.31</u> | <u>20,809,068.23</u> |
| Total Revenues | 149,194,354.12 | 74,457,760.09 |
| Expenses: | | |
| Benefits Paid | 24,849,470.13 | 22,610,748.91 |
| Refund of Member Contributions | 529,706.46 | 573,736.28 |
| Administrative Expense | 247,386.29 | 186,030.30 |
| Investment Expense | 2,301,388.06 | 2,031,883.24 |
| Loss on Sale of Investments | <u>39,271,162.92</u> | <u>15,835,116.63</u> |
| Total Expenses | 67,199,113.86 | 41,237,515.36 |
| Net Income | 81,995,240.26 | 33,220,244.73 |
| Fund Equity - Beginning | <u>536,503,326.52</u> | <u>503,283,081.79</u> |
| Fund Equity - Ending | <u>\$618,498,566.78</u> | <u>\$536,503,326.52</u> |

The accompanying notes are an integral part of these financial statements.

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SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM
 COMPARATIVE STATEMENTS OF CHANGES IN FINANCIAL POSITION
 FOR THE FISCAL YEARS ENDED JUNE 30, 1996 AND 1995

| | 1996 | 1995 |
|---|------------------|------------------|
| Cash flows from operating activities: | | |
| Member contributions | \$ 4,920,084.93 | \$ 4,121,077.60 |
| Employer contributions | 25,978,589.85 | 22,492,731.08 |
| Benefits paid | (24,937,138.37) | (22,560,415.57) |
| Refunds paid | (530,581.02) | (581,807.93) |
| Administrative costs paid | (220,887.20) | (193,648.64) |
| Interest received | 21,857,758.07 | 22,784,254.49 |
| Dividends received | 5,914,830.19 | 3,624,905.78 |
| Investments costs paid | (2,176,721.18) | (2,048,763.51) |
| Net cash provided by operating activities | 30,805,935.27 | 27,638,333.30 |
| Cash flows from investing activities: | | |
| Proceeds from sale/maturity of investments | 822,622,353.84 | 387,953,911.91 |
| Purchase of investments | (857,019,443.31) | (375,954,141.13) |
| Net cash used in investing activities | (34,397,089.47) | (22,000,229.22) |
| Net increase (decrease) in cash | (3,591,154.20) | 5,368,104.08 |
| Cash, July 1 | 32,345,232.28 | 26,707,128.20 |
| Cash, June 30 | \$ 28,754,078.08 | \$ 32,345,232.28 |
| Reconciliation of Net income to Net Cash Provided by Operating Activities | | |
| Net Income | \$ 81,995,240.26 | \$ 33,220,244.73 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Amortization | (867,244.33) | (895,603.64) |
| (Gain) loss on sale of investments | (48,741,232.39) | (4,973,951.60) |
| Changes in current assets and liabilities | | |
| Increase in receivables | (1,643,451.44) | 269,880.73 |
| Increase in payables | 62,623.17 | 17,763.08 |
| Total Adjustments | (51,189,304.99) | (5,581,911.43) |
| Net cash provided by operating activities | \$ 30,805,935.27 | \$ 27,638,333.30 |

The accompanying notes are an integral part of these financial statements

UNAUDITED

SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - THE SYSTEM

The Santa Barbara County Employees' Retirement System ("System") was organized under the provisions of the 1937 County Employees' Retirement Law on January 1, 1944. Members include all permanent and parttime employees of the County of Santa Barbara, Carpinteria-Summerland Fire Protection District, Goleta Cemetery District, Santa Maria Cemetery District, Oak Hill Cemetery District, Santa Barbara County Association of Governments, Summerland Sanitary District, Air Pollution Control District, and Carpinteria Cemetery District. Currently, the System provides three retirement plans; two Contributory ("Plan I" and "Plan III") and an Optional Non-Contributory ("Plan II"). All plans provide benefits as defined by the law upon retirement, death, or disability of members. The following brief description of the System is provided for general information. Members should refer to the law, and the Retirement System Handbook for more complete information.

| <u>Member Classification</u> | <u>General</u> | | | <u>Plan 1</u> | <u>Plan 2</u> | <u>Safety</u> <u>Plan 3</u> | <u>Total</u> |
|--|----------------|---------------|---------------|---------------|---------------|--------------------------------|--------------|
| | <u>Plan 1</u> | <u>Plan 2</u> | <u>Plan 3</u> | | | | |
| Retirees and beneficiaries currently and terminated employees entitled to benefits but not yet receiving them: | 1821 | 27 | | 291 | 4 | | 2143 |
| Current Employees: | | | | | | | |
| Santa Barbara County | | | | | | | |
| Vested | 1740 | 49 | 18 | 509 | 121 | 4 | 2441 |
| Nonvested | 649 | 81 | 402 | 55 | 28 | 58 | 1273 |
| Subtotal | 2389 | 130 | 420 | 564 | 149 | 62 | 3714 |
| Districts | | | | | | | |
| Vested | 85 | | | 27 | | | 112 |
| Nonvested | 41 | | | 1 | | | 42 |
| Subtotal | 126 | | | 28 | | | 154 |
| Total | <u>4366</u> | <u>157</u> | <u>420</u> | <u>883</u> | <u>153</u> | <u>62</u> | <u>6011</u> |

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SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM

Benefits:

Plan I and Plan III: Pension benefits are based upon a combination of age, years of service, average monthly salary for the highest paid year of employment (thirty-six consecutive months for Plan III) and the option selected by the member. Disability benefits are based upon whether the disability was service-connected or nonservice-connected. Death benefits are based upon whether the death occurred before or after retirement and whether the death was service-connected or nonservice-connected.

Plan II: Pension benefits are based upon a combination of age, years of service and highest average monthly salary for thirty-six consecutive months of employment. A long-term disability program is available for members that become disabled, regardless of length of service, or whether the disability is job related. Death benefits are also based upon whether the death occurred before or after retirement.

Contributions:

Plan I and Plan III: Contributions are made by the members and employers at rates recommended by the actuary, approved by the Board of Retirement and adopted by the Board of Supervisors. Employee contribution rates are based upon age of entry to the system. Members are credited with interest earned on their contributions each December 31 and June 30 based on the prior six months' balance. Member contributions cannot be withdrawn until separation from employment. Member contributions forfeit to the retirement system if the member does not request a refund within five years of terminating membership.

Plan II: Employer contribution rates are recommended by the actuary, approved by the Board of Retirement and adopted by the Board of Supervisors. There are NO member contributions.

Vesting:

Plan I and Plan III: Upon completing five years of creditable service, employees have non-revocable rights to receive benefits attributable to employers' contributions, provided their contributions have not been withdrawn. Members are eligible to retire at age fifty with retirement credit of ten years from date of membership, or thirty years (safety members twenty years) regardless of age, or upon attaining age 70.

Plan II: Upon completing ten years of creditable service, Plan II members have non-revocable rights to receive benefits. Plan II members are eligible to retire at age fifty-five with retirement credit of ten or more years of service. Plan II members have a one time election to defer accrued Plan II benefits and enter the contributory retirement plan in effect at that time. Contributions will be based upon age at the time of transfer.

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SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting:

Retirement books of account are maintained on a cash basis and adjusted for accruals for financial statement preparation.

Investments:

The Retirement System is authorized to invest in any form or type of investment, financial instrument, or financial transaction when prudent in the informed opinion of the Board of Retirement. Investments are held separately from those of other County funds except for working capital used to pay benefits, which is held in the County Treasurer's Pooled Investment Account. Equity securities are stated at cost and debt securities at amortized cost. Both are subject to adjustment for declines in market value deemed to be permanent.

Cash and Investments at June 30, 1996

| | Amortized Cost | Approximate Market Value |
|------------------------------|----------------------|-----------------------------|
| US Treasury obligations | \$130,978,599 | \$130,180,027 |
| Common and preferred stock | 261,707,003 | 379,790,238 |
| Corporate bonds | 198,990,037 | 196,257,531 |
| Pooled mortgages | 0 | 1,007,757 |
| Trust deeds | 258,652 | 258,652 |
| Short-term investment funds | 17,970,915 | 17,970,915 |
| Total held by fiscal agents | 609,905,206 | 725,465,120 |
| Treasurer pooled investments | 10,783,163 | 10,783,163 |
| Total Cash and investments | <u>\$620,688,369</u> | <u>\$736,248,283</u> |

Apportionment of Interest:

Interest is apportioned semiannually at June 30, and December 31, at the annual actuarial assumption rate of 8% to Member, County and Retired Member Reserve accounts for all contributions on deposit for a full six months.

Undesignated Earnings:

On November 21, 1990 the Board of Retirement adopted a Resolution to establish three reserve accounts. These accounts are identified as Employer, Member and Retired Supplemental Reserves. They also established a procedure to distribute Undesignated Earnings. These Supplemental Reserve accounts will be used to satisfy accrued unfunded liability and/or pay for existing or additional benefits.

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SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM

NOTE 3 - FUNDING STATUS AND PROGRESS

The System is a contributory plan funded by actuarially determined regular payments. The amounts are determined using the entry age cost method. Employer and member contributions are funded and recognized through the County and District payroll systems via employer benefit payments and employee deductions. The contribution rates are based upon the completed actuarial report by Buck Consultants as of December 31, 1995 adopted by the Board of Supervisors upon recommendation of the Board of Retirement. The following significant actuarial assumptions were made by the actuary in the performance of their valuation:

- A). The use of the 1983 Group Annuity Mortality Table.
- B). The use of the 1981 Disability Mortality Table.
- C). The use of an 8% interest assumption rate.
- D). The use of 5.75% per annum salary scale.

The amount shown below as the "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the Plan on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions of the Plan.

As of December 31, 1995 the actuarial present value of accumulated plan benefits were as follows:

| | |
|-------------------------------------|----------------------|
| Retired and inactive members | \$258,727,000 |
| Member contributions | 62,273,000 |
| Employer financed | 249,421,000 |
| Other designated | <u>66,413,000</u> |
| Total | 636,834,000 |
| Book Value of assets | <u>586,697,000</u> |
| (Market value, \$708,887,000) | |
| Unfunded pension benefit obligation | <u>\$ 50,137,000</u> |

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SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM

Contributions Made:

The contributions to the Plan of \$31,022,508 for the fiscal year 1996 were made in accordance with actuarially determined contributions for the year. The following table summarizes the contributions for the year ended June 30, 1996:

County/District

General

| | | |
|--------------------------------------|--------------|------|
| Plan I | | |
| Employer contributions - normal cost | \$13,195,073 | 8.7% |
| Member contributions | 2,999,666 | 2.0% |
| Plan II | | |
| Employer contributions - normal cost | 341,834 | .2% |
| Plan III | | |
| Employer contributions - normal cost | 1,168,675 | .8% |
| Member contributions | 566,652 | .4% |

Safety

| | | |
|--------------------------------------|-----------|------|
| Plan I | | |
| Employer contributions - normal cost | 8,828,393 | 5.8% |
| Member contributions | 474,132 | .3% |
| Plan 1 (Probation) | | |
| Employer contributions - normal cost | 1,366,446 | .9% |
| Member contributions | 629,423 | .4% |
| Plan III | | |
| Employer contributions - normal cost | 448,386 | .3% |
| Member contributions | 83,497 | .1% |

Air Pollution Control District

General

| | | |
|--------------------------------------|---------|-----|
| Plan I & II | | |
| Employer contributions - normal cost | 756,459 | .5% |
| Member contributions | 163,869 | .1% |

Total \$31,022,508 20.6%

The County and Districts contributed \$26,105,267 (17.3 percent of current covered payroll) and employees contributed \$4,917,240 (3.3 percent of current covered payroll).

Trend Information

Actuarial valuations were performed annually for the period ended December 31, 1995 and December 31, 1994.

| | 1995 | 1994 |
|---|---------------|---------------|
| Net Assets Available for Benefits | \$586,697,000 | \$516,671,000 |
| Pension Benefit Obligation ("PBO") | 636,834,000 | 586,293,000 |
| Net Assets Available for Benefits as a percentage of PBO | 92% | 88% |
| Unfunded (Assets in Excess of) PBO | 50,137,000 | 69,622,000 |
| Annual Covered Payroll | 154,120,000 | 140,571,000 |
| UPBO as a Percentage of Annual Covered Payroll | 3.3% | 4.9% |
| Employer Contributions | 27,664,000 | 24,678,000 |
| Employer Contributions as a Percentage of Annual Covered Payroll | 18.3% | 17.5% |

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**ANALYSIS OF FUND EQUITY
FOR THE PERIOD ENDED JUNE 30, 1996**

| | TOTAL EQUITY | MEMBER RESERVES | MEMBER SUPPLE RESERVE | COUNTY & DISTRICT RESERVES | EMPLOYER SUP RESERVE | HEALTH COVERAGE RESERVE | RETIRED RESERVES | SPECIAL ALLOWANCE | SUP HEALTH COVERAGE RESERVE | BURIAL ALLOWANCE | UNDESIG. | CONT. & UNDISTRIB EARNINGS |
|-----------------------------|-----------------------|----------------------|-----------------------------|----------------------------------|-------------------------|-------------------------------|-----------------------|----------------------|-----------------------------------|---------------------|---------------------|----------------------------------|
| Fund Equity - 7/01/95 | 636,603,326.72 | 65,424,678.89 | 6,349,382.20 | 198,650,615.35 | -2,291,995.27 | 33,858,301.25 | 208,387,774.65 | 19,878,721.28 | 5,373,829.00 | 218,891.92 | 653,126.79 | 0.66 |
| Additions: | | | | | | | | | | | | |
| Investment Income | 78,900,683.12 | | | | | | | | | | | 78,900,683.12 |
| Contributions | 31,022,508.08 | 4,917,240.45 | | 26,096,782.51 | | 8,485.12 | | | | | | |
| Deductions: | | | | | | | | | | | | |
| Benefit Payments | -24,849,470.13 | | | -109,923.61 | 0.00 | -2,070,092.03 | -20,866,716.66 | -1,744,201.55 | -50,536.28 | -8,000.00 | | |
| Member Refunds | -529,706.46 | -529,706.46 | | | | | | | | | | |
| Admin Expenses | -2,301,388.06 | | | | | | | | | | | -2,301,388.06 |
| Invest. Expenses | -247,386.29 | | | | | | | | | | | 247,386.29 |
| Transfers: | | | | | | | | | | | | |
| Int Apportionment | 0.00 | 5,101,398.99 | 0.00 | 16,206,384.44 | 0.00 | 2,733,246.13 | 16,905,302.60 | 1,593,037.31 | 437,791.92 | 17,861.58 | 0.00 | -42,995,022.97 |
| Retirement Trans | 0.00 | -3,795,625.48 | | -14,831,383.73 | | | 18,627,009.21 | | | | | |
| Trans Unclaimed Deposits | 0.00 | | | | | | | | | | | |
| Apportion Undistrib (1) | 0.00 | | 2,833,680.38 | | 8,995,578.29 | | | | | | 8,896,719.16 | -20,725,877.83 |
| Increase Contingency | 0.00 | | | | | | | | | | | |
| Fund Benefit Increase | 0.00 | | | -238,965.58 | | | 238,965.58 | | | | | |
| Trans to County Reserve | 0.00 | | | | | | | | | | | |
| Fund Equity - 06/30/96 | <u>618,498,566.98</u> | <u>71,117,986.39</u> | <u>9,182,962.58</u> | <u>225,773,519.38</u> | <u>6,703,583.02</u> | <u>34,529,340.47</u> | <u>273,292,325.38</u> | <u>19,727,557.04</u> | <u>5,761,084.64</u> | <u>228,753.50</u> | <u>9,549,845.95</u> | <u>12,631,008.63</u> |
| (1) Apportion Undistributed | | 71,117,986.39 | 0.14 | 2,833,580.38 | | | | | | | | |
| Member Reserves | | 225,773,519.38 | 0.43 | 8,995,578.29 | | | | | | | | |
| Employer Reserves | | 223,222,325.38 | 0.43 | 8,886,719.16 | | | | | | | | |
| Retired Reserves | | 520,183,831.15 | 1.00 | 20,725,877.83 | | | | | | | | |
| Total | | | | | | | | | | | | |

Ten-Year Historical Trend Information

| YEAR | Revenues | | | | Expenses | | | |
|------|-------------------------|---------------------------|---------------------------------|---------------|------------------|-----------|-------------------------|--------------|
| | Member Contributions | Employer Contributions | Net Return on Investments | Total | Benefits Paid | Refunds | Investments Expenses | Total |
| 1996 | \$4,917,240 | \$26,105,268 | \$78,900,638 | \$109,922,876 | \$24,849,470 | \$529,706 | \$2,548,774 | \$27,927,951 |
| 1995 | 4,187,640 | 22,611,053 | 31,823,961 | 58,622,644 | 22,810,749 | 573,736 | 2,217,914 | 25,402,399 |
| 1994 | 3,989,265 | 21,355,077 | 45,622,224 | 70,866,566 | 21,313,567 | 456,562 | 2,989,444 | 24,759,573 |
| 1993 | 3,909,083 | 20,593,162 | 53,901,397 | 78,409,642 | 19,426,379 | 499,763 | 1,707,396 | 21,633,538 |
| 1992 | 3,641,245 | 20,146,098 | 46,909,344 | 70,696,687 | 17,800,216 | 369,038 | 1,328,399 | 19,497,653 |
| 1991 | 3,546,814 | 15,851,360 | 28,687,750 | 48,085,924 | 15,561,597 | 469,492 | 1,181,720 | 17,212,809 |
| 1990 | 2,628,334 | 13,134,454 | 33,246,550 | 49,009,338 | 13,586,597 | 549,690 | 1,149,781 | 15,286,068 |
| 1989 | 2,190,646 | 10,218,801 | 27,696,271 | 40,105,718 | 12,100,626 | 529,516 | 1,123,584 | 13,753,726 |
| 1988 | 2,569,789 | 10,268,571 | 10,706,602 | 23,544,942 | 10,446,265 | 484,287 | 938,314 | 11,868,866 |
| 1987 | 2,488,249 | 10,323,514 | 35,701,469 | 48,513,232 | 8,988,545 | 1,559,240 | 741,430 | 11,289,216 |