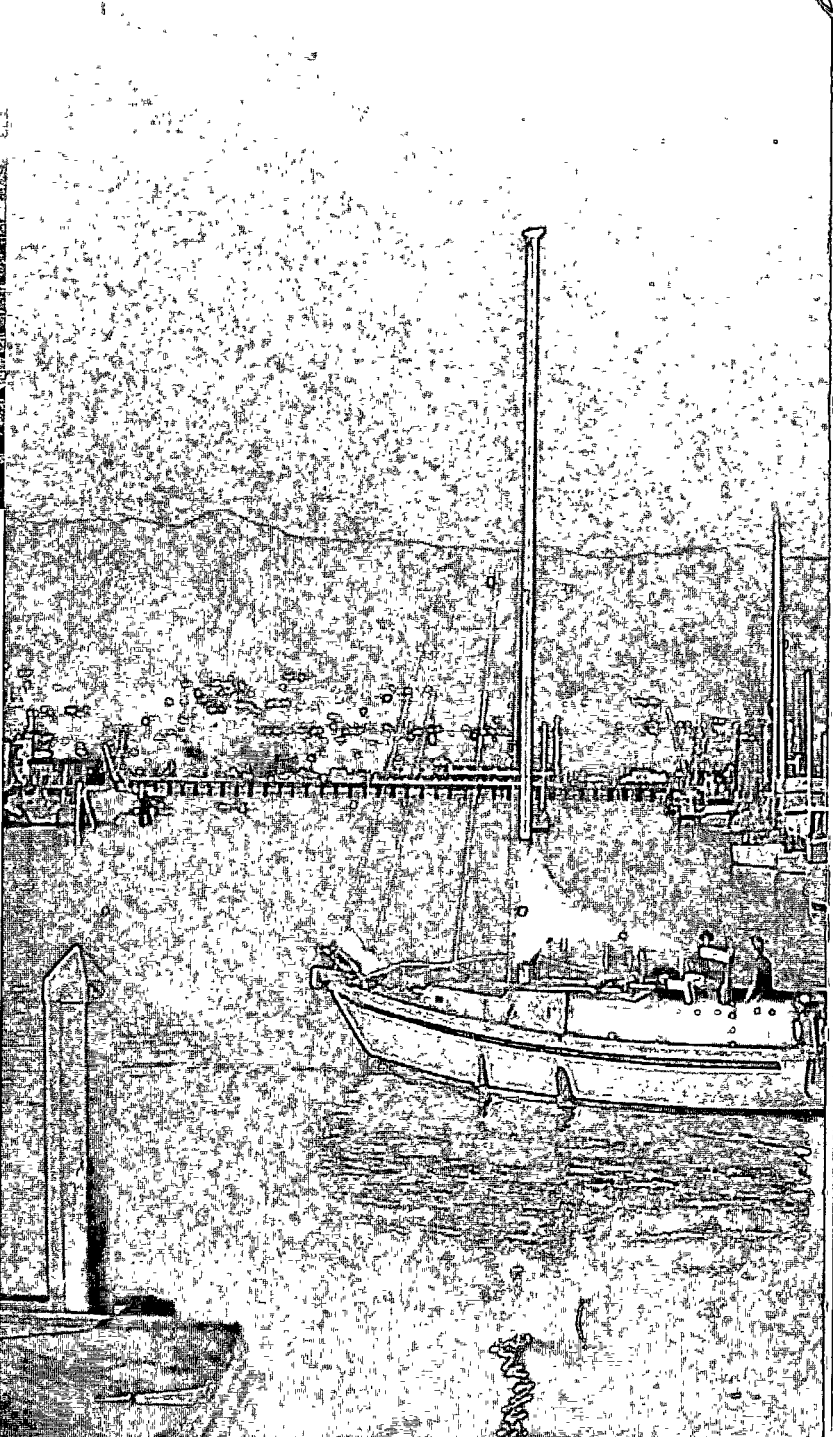




# SBCERS

## Santa Barbara County Employees' Retirement System

(A Pension Trust Fund for the County of Santa  
Barbara)



### Comprehensive Annual Financial Report For the Fiscal Year ended June 30, 2000



COUNTY OF SANTA BARBARA  
STATE OF CALIFORNIA

COMPREHENSIVE ANNUAL  
FINANCIAL REPORT

For Fiscal Year Ended June 30, 2000

SANTA BARBARA COUNTY  
EMPLOYEES RETIREMENT  
SYSTEM

Prepared Under the Supervision of:  
Gary L. Feramisco  
Treasurer-Retirement Administrator

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GARY L. FERAMISCO  
TREASURER-ADMINISTRATOR

Bernice James  
Assistant

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**EMPLOYEES' RETIREMENT SYSTEM**

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Telephone (805) 346-8338  
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September 1, 2000

*Dear Board Members,*

It is with pleasure that I submit the comprehensive annual financial report (CAFR) of the Santa Barbara County Employees' Retirement System (SBCERS or "System") for the fiscal year ended June 30, 2000, the System's 57th year of operation. I am proud of the achievements accomplished this past year and the continued focus to provide accurate and timely service to our 4800 members and 2100 benefit recipients into the future.



Responsibility for both the accuracy of the data and the completeness and fairness of the presentation rests with the management of the System. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the System.

The report is presented in five sections:

**The Introductory Section** contains this letter of transmittal, a listing of the members of the Board of Retirement, the Retirement System organization chart, and a listing of professional consultants utilized by the retirement system;

**The Financial Section** presents the financial condition and funding status of SBCERS. This section contains the opinion of the independent public accountants, Nasif, Hicks, Harris & Co., the financial statements, and the related supplemental information;

**The Investment Section** provides an overview of SBCERS' investment program. This section contains a report on investment activity, investment policies, investment results, and various investment schedules;

**The Actuarial Section** communicates the Plan's funding status and presents other actuarial related information. This section contains the certificate of the consulting actuary, Buck Consultants, actuarial statistics, and general plan provisions;

**The Statistical Section** presents information pertaining to SBCERS' operations on a multi-year basis.

## ***SBCERS AND ITS SERVICES***

The SBCERS is a public employee retirement system that was established by the County of Santa Barbara on January 1, 1944, and is administered by the Board of Retirement to provide service retirement, disability, death, and survivor benefits for its employees and contracting districts under the California State Government Code, Section 31450 et.seq. (County Employees' Retirement Law of 1937). Members include all permanent employees (who work at least 1040 hours per year) of the County of Santa Barbara and the following districts: Air Pollution Control, Carpinteria Cemetery, Carpinteria-Summerland Fire Protection, Goleta Cemetery, Oak Hill Cemetery, Santa Barbara Association of Governments, Santa Barbara Coastal Vector Control, Santa Maria Cemetery, and Summerland Sanitary.

## ***ACTUARIAL FUNDING STATUS***

Buck Consultants, an independent actuarial firm, is hired to conduct actuarial valuations to monitor SBCERS' funded status. The System's funding objective is to meet long-term benefit obligations through contributions and investment income. The funding progress of the retirement system is calculated in accordance with Government Accounting Standards Board Statement #25 and compares the ratio of system liabilities for benefits earned versus current value of assets. The funding ratio is currently at 100.1% using the entry age normal method with a five year smoothing actuarial value of assets. During the fiscal year ended June 30, 2000 the System experienced a net increase of \$85 million in assets bringing the total to almost \$1.3 billion.

Triennially, Buck Consultants completes a full analysis of all economic and non-economic assumptions; a valuation update using statistical information available for members is performed annually. The economic and non-economic assumptions are updated at the time the triennial valuation is performed. Triennial valuations serve as the basis for changes in member and employer contribution rates necessary to properly fund the system. Recommendations are presented to the Board of Retirement for consideration. The last triennial investigation was performed as of December 31, 1997.

## ***INVESTMENTS***

The Board of Retirement has exclusive control of all investments of the retirement system and is responsible for the establishment of investment objectives, strategies, and policies. Members

of the Board serve in a fiduciary capacity and are authorized to invest in any form or type of investment deemed prudent in the informed opinion of the Board. The assets of SBCERS are managed by external professional investment management firms. Staff and the System's Investment Consultant closely monitor the activity of these managers and assist the Board with implementation of investment policies and long-term investment strategies. The Investment Goals, Policies, and Procedures establish the investment program goals, asset allocation policies, performance objectives, investment management policies, and risk control. For the year ended June 30, 2000, SBCERS' investments provided a 6.7% return. SBCERS' annualized rate of return over the last three and five year periods was 12.1% and 14.5%, respectively.

## ***FINANCIAL INFORMATION***

Management of the Retirement System is responsible for establishing and maintaining an internal control structure designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records.

The primary sources to finance the benefits SBCERS provides are accumulated through return on investments and through the collection of employee and employer contributions. These income sources for fiscal year 1999-2000 totaled \$103.1 million, a decrease of \$36.7m (26%) from 1998-99. This decrease is a result of lower investment earnings. Member and employer contributions were slightly higher than those made in 1998-99.

The primary uses of SBCERS' assets are in payment of benefits to retirees and their beneficiaries, refund of contributions to terminated employees, and the cost of administering the system. These expenses for fiscal year 1999-2000 were \$41.7 million, an increase of \$4.2m (11%) over 1998-99. \$4.0m of this increase is due to an increase in the number of retirees and in the average amount they are paid.

## ***ECONOMIC AND MARKET REVIEW***

1999 marked the third consecutive year of greater than 4% real growth. Despite strong economic growth, unemployment at 30 year lows, and rising commodities prices, inflation remained in check. The Consumer Price Index (CPI) for the nation grew at a rate of 2.7% compared to 1.6% in 1998 and 1.7% in 1997.

As measured by the real gross domestic product (GDP), the US economy accelerated to a 5.2% annual growth rate during the second quarter of 2000. Increases in government spending and inventory investment offset a broad reduction in personal consumption. The CPI rose by .6% in June, on a seasonally adjusted basis, resulting in a compounded annual rate for the quarter of 2.6%. Much of this increase was due to food and energy expenditures. The domestic unemployment rate continued to reside near record lows, declining to 4% in June as the number of unemployed declined by 190,000.

## ***SERVICE EFFORTS AND ACCOMPLISHMENTS***

The Board of Retirement is responsible for establishing policies governing the administration of the retirement plan, making benefit determinations and managing the investment of the system's assets under authority granted by Article XVI of the Constitution of the State of California.

Article XVI, Section 17(a) provides the Retirement Board has "the sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries." Section 17(b) further provides that "members of the Retirement Board of a public retirement system shall discharge their duties...solely in the interest of, and for the exclusive purpose of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. A Retirement Board's duty to its participants and their beneficiaries shall take precedence over any other duty."

The Retirement Board held its eleventh annual Investment Workshop in September 1999. The workshop was attended by board members and each of the investment managers participated, as well as the System's actuarial and investment consultants. A comprehensive asset allocation study and review of benchmarks was completed by Pension Consulting Alliance (PCA). As a result of the study, the asset allocation policy was altered and benchmarks were adjusted.

The Retirement Board reviewed its procedures of selecting and assigning referee for disability retirement hearings. Requests for Proposals (RFPs) were issued for referee services in March 2000. A committee of the Board reviewed the responses and interviewed potential referees. As a result, six referees have been retained for a five-year contract period.

Effective July 1, 2000, the SBCERS separated from the County General Fund by adopting Government Code Sections 31522.1 and 31580.2.

Government Code Section 31580.2 requires the Board of Retirement to annually adopt a budget that covers the expense of administration of the retirement system with the earnings of the retirement fund. The expense incurred in any year shall not exceed eighteen-hundredths of 1 percent of the total assets of the retirement system. With over \$1 billion in assets the Santa Barbara County Employees' Retirement System has grown to the point that it is economically practicable to operate under this code section. As a result, the Board of Retirement adopted its first annual budget for the 2000-2001 fiscal year.

Government Code Section 31522.1 grants the Retirement Board the authority to establish job classifications and salary compensation as required to accomplish the necessary work of the board. Employees hired by the Retirement Board are considered county employees for purposes of the protections and limitations imposed by the civil service rules of the county and are included in the salary ordinance or resolution adopted by the Board of Supervisors.

Effective on January 1, 2000, the lump sum death benefit after retirement was increased from \$2,000 to \$5,000. This increased benefit was paid from undistributed earnings of the retirement system in accordance with Government Code §31789.5(d).

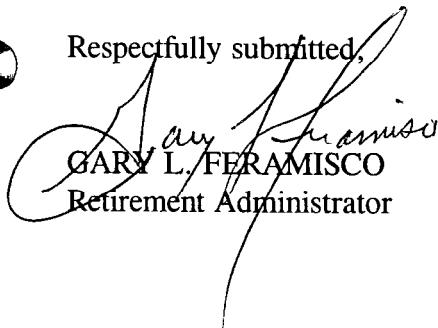
Effective on April 1, 2000 a cost of living adjustment was granted to every retiree and to every beneficiary who receives a survivor's allowance, except General members who retire under Plan II and are not entitled to a cost of living adjustment. Members who retired after April 1, 1990 received a 2.5% increase. Members that retired on, or before, April 1, 1989 had an accumulated carryover and received 3.0%.

### **ACKNOWLEDGMENTS**

The preparation of this report on a timely basis is made possible by dedicated and professional SBCERS staff and the effort has my sincerest appreciation. I would like to thank our auditor, Nasif, Hicks, Harris & Co. for their assistance. The combined effort has produced a report that will enable readers to better evaluate and understand the Santa Barbara County Employees' Retirement System.

On behalf of SBCERS staff, we wish to thank the Board of Retirement for its efforts, support and leadership.

Respectfully submitted,

  
GARY L. FERAMISCO  
Retirement Administrator



**BOARD OF RETIREMENT**



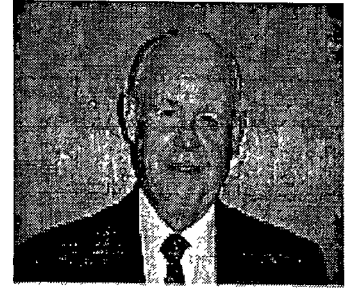
**TREASURER - CHAIRMAN**

Gary L. Feramisco  
Member mandated by law  
Present term expires N/A



**VICE-CHAIRMAN**

George Bobolia  
Elected by retired members  
Present term expires December 31, 2000



**SECRETARY**

Roy Gaskin  
Appointed by Board of Supervisors  
Present term expires December 31, 2002



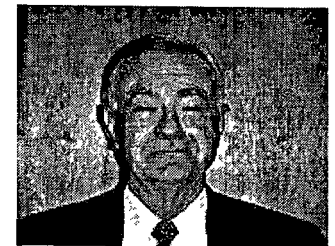
**MEMBER**

Gail Marshall  
Appointed by Board of Supervisors  
Present term expires December 31, 2001



**MEMBER**

Rochelle Camozzi  
Elected by general members  
Present term expires December 31, 2002



**MEMBER**

Dean Minor  
Appointed by Board of Supervisors  
Present term expires December 31, 200



**MEMBER**

Shawn Terris  
Elected by general members  
Present term expires December 31, 2001



**Alternate MEMBER**

Mary P. Cederberg  
Elected by retired members  
Present term expires December 31, 2002



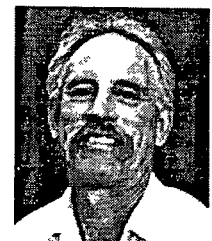
**MEMBER**

Joseph C. Gallas  
Appointed by Board of Supervisors  
Present term expires December 31, 200



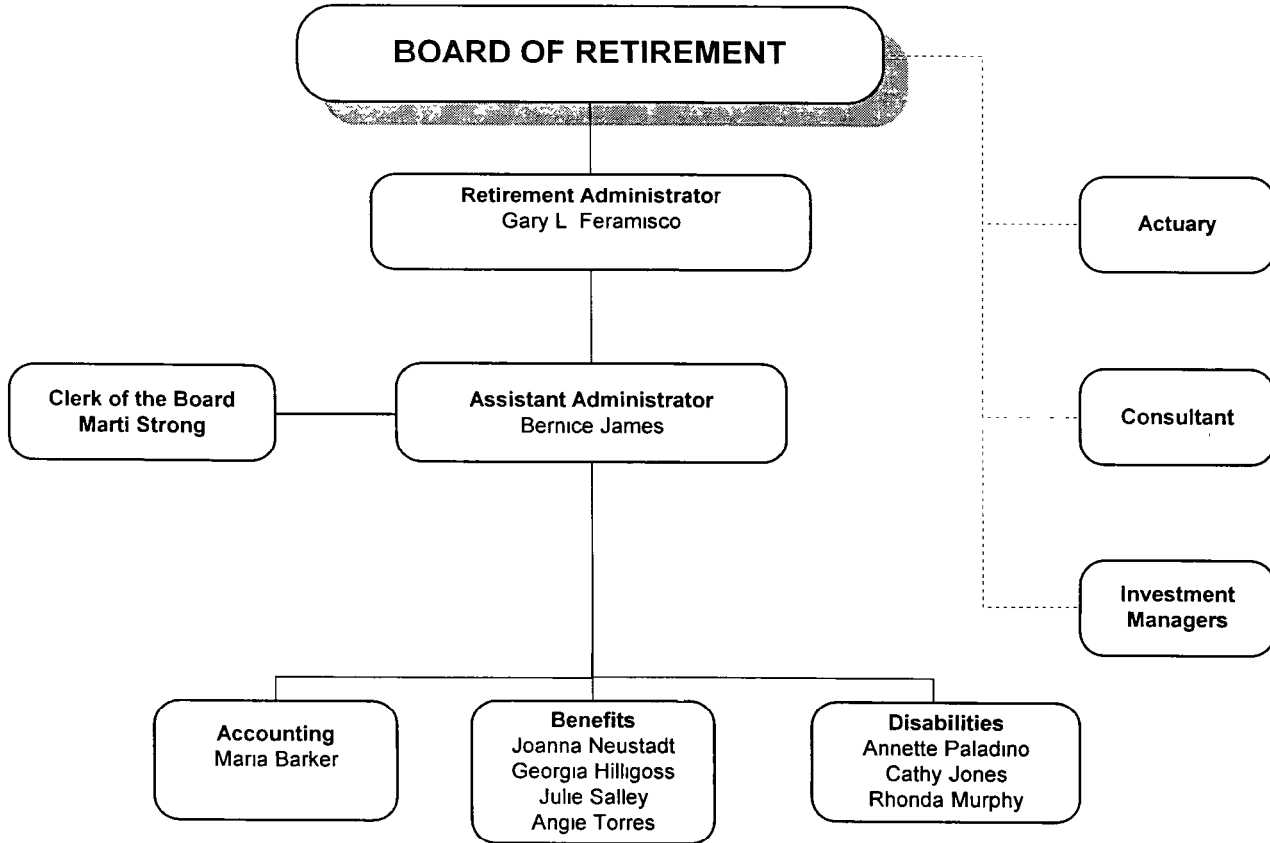
**MEMBER**

Norman E. Horsley  
Elected by safety members  
Present term expires December 31, 2001



**ALTERNATE MEMBER**

Ron Brunns  
Elected by safety members  
Present term expires December 31, 2001



**LIST OF PROFESSIONAL CONSULTANTS**

**INVESTMENT MANAGERS**

Alliance Capital Management LP  
Bank of Ireland Asset Management  
Julius Baer Investment Management  
Lincoln Capital Management  
Nicholas-Applegate Capital Management  
Sanford C. Bernstein & Co  
Starbuck, Tisdale & Associates  
State Street Global Advisors  
STW Fixed Income  
Wells Capital Management

**ACTUARY**

Buck Consultants  
100 California Street, Suite 1300  
San Francisco, CA. 94111

**INDEPENDENT AUDITOR**

Nasif, Hicks, Harris & Co  
1111 Garden Street, Suite 200  
Santa Barbara, CA. 93101

**CUSTODIAN**

State Street California, Inc  
1001 Marina Village Parkway  
Alameda, CA. 94501

**LEGAL ADVISORS**

Jerry Czuleger  
Santa Barbara County  
County Counsel

**INVESTMENT CONSULTANT**

Pension Consulting Alliance, Inc.

Rogers Sheffield & Herman

McCarthy & Kroes

**INDEPENDENT AUDITORS' REPORT**

# NASIF, HICKS, HARRIS & CO.

CERTIFIED PUBLIC ACCOUNTANTS

WILLIAM J NASIF  
STEVEN J HICKS  
JEFFERY P HARRIS  
MARIANNE F. BLOOM  
JODY R DOLAN  
BARBARA ROGERS SCOLLIN

1111 GARDEN STREET, SUITE 200  
SANTA BARBARA, CALIFORNIA 93101  
TELEPHONE (805) 966-1521  
FAX (805) 963-1780

September 1, 2000

## Independent Auditors' Report

The Honorable Board of Retirement  
Santa Barbara County Employees' Retirement System

We have audited the general purpose financial statements of the Santa Barbara County Employees' Retirement System as of and for the years ended June 30, 2000 and 1999, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the Santa Barbara County Employees' Retirement System's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Santa Barbara County Employees' Retirement System as of June 30, 2000 and 1999, and the changes in its net assets for the years then ended in conformity with generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The required supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the Santa Barbara County Employees' Retirement System, but is required by the Governmental Accounting Standards Board. Such information has been subjected to the auditing procedures applied in the audits of the general purpose financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the general purpose financial statements taken as a whole. The information presented in the investment, actuarial, and statistical sections, as listed in the accompanying table of contents, has not been audited by us and, accordingly, we express no opinion on it.

*Nasif, Hicks, Harris & Co.*

Nasif, Hicks, Harris & Co.

**FINANCIAL SECTION**

SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM

STATEMENTS OF NET ASSETS

As of June 30, 2000 (with comparative amounts for June 30, 1999)

	<u>JUNE 30, 2000</u>	<u>JUNE 30, 1999</u>
<b>ASSETS</b>		
Cash	\$ 18,283,305	\$ 21,571,060
Short term investments	26,464,913	39,252,863
Receivables:		
Contributions	2,117,327	1,443,537
Accrued interest	6,420,917	5,922,271
Dividends	543,654	460,036
Due from brokers for security sales	29,923,564	15,870,185
Total receivables	<u>39,005,462</u>	<u>23,696,029</u>
Investments, at fair value.		
Domestic equity	538,528,131	534,053,095
Domestic fixed income	456,220,366	429,776,917
International equity	183,708,583	123,318,870
Global fixed income	31,186,263	36,711,591
Real estate mortgage loans	45,205	70,244
Total investments	<u>1,209,688,548</u>	<u>1,123,930,717</u>
Total assets	<u>\$ 1,293,442,228</u>	<u>\$ 1,208,450,669</u>
<b>LIABILITIES</b>		
Accounts payable	190,080	535,451
Benefits payable	659,235	612,233
Due to brokers for security purchases	41,373,520	30,406,286
Total liabilities	<u>42,222,835</u>	<u>31,553,970</u>
<b>Net Assets Held in Trust for Pension Benefits</b>	<u>\$ 1,251,219,393</u>	<u>\$ 1,176,896,699</u>

(A Schedule of Funding Progress is presented on page 18.)

See accompanying notes to general purpose financial statements.

SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM

STATEMENTS OF CHANGES IN NET ASSETS

For the Years Ended June 30, 2000 (with comparative amounts for June 30, 1999)

	<u>JUNE 30, 2000</u>	<u>JUNE 30, 1999</u>
<b>ADDITIONS:</b>		
Contributions:		
Employers	\$ 30,057,229	\$ 29,088,462
Plan members	7,348,582	7,039,762
Total contributions	<u>37,405,811</u>	<u>36,128,224</u>
Net Investment Income:		
Net appreciation in fair value of investments	12,905,545	12,300,598
Interest	34,556,002	33,405,383
Dividends	7,778,353	7,459,138
Gain on sale of investments	23,350,173	62,184,830
Total investment income	<u>78,590,073</u>	<u>115,349,949</u>
Less: Investment expenses	(2,447,083)	(2,505,666)
Net investment income	<u>76,142,990</u>	<u>112,844,283</u>
Total additions	<u>113,548,801</u>	<u>148,972,507</u>
<b>DEDUCTIONS:</b>		
Benefits	37,537,933	33,493,394
Member withdrawals	991,089	893,349
Administrative expenses	697,085	620,626
Total deductions	<u>39,226,107</u>	<u>35,007,369</u>
Increase in net assets	74,322,694	113,965,138
Net assets held in trust for pension benefits, beginning of year	<u>1,176,896,699</u>	<u>1,062,931,561</u>
Net assets held in trust for pension benefits, end of year	<u>\$ 1,251,219,393</u>	<u>\$ 1,176,896,699</u>

See accompanying notes to financial statements.

**A. DESCRIPTION OF PLAN**

**General**

The Santa Barbara County Employees' Retirement System ("Retirement System") was organized under the provisions of the County Employees' Retirement Law of 1937 on January 1, 1944. The Retirement System is a cost-sharing multiple-employer plan. Members include all permanent and part-time employees (who work at least 50% of 2080 hours per year) of the County of Santa Barbara ("the County") and the following districts: Air Pollution Control District (APCD), Carpinteria Cemetery District, Carpinteria-Summerland Fire Protection District, Goleta Cemetery District, Oak Hill Cemetery District, Santa Barbara Coastal Vector Control District, Santa Barbara County Association of Governments, Santa Maria Cemetery District, and Summerland Sanitary District. The Retirement System has nine retirement plans; only four are currently available to new employees. All new General member employees (except those of the APCD) are enrolled in the contributory Plan IV. All new Safety members are enrolled in the contributory Plan III. All new APCD employees are enrolled in a separate, unique contributory APCD Plan II. All plans provide benefits as defined by the law upon retirement, death, or disability of members, and cost-of-living benefits. The participating entities share proportionally in all risks and costs, including benefit costs.

The Board of Retirement ("Board") consists of nine members and two alternates, four of whom are appointed by the County's Board of Supervisors, members of the Retirement System elect four, and the County Treasurer is an ex-officio member. The Retirement System is not a component unit of the County of Santa Barbara as the County is not financially accountable for the Retirement System.

At June 30, 2000 the Retirement System's membership consisted of the following:

	General			Safety			Total
	Plan I/IV	Plan II	Plan III/IV	Plan I	Plan II	Plan III	
Retirees and beneficiaries currently receiving Benefits; and terminated employees entitled to but not yet receiving benefits	2,074	46	34	420	33	7	2,614
Current employees:							
County of Santa Barbara							
Vested	1,771	40	212	470	125	54	2,672
Non-vested	33	33	1,313	1	1	251	1,632
Subtotal	1,804	73	1,525	471	126	305	4,304
Districts							
Vested	77	--	--	20	--	--	97
Non-vested	24	--	--	8	--	--	32
Subtotal	101	--	--	28	--	--	129
<b>Total</b>	<b>3,979</b>	<b>119</b>	<b>1,559</b>	<b>919</b>	<b>159</b>	<b>312</b>	<b>7,047</b>

**Benefits**

General Plan I, III, IV, and Safety Plan I, II, III and APCD Plan I and II: 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, Plan IV and APCD Plan II), and the benefit payment 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.

General 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 and are coordinated with social security benefits. A separate long-term disability program is available for members who become disabled, regardless of length of service, or whether the disability is job related. Death benefits are based upon whether the death occurred before or after retirement.



**SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM  
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000**

**Cost-of-Living Benefits:** All plans, with the exception of General Plan II, provide for cost-of-living adjustments for retired members. Cost-of-living adjustments are made to retired members' benefits each April 1 based upon reference to the Bureau of Labor Statistics Consumer Price Index for All Urban Consumers, subject to a 3% maximum limitation.

**Other Post Employment Benefits:** In addition to the retirement benefits described above, the Retirement System participates in its retired members' health insurance premiums by contributing \$12.00 per month per year of service for those retirees that elect a County sponsored health plan, and \$3.00 per month per year of service cash option for those retirees that do not participate in a County sponsored health plan. The same actuarial assumptions and cost methods are used for determining the post-retirement health care contribution and accrued liability as those used for determining pension contributions. The County funded \$8.00 per month of service, which is incorporated in the employer contribution rate. The additional \$4.00 has been actuarially prefunded by the Retirement System. Of the eligible retirees, during the year ended June 30, 2000, an average of 1,355 per month were enrolled in the County health plan, for which the Retirement System contributed \$3,272,762. An average of 611 beneficiaries per month have chosen not to participate in the County health plan and the Retirement System has paid \$273,142 for the cash option. In total, the Retirement System paid out \$3,545,904 for the year ended June 30, 2000 for post employment health care. There is no current unfunded liability for this benefit.

See the plan document for a more complete description of plan benefits.

**Vesting:**

General Plan I, III, IV and Safety Plans I, II, III and APCD Plan I and II: Upon completing five years of creditable service, employees have non-revocable rights to receive benefits attributable to an employer's contributions, provided their contributions have not been withdrawn. Members are eligible to retire at age 50 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.

If an employee terminates before rendering five years of service, the employee forfeits the right to receive benefits and is entitled to withdraw the employee contributions made, together with accumulated interest, unless the member enters a reciprocal retirement system within six months and elects to keep these monies on deposit with the Retirement System.

If an employee terminates after five years of service, the employee may elect to leave the accumulated deposits in the retirement fund and be granted a deferred retirement allowance at the time the member would have been entitled to the allowance if service had been continued.

General 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 are based upon age at the time of transfer.

**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The Retirement System's financial statements are prepared on the accrual basis of accounting. Employer and employee contributions are recognized as revenue in the period in which employees' services are performed, and benefits and refunds are recognized as expense when the corresponding liabilities are incurred. Investment income is recognized as revenue when earned. Net appreciation (depreciation) in fair value of investments held by the Retirement System is recorded as an increase (decrease) to investment income based on valuation of investments at year-end. Realized gains and losses are recognized upon the maturity or disposition of the security or when a decline in market value is considered other than temporary.

**Apportionment of Interest**

Interest is apportioned semiannually at June 30 and December 31 to Member, County, and Retired Member Reserve accounts for all contributions that have been on deposit for six months, based on the annual actuarial assumption rate of 8.00%.

**Estimates**

The preparation of the financial statements in conformity with generally accepted accounting principles require the plan administrator to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results may differ from those estimates.

**Futures Contracts**

As of June 30, 2000, the Retirement System held futures contracts representing approximately \$109.9 million in notional principal value. The role of the futures contracts is to hedge a portfolio of short duration fixed income securities to the equity market. The contracts expire quarterly.

**Method Used to Value Investments**

Debt and equity securities are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Real estate mortgages loans are valued on the basis of future principle and interest payments, and are reported at prevailing interest rates for similar instruments.

**Administrative Expenses**

Administrative expenses for the year ended June 30, 2000 were \$697,085 or approximately .055 of one percent of the fiscal year 2000 net assets held in trust for pension benefits.

**Income Taxes**

The Internal Revenue Service has ruled that plans such as the Retirement System qualify under Section 401(a) of the Internal Revenue Code and are therefore not subject to tax under present income tax laws. Accordingly, no provision for income taxes has been made in the accompanying financial statements, as the plan is exempt from federal and state income taxes under the provisions of the Internal Revenue Code, Section 501, and California Revenue and Taxation Code Section 23701.

**C. CASH AND INVESTMENTS**

The Retirement System operates under the "Prudent Person Rule" which authorizes the Board, at its discretion, to allow for the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction when prudent in the informed opinion of the Board.

**Cash**

The cash balance represents both operating cash held by the County Treasurer and investment cash on deposit with the investment custodian. At June 30, 2000, the aggregate carrying amount of all cash accounts was \$18,283,305 and the corresponding aggregate bank balances were \$18,283,305. Of the aggregate bank balance, \$200,000 was insured by Federal depository insurance or collateralized by securities held by the County's agent in the County's name. \$18,283,305 was collateralized in accordance with Section 53652 of the California Government Code with securities held by the pledging financial institution in the County's name, which have a market value of at least 110% of the County's deposits.

SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM  
 NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
 JUNE 30, 2000

**Investments**

In accordance with generally accepted accounting principles, the Retirement System's investments at June 30, 2000 are categorized to give an indication of the level of credit risk assumed by the Retirement System. The Retirement System's investments are categorized as follows:

- Category 1 - Insured or registered, or securities held by the entity or its agent in the entity's name.
  - Category 2 - Uninsured and unregistered, with the securities held by the counter parties trust department or agent in the entity's name.
  - Category 3 - Uninsured and unregistered, with securities held by the counter party's trust department or agent but not in the entity's name. (This includes the portion of the carrying amount of any underlying securities.)
- Not Required To Be  
 Categorized - Includes investments made directly with another party, real estate, direct investments in mortgages and other loans, open-end mutual funds, pools managed by other governments, annuity contracts and guaranteed investment contracts.

Investments by category as of June 30, 2000 are as follows (in thousands):

	Category			Not Required To Be Categorized	Contractual/ Market Value
	1	2	3		
Short-term investment fund	--	--	--	\$ 26,465	\$ 26,465
Domestic Equity	\$ 538,528	--	--	--	538,528
Domestic Fixed Income	456,220	--	--	--	456,220
International Equity	183,709	--	--	--	183,709
Global Fixed Income	31,186	--	--	--	31,186
Trust deeds	--	--	--	45	45
<b>Total investments</b>	<b>\$1,209,643</b>	<b>--</b>	<b>--</b>	<b>\$ 26,510</b>	<b>\$1,236,153</b>

Reconciliation of investments on Statement of Plan Net Assets:

Total investments	\$ 1,236,153
Short-term investment fund	<u>(26,465)</u>
Investments on Statement of Plan Net Assets	<u>\$ 1,209,688</u>

At June 30, 2000 the Retirement System did not have any investments which were more than 5 percent of the Retirement System's plan net assets.

**D. CONTRIBUTION REQUIREMENTS AND CONTRIBUTIONS MADE**

Plan I, III and Plan IV: Contributions are made by members and employers at rates recommended by an independent actuary, approved by the Board of Retirement, and adopted by the Board of Supervisors. For certain bargaining units, a portion of the member contribution is paid by the County. 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.

The actual contributions for the years ended June 30, 2000 and 1999 were made in accordance with actuarially determined contributions for the year. The following table summarizes the contributions for the years ended June 30, 2000 and 1999.

	<u>2000</u>	<u>1999</u>
<b>General:</b>		
<i>Plan I/IV:</i>		
Employer contributions - normal cost	\$ 11,356,402	\$ 11,791,779
Member contributions	2,116,291	2,855,127
<i>Plan II</i>		
Employer contributions - normal cost	119,016	287,581
<i>Plan III/IV:</i>		
Employer contributions - normal cost	6,316,988	4,756,967
Member contributions	3,156,248	2,355,897
<b>Safety:</b>		
<i>Plan I:</i>		
Employer contributions - normal cost	7,657,644	8,138,542
Member contributions	617,608	566,815
<i>Plan II (Probation):</i>		
Employer contributions - normal cost	1,295,201	1,396,807
Member contributions	562,305	586,733
<i>Plan III:</i>		
Employer contributions - normal cost	2,745,384	2,048,684
Member contributions	733,444	515,489
 Air Pollution Control District		
General:		
<i>Plan I and II</i>		
Employer contributions - normal cost	566,595	668,101
Member contributions	162,685	159,702
Total	<u>\$ 37,405,811</u>	<u>\$ 36,128,224</u>

Contributions from all employers totaled \$30,057,229 (15.3% of current covered payroll) and contributions from employees totaled \$7,348,582 (3.7% of current covered payroll) based on actuarially determined contribution requirements. Of this, \$28,879,573 (or 96.1%) of employer contributions and \$7,104,345 (or 96.7%) of employee contributions were attributable to the County. The pension contributions represent funding of \$28,024,349 (14.3% of current covered payroll) for normal cost and \$2,032,880 (1.03% of current covered payroll) for amortization of the unfunded actuarial accrued liability.

**E. RESERVES AND DESIGNATIONS**

Member and employer contributions are allocated to various legally required reserve accounts based on actuarial determinations. All reserves are fully funded except for County and District reserves.

Set forth below are descriptions of the purpose of each reserve and designation account.

**Member Contribution Reserves** represent the balance of member contributions. Additions include member contributions and interest earnings; deductions include refunds of member contributions and transfers to Retired Member Reserves.

**County and District Reserves** represent the balance of employer contributions for future retirement payments to current active members. Additions include contributions from the employer and interest earnings; deductions include transfers to Retired Members Reserves, lump sum death benefits, and payments under §31725.5 and §31725.6 of the County Employees' Retirement Law of 1937.

**Retired Member Reserves** represent the balance of transfers from Member Reserves and Employer Reserves and interest earnings, less payments to retired members.

**Burial Allowance Reserves** represent the balance of monies set aside to fund the increase of the lump sum death benefit for retirees. Additions include related earnings and excess earnings; deductions include payments to the beneficiaries of retired members who are deceased.

**Health Coverage Reserves and Supplemental Health Coverage Reserves** represent the balance of monies set aside for the payment of health insurance premiums and cash benefits for retired members. Additions include contributions from the employer, interest and excess earnings; deductions include payments of premiums for retired members who are enrolled in a County sponsored health plan and cash payments for retired members who do not participate in the health plans.

**Sick Leave Reserves** represent the balance of monies set aside to fund the conversion of unused sick leave hours (maximum of 2080 hours) to service credit for the purpose of calculation of retirement benefits. Additions include related earnings and excess earnings; deductions include transfers to Retired Member Reserves.

**Spousal Continuance Reserves** represent monies transferred to fund the adoption of §31760.2 of the County Employees' Retirement Law of 1937, which allows 60 percent continuance to a spouse if the spouse was married to the retiree at least two years prior to the member's death and the spouse is age 55 or older on the date of the retiree's death.

**Special Allowance Reserve** represents monies transferred to additional benefits, which have been granted by the Board of Retirement. Additions include related and excess earnings; deductions include payments to retired members.

**Strategic and Benefit Enhancement Designations** represent reserves accumulated for future benefits. Additions include interest earnings; deductions includes loss earnings and transfers to other reserves to fund for additional benefits.

**SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM  
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
JUNE 30, 2000**

Reserve account balances as of June 30, 2000 and 1999 are as follows:

	<u>2000</u>	<u>1999</u>
Member Contribution Reserves	\$ 93,047,187	\$ 86,360,398
County and District Reserves	395,908,703	349,372,886
Retired Member Reserves	332,021,871	308,573,899
Burial Allowance Reserve	4,775,353	1,825,535
Health Coverage Reserves	36,804,852	36,497,174
Supplemental Health Coverage Reserves	28,837,338	27,535,292
Sick Leave Reserves	3,679,368	3,401,783
Spousal Continuance Reserves	1,052,745	973,322
Special Allowance Reserve	24,019,867	24,400,310
Strategic Designation	24,297,062	22,464,000
Benefit Enhancement Designation	11,929,265	21,632,000

**F. PLAN TERMINATION**

There are no plan termination provisions under the County Employees' Retirement Law of 1937, which governs the operation of the Retirement System.

**G. CONTINGENCIES**

The Retirement System is a defendant in various lawsuits, which, in management's opinion, will not have a material effect on the general-purpose financial statements.

**H. SUBSEQUENT EVENT**

Effective with the 2000-01 fiscal year the Board of Retirement will operate under Government Code Sections 31522.1 and 31580.2. As a result, the Board has adopted a 2000-01 annual budget that covers the expense of administration of the retirement system with the earnings of the retirement fund.

## **REQUIRED SUPPLEMENTARY INFORMATION**

Ten-year historical trend information about the Retirement System is presented herewith as required supplementary information. This information is intended to help users assess the Retirement System's funding status on a going-concern basis, assess progress made in accumulating assets to pay benefits when due, and make comparisons with other public employees' retirement systems.

SANTA BARBARA COUNTY EMPLOYEE'S RETIREMENT SYSTEM  
 REQUIRED SUPPLEMENTARY INFORMATION  
 JUNE 30, 2000

SCHEDULE OF FUNDING PROGRESS\*\*

Valuation Date	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability (AAL)	(3) Funded Ratio (1) ÷ (2)	(4) Unfunded Actuarial Accrued Liability (UAAL) (2) - (1)	(5) Annual Covered Payroll	(6) UAAL as a Percentage of Covered Payroll (4) ÷ (5)
12/31/99	\$1,068,357,000	\$1,067,377,000	100.1%	\$ (980,000)	\$199,448,000	(.5)%
12/31/98	938,295,000	950,205,000	98.7	11,910,000	184,291,000	6.5
12/31/97	799,539,000	873,624,000	91.5	74,085,000	171,602,000	43.2
12/31/96	693,300,597	758,771,583	91.4	65,470,986	159,906,000	40.9
12/31/95	624,822,614	711,868,472	87.8	87,045,858	154,120,000	56.5
12/31/94	562,860,925	643,452,966	87.5	80,592,041	140,571,000	57.3
12/31/92	451,105,572	552,544,865	81.7	101,439,293	131,532,000	77.1
12/31/90	332,225,133	517,987,560	64.1	185,762,427	118,385,000	156.9

\*\* Actuarial valuations were performed biennially except for 1995 through 1998, therefore data is not available for certain years.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended Dec. 31	Annual Required Contributions (ARC)	Contributions Made As a Percentage of (ARC)
1999	\$30,484,000	100.0%
1998	28,414,000	100.0
1997	31,692,000	100.0
1996	27,114,000	100.0
1995	27,664,000	100.0
1994	24,678,000	100.0
1992	21,200,000	100.0
1990	14,557,000	100.0

Note: ARC are as of Dec 31 and employer contributions are as of June 30 in the above calculation



**NOTE TO THE SCHEDULE OF FUNDING PROGRESS  
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS**

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information of the latest actuarial valuation follows.

Valuation date	December 31, 1999
Actuarial cost method	Entry Age Normal Actuarial Cost Method
Amortization method	Level percent
Remaining open amortization period	6 years
Asset valuation method	Actuarial book value
Actuarial assumptions:	
Investment rate of return	8.00 %
Projected salary increases	1% Merit and Longevity 4.75 % Inflation (COLA)
Includes inflation at	4.75 % per annum
Cost-of-living adjustments	Up to 3 % for Plans I, III, IV, and APCD Plan II None for General Plan II

**INVESTMENT SECTION**

## OUTLINE OF INVESTMENT POLICIES

The Board has adopted an investment policy that outlines the specific responsibilities of the Board of Retirement. It is the policy of the Board that:

1. The investment of the assets of the Retirement System shall be based on a financial plan that will consider:
  - the financial condition of the Retirement System
  - the expected long-term capital market outlook
  - the County's risk tolerance
  - future growth of active and retired participants
  - inflation and the rate of salary increase
  - cash flow

The financial plan measures the potential impact on pension cost of alternative investment policies in terms of risk and return based on various levels of asset diversification and the current and projected liability structure of the retirement plan.

2. Based on the financial plan, it will be the responsibility of the Board to determine the specific allocation of the investments among the various asset classes considered prudent given the retirement plan's liability structure. The asset allocation, which is the Retirement System's investment structure, shall be sufficiently diversified to maintain risk at a reasonable level, determined by the Board without imprudently sacrificing return. The Board shall determine performance benchmarks against which the asset allocation plan shall be reviewed to ensure that the asset mix remains appropriate to meet long term goals of the investment program.
3. In accordance with the asset allocation guidelines, the Board will select external investment managers with demonstrated experience and expertise whose investment styles collectively will implement the planned asset allocation.
4. It is the responsibility of the Board to administer the investments of the Retirement System at the lowest possible cost, being careful to avoid sacrificing quality.

**PERFORMANCE RESULTS**

Investments	Current Qtr (2000)	Annualized	
		1 - year	3 - year
Total Portfolio	-1.6%	6.7%	12.1%
Benchmark (1)	-2.1%	8.1%	12.8%
TUCS Public Plan Ranking Percentile	57%	69%	46%
Domestic Equity	-1.6%	5.3%	16.2%
Benchmark (2)	-3.3%	6.3%	19.4%
TUCS Domestic Equity Ranking Percentile	50%	76%	14%
International Equity	-5.1%	20.7%	12.6%
MSCI-EAFE	-5.2%	17.9%	9.1%
TUCS International Ranking Percentile	54%	54%	73%
Domestic Fixed Income	.7%	2.8%	5.8%
Benchmark (3)	1.5%	4.7%	6.1%
TUCS Fixed Income Ranking Percentile	66%	77%	51%
International Fixed Income	-5%	-7%	2.8%
Benchmark (4)	-2%	3.2%	3.9%
TUCS Fixed Income Ranking Percentile	--	--	--

Calculations were prepared using a time-weighted rate of return based on the market rate of return in accordance with AIMR's Performance Presentation Standards

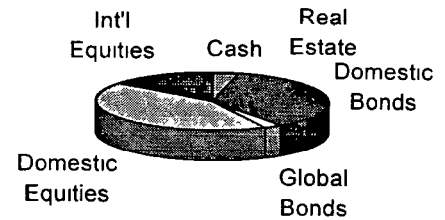
**Benchmark**

- (1) Standard and Poor's 500 (S&P 500); Russell, European Australia, Far East (EAFE); Lehman Aggregate, Soloman Brothers World Government Bond Index (SBWGB); Treasury-Bills (T-Bills)
- (2) S&P 500, S&P 400 Midcap; Russell 1000 & 3000
- (3) Lehman Aggregate
- (4) SBWGB
- (5) Trust Universe Comparisons (TUCS)

**SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM**  
**INVESTMENT SECTION**  
**JUNE 30, 2000**

**ASSET ALLOCATION**

	Market Value	%	Target %
Cash	\$ 18,283,305	1.5	--
Short-term investments	26,464,913	2.1	2
<b>Fixed Income:</b>			
Domestic Bonds	456,220,366	36.4	35.0
Global Bonds	31,186,263	2.5	5.0
Total Fixed Income	<u>487,406,629</u>	<u>38.9</u>	<u>40.0</u>
<b>Equities:</b>			
Domestic Equities	538,528,131	42.9	43.0
- International Equities	183,708,583	14.6	15.0
Total Equities	<u>722,236,714</u>	<u>57.5</u>	<u>58.0</u>
Real Estate	45,205	.0	--
<b>Total</b>	<u><u>\$1,254,436,766</u></u>	<u><u>100.0</u></u>	<u><u>100.0</u></u>



**SCHEDULE OF TOP TEN EQUITY  
AND FIXED INCOME SECURITIES**

**TOP TEN EQUITY SECURITIES \***  
By Market Value

Shares	Security Name	Market Value
261,550	Pfizer Inc	\$12,554,400
234,600	General Electric common stock	12,433,800
103,200	Exxon Mobile Corp common stock	11,872,968
183,476	Citigroup Inc common stock	11,054,429
138,900	EMC Corp Mass	10,686,619
73,411	American Intl Group Inc common stock	8,625,793
64,000	Adobe Sys Inc common stock	8,320,000
103,700	Microsoft Corp common stock	8,296,000
96,200	Xilinx Inc common stock	7,942,513
68,600	Johnson & Johnson common stock	6,988,625

**TOP TEN FIXED INCOME SECURITIES \***  
By Market Value

Par Value	Security Name	Market Value
16,470,000	FNMA TBA Jul 30 Single Fam	\$ 16,776,177
24,000,000	Texas Munpwr Agy Rev	10,763,760
10,230,000	US Treasury Nts 13 Dec 01	10,178,850
10,000,000	Asian Dev Bk	9,751,600
11,600,000	Den Norske Stats A S	9,509,564
11,000,000	Ameritech Cap Fdg Corp	9,238,680
8,500,000	Deutsche Telekom Intl Fin BV	8,562,050
7,600,000	Ford Hldgs Inc	8,480,004
8,850,000	Dresdner Fdg Tr I	7,636,842
7,613,452	Bellsouth cap Fdg Corp	7,613,452

\* A complete list of portfolio holdings is available upon request

SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM  
INVESTMENT SECTION  
JUNE 30, 2000

**SCHEDULE OF PROFESSIONAL FEES AND SERVICE**

	Assets Under Management	Fees	Basis Points
Investment Managers			
Fixed Income Managers	\$ 487,451,834	\$ 850,931	.070%
Equity Managers	<u>722,236,714</u>	<u>1,223,793</u>	<u>.101</u>
Total Investment Managers	1,209,688,548	2,074,724	.171
Other Investment Service Fees:			
Custodian Fees	--	316,359	.026
Investment Consultant Fees	<u>--</u>	<u>56,000</u>	<u>.005</u>
Total Investment Service Fees	<u>\$1,209,688,548</u>	<u>\$2,447,083</u>	<u>.202%</u>

**INVESTMENT SUMMARY**  
As of June 30, 2000

Type of Investment	Market Value	Percent of Total Market Value
Fixed Income Investments:		
Domestic	\$456,220,366	36.4%
Global	<u>31,186,263</u>	<u>2.5</u>
Total Fixed Income Investments	487,406,629	38.9
Equity Investments-Domestic and International:		
Consumer Discretionary	40,851,498	3.3
Consumer Staples	27,033,226	2.1
Energy	29,555,901	2.4
Financial	83,831,999	6.7
General Business	231,379,160	18.4
Health Care	50,810,160	4.0
Industrial	56,895,761	4.5
Information Technology	135,252,793	10.8
Materials	17,650,373	1.4
Telecommunication	32,322,268	2.6
Utilities	<u>16,653,575</u>	<u>1.3</u>
Total Equity Investments	722,236,714	57.5
Alternative Investments:		
Real Estate	<u>45,205</u>	<u>.0</u>
Total Alternative Investments	45,205	.0
Cash	18,283,305	1.5
Short-Term Investments	<u>26,464,913</u>	<u>2.1</u>
Total	<u>\$1,254,436,766</u>	<u>100.0%</u>

**ACTUARIAL SECTION**

ACTUARY'S  
CERTIFICATION  
LETTER

BUCK  
CONSULTANTS

100 California Street Suite 1300  
San Francisco, California 94111

August 16, 2000

Board of Retirement  
Santa Barbara County  
Employees' Retirement System  
County Administration Building, Room 301  
105 East Anapamu Street  
Santa Barbara, California 93101

Members of the Board:

Re: *Actuarial Certification of the  
Santa Barbara County  
Employees' Retirement System*

Buck Consultants, Inc. is the Consulting Actuary for the Santa Barbara County Employees' Retirement System.

The funding objective of the Plan is to establish contribution rates which, over time, will remain as a level percentage of payroll unless Plan benefit provisions are changed. Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize the unfunded actuarial accrued liability (UAAL). As of December 31, 1999, the remaining amortization period for the UAAL is 6 years.

Actuarial studies are performed annually. The date of the most recent actuarial valuation is December 31, 1999. In each actuarial study, we conduct an examination of all participant data for reasonableness.

The System's financial statements are audited by an outside auditor. For actuarial valuation purposes, Plan assets are valued at Actuarial Value. Under this method, the assets used to determine employer contribution rates take into account market value by spreading all gains and losses over five years.

Our firm has prepared all of the schedules presented in the actuarial report. The actuarial assumptions shown in the schedules were selected by us as being appropriate for use under the Plan. An analysis of the Plan's noneconomic experience was performed as of December 31, 1997 to establish the validity of these assumptions. The assumptions used in the most recent valuation produce results which, in the aggregate, reasonably approximate the anticipated future experience of the Plan. The next experience analysis is due to be performed as of December 31, 2000.

We certify that the Retirement System is in sound financial condition and that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

Respectfully submitted,



Krystyna H. Upstill, E.A., M.A.A.A.  
Principal and Consulting Actuary



Michael Moehle, FSA, E.A.  
Principal and Consulting Actuary

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**SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS**

Normal cost and the allocation of benefits values between service rendered before and after the valuation date was determined using an individual entry actuarial cost method having the following characteristics:

- (a) The annual normal cost for each active member, payable from the date of entry into the Retirement System to the date of retirement, are sufficient to accumulate the value of the member's benefit at the time of retirement;
- (b) Each annual normal cost is a consistent percentage of the member's year-by-year projected covered pay.

The actuarial accrued liability is the cost allocated to years prior to the actuarial valuation date; it is the excess of the value of benefits over the value of future member contributions and the value of future normal costs. The difference between the Actuarial Accrued Liability and the plan assets is called the Unfunded Actuarial Accrued Liability and is funded (amortized) as a level percentage of projected future payroll over six years from December 31, 1999.

The current approach used to recognize gains and losses is to spread each year's unrealized gains and losses over five years. Thus resulting in only 20 percent of unrealized gains and losses are to be recognized in any one year. Note that starting with fiscal year 1993-94 realized gains and losses are treated the same. This was done on a prospective basis only.

The contribution requirement and benefits values of the Retirement System are calculated by applying actuarial assumptions to the benefit provisions and member information furnished, using the actuarial cost methods described above. The recommended actuarial contribution rates were adopted and implemented by Retirement System.

The principle areas of financial risk which require assumptions about future experiences are:

- (a) long term rates of investment return to be generated by the assets of the Retirement System.
- (b) pay increase patterns.
- (c) rates of mortality among members, retirants, and beneficiaries.
- (d) rates of withdrawal from active service, including death.
- (e) the age patterns of actual retirements.

Actual experience of the Retirement System will not coincide exactly with assumed experience, regardless of the election of the assumptions, skill and proficiency of the actuary and the accuracy of calculations made. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experiences.

**The investment return rate** used for the actuarial valuation calculations is 8.0 percent a year, net of administrative expenses, compounded annually. This assumption is adopted by the Retirement Board. The rate is comprised of two elements:

	12/31/99	12/31/98
Inflation (COLA)	4.75%	4.75%
Real Rate of Return	3.25%	3.25%
Total	8 00%	8 00%

Salary increase rates for inflation and graded merit and longevity are as follows:

	12/31/99	12/31/98
Inflation (COLA)	4.75%	4.75%
Merit and Longevity	1.00%	1.00%
Total	5.75%	5.75%

The post-retirement mortality tables used were as follows:

Service Retirement Mortality Tables:

General Males	1983 Group Annuity Mortality Table for Males
General Females	1983 Group Annuity Mortality Table for Females, set forward one year.
Safety	1983 Group Annuity Mortality Table for Males, set forward one year.

Disability Retirement Mortality Tables:

General	1981 Disability Mortality Table for General Members.
Safety	1981 Disability Mortality Table for Safety Members.

These assumptions are used to measure the probabilities of members dying after retirement and the probability of each benefit payment being made after retirement. Related values are shown below.

**FUTURE LIFE EXPECTANCY AFTER SERVICE RETIREMENT (YEARS)**

Age	GENERAL		
	Male	Female	Safety
50	29.18	33.97	28.30
55	24.83	29.31	23.98
60	20.64	24.78	19.83
65	16.69	20.43	15.95
70	13.18	16.34	12.54
75	10.15	12.69	9.60
80	7.64	9.63	7.21
85	5.73	7.11	5.41
90	4.28	5.02	4.04
95	3.16	3.37	2.98
100	2.28	2.14	2.11
105	1.43	1.19	1.26

FUTURE LIFE EXPECTANCY AFTER DISABILITY RETIREMENT (YEARS)

Age	General	Safety and Probation	Age	General	Safety and Probation
20	38.73	49.29	65	14.07	14.09
25	35.19	44.79	70	11.70	11.70
30	31.98	40.36	75	9.24	9.24
35	29.00	36.02	80	7.00	7.00
40	26.21	31.77	85	5.34	5.34
45	23.57	27.61	90	4.09	4.09
50	21.08	23.59	95	3.07	3.07
55	18.68	19.77	100	2.20	2.20
60	16.37	16.64	105	1.38	1.38

**Probability of separation from active service** - The following tables indicate the probability of separation from active service for each of eight separate sources of termination:

Withdrawal	Member terminates and elects refund of member contributions.
Vested Termination	Member terminates and contributions are left on deposit.
Ordinary Death	Member dies prior to eligibility for retirement; death not employment related.
Ordinary Disability	Member receives disability retirement; disability not employment related.
Service Retirement	Member retires after satisfaction of requirements of age and/or service for reasons other than disability.
Duty Disability	Member receives disability retirement; disability is employment related.
Duty Death	Member dies prior to retirement; death is employment related.
Death While Eligible	Member dies prior to retirement but after satisfaction of age and/or service requirements for service retirement.

The probability shown for each cause of termination represent the probability that a given member will terminate at a particular age for the indicated reason. For example, if the probability of withdrawal at age 25 is .1500, then we are assuming that 15.00 percent of the active members at age 25 will terminate without vested rights during the next year.

SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM  
ACTUARIAL SECTION  
JUNE 30, 2000

PROBABILITY OF SEPARATION FROM ACTIVE SERVICE  
General Members - Males

Sample Age	Withdrawal	Ordinary Death	Ordinary Disability	Service	Death While Eligible	Duty Death	Duty Disability	Terminated Vested
20	.16500	.00015	00000	00000	.00000	.00013	00010	00000
25	.12000	.00023	.00000	.00000	.00008	.00013	.00010	00000
30	.08500	.00030	00000	00000	.00017	.00013	.00020	00450
35	06000	.00038	00014	00000	00017	.00013	.00030	.01300
40	.04300	.00045	00028	.00000	.00025	00013	.00080	.01200
45	03000	00060	.00084	.00000	.00051	00013	.00150	.01650
50	02300	00097	.00182	.04500	.00119	00013	.00200	.01500
55	01800	00165	.00322	06000	.00230	.00013	.00280	.01000
60	01300	.00240	.00518	.11000	.00348	.00013	.00350	.00700
65	.01000	00315	.00798	.29000	.00476	.00013	.00000	.00000
70	.00000	00000	.00000	1 0000	.00000	.00000	.00000	.00000

PROBABILITY OF SEPARATION FROM ACTIVE SERVICE  
General Members - Females

Sample Age	Withdrawal	Ordinary Death	Ordinary Disability	Service	Death While Eligible	Duty Death	Duty Disability	Terminated Vested
20	.17250	00010	.00000	.00000	.00000	.00010	.00008	.00000
25	13250	00010	.00012	.00000	00010	00010	.00008	.00000
30	.11000	00020	.00012	.00000	.00010	.00010	.00008	01000
35	.08700	.00030	.00033	.00000	.00010	.00010	.00016	.01800
40	05500	00040	.00045	.00000	.00010	.00010	00040	.01850
45	03200	00050	.00102	.00000	.00020	.00010	.00072	.01900
50	02600	00060	.00146	.02000	.00040	.00010	.00096	.01750
55	02100	00100	.00191	.05000	.00090	.00010	.00136	.00800
60	01650	00180	.00281	.06000	.00140	.00010	.00168	.00400
65	.01500	.00280	.00000	.30000	.00200	.00010	00000	00000
70	00000	00000	.00000	1 0000	.00000	.00000	00000	.00000

PROBABILITY OF SEPARATION FROM ACTIVE SERVICE  
Safety and Probation Members

Sample Age	Withdrawal	Ordinary Death	Ordinary Disability	Service	Death While Eligible	Duty Death	Duty Disability	Terminated Vested
20	07000	00010	00000	.00000	.00000	.00006	00014	00000
25	05500	00020	.00004	.00000	.00008	.00013	.00027	.01200
30	03800	.00020	.00004	.00000	.00008	00013	.00094	.01750
35	02500	00020	00032	.00000	.00015	00013	.00202	00950
40	01500	00030	.00066	.00000	.00045	00020	.00360	.00700
45	00600	00040	00088	.00600	.00060	.00026	.00540	.00350
50	00400	.00060	.00094	.05000	.00082	.00058	.00742	.00100
55	.00000	.00110	00000	.10000	.00120	.00091	.00000	.00000
60	00000	00000	00000	1 0000	00000	00000	00000	00000

SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM  
ACTUARIAL SECTION  
JUNE 30, 2000

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date June 30	Plan Type	Active Members	Annual Salary	Average Annual Salary	% Increase in Average Annual Salary
2000	General	3,503	\$146,199,000	41,735	2.8
	Safety	930	49,790,000	53,538	4.0
	Total	4,433	195,989,000	44,211	3.0
1999	General	3,316	134,680,000	40,615	4.5
	Safety	893	45,967,000	51,475	7.2
	Total	4,209	180,647,000	42,919	5.1
1998	General	3,234	125,679,000	38,862	3.7
	Safety	888	42,637,000	48,015	(.6)
	Total	4,122	168,316,000	40,834	2.8
1997	General	3,154	118,250,000	37,492	2.1
	Safety	820	39,593,000	48,284	.4
	Total	3,974	157,843,000	39,719	1.7
1996	General	3,065	112,589,000	36,734	3.7
	Safety	803	38,613,000	48,086	6.2
	Total	3,868	151,202,000	39,090	4.2
1995	General	3,018	106,895,000	35,419	1.0
	Safety	808	36,597,000	45,293	4.8
	Total	3,826	143,492,000	37,504	1.9
1994	General	2,916	102,278,000	35,075	1.3
	Safety	781	33,758,000	43,224	(2.9)
	Total	3,697	136,036,000	36,796	0.3
1993	General	2,825	97,774,000	34,610	0.0
	Safety	741	32,996,000	44,529	4.9
	Total	3,566	130,770,000	36,671	1.0
1992	General	2,716	94,044,000	34,626	6.5
	Safety	742	31,497,000	42,449	6.2
	Total	3,458	125,541,000	36,305	7.2
1991	General	2,812	91,445,000	32,520	9.0
	Safety	627	25,064,000	39,974	10.5
	Total	3,439	116,509,000	33,879	9.3

**SCHEDULE OF RETIREES AND BENEFICIARIES  
 ADDED TO AND DELETED FROM RETIREMENT PAYROLL**

Fiscal Year	Beginning of Year	Adds	Deletes	Ending	Total Retiree Payroll	% Increase in Payroll	Average Monthly Allowance
2000	1,974	183	89	2,068	\$34,176,776	12.0%	\$1,377
1999	1,892	212	130	1,974	30,517,519	12.2	1,288
1998	1,822	164	94	1,892	27,189,813	17.9	1,198
1997	1,759	149	86	1,822	23,067,897	10.5	1,055
1996	1,704	142	76	1,759	20,866,717	9.3	988
1995	1,647	141	95	1,693	19,088,284	6.9	939
1994	1,617	119	89	1,647	17,855,364	9.2	903
1993	1,570	N/A	N/A	1,617	16,355,493	8.9	843
1992	1,494	N/A	N/A	1,570	15,025,122	15.5	797
1991	1,425	N/A	N/A	1,494	13,004,524	8.6	725
1990	1,385	N/A	N/A	1,425	11,980,147	12.1	701

**SUMMARY OF MAJOR PLAN PROVISIONS**

**ELIGIBILITY**

- First of pay period following date of employment.

**DEFINITION OF SALARY**

- Highest 12 consecutive months of compensation earnable for Plan I members and highest thirty-six consecutive months of compensation earnable for Plan II, III and IV members.

**SERVICE RETIREMENT**

**Normal retirement age**

- Age 57 for Sections 31676.1 (General Plans I and III) and Section 31676.12 (General Plans IV), age 65 for Section 31486.4 (General Plan II), age 50 for Section 31664 (Safety and Probation), and age 55 for Section 31676.15 (APCD Plans I and II).

**Early retirement**

- Age 50 and 10 years for Plan I, III and IV and APCD Plan II and ages 55 and 10 years for General Plan II; or 30 years for General Plans I, III and IV and APCD Plan I, and 20 years for Safety and Probation.

**Benefit**

- $1/60$  times final average salary per year of service for General Plan I and III,
- 2 percent of final average salary per year of service (maximum 35 years) plus 1 percent of final average salary per year of service in excess of 35 (maximum 10 years) reduced by  $1/35$  of Social Security benefit at age 65 per year of service (maximum 35 years) for General Plan II, and
- $1/50$  times final average salary per year of service for General Plan IV, Safety, Probation and APCD.

**Benefit adjustments**

- Reduced for retirement before ages 57, 65, 50, and 55 for County Employees' Retirement Law of 1937 Sections 31676.1, 31676.12, 31486.4, 31664, and 31676.15, respectively. Reductions for Section 31486.4 are actuarial equivalents
- Increased for retirement after ages 57, 50, and 55 for Sections 31676.1, 31676.12, 31664 and 31676.15, respectively.

**DISABILITY RETIREMENT**

- Non-service connected for General Plans I, III, IV and APCD.
- 1.5 percent (General Plans I and III) and 1.8 percent (General Plan IV, Safety, Probation and APCD) of final average salary per year of service, with maximum of 33 1/3 percent if projected service is used (age 65 for General Plans I and III, age 62 for General Plan IV, and APCD, age 55 for Safety and Probation), or 90 percent of the accrued service retirement benefit without a benefit adjustment, or service retirement benefit (if eligible).
- Service connected for Plans I, III, IV, and APCD Plan II.
- Greater of 50 percent of final average salary or service retirement benefit (if eligible).
- General Plan II purchases long-term insurance policy.
- 60 percent of salary provided outside of the Plan. Payments are reduced by other disability income are reduced by other disability income benefits. Service retirement at age 65 (credit given toward service retirement while disability under the LTD Plan).

**DEATH BEFORE RETIREMENT**

- Non-service connect before eligible to retire, for Plans I, III and IV and APCD Plan II
  - refund of contributions plus 1/12 of last years' salary per year of service up to 6 years.
- Eligible for non-service connected disability or service retirement for Plans I, III, and IV and APCD Plan II
  - 60 percent of member's accrued allowance.
- Service connected for Plans I, III, and IV and APCD Plan II
  - 50 percent of salary.
- Benefit for General Plan II
  - 1/12 of last years' salary per year of service up to 6 years.

**DEATH AFTER RETIREMENT**

- \$2,000 lump sum death benefit for Plans I, III, and IV and APCD Plan II as of December 31, 1999. The lump sum death benefit has been increased effective January 1, 2000 to \$5000.
- Service retirement or non-service connected disability
  - 60 percent of member's allowance payable to an eligible spouse for Plan I, III, and IV, APCD Plan II.
  - 50 percent of member's allowance payable to an eligible spouse for General Plan II.
- Service connected disability
  - 100 percent of member's allowance to an eligible spouse for Plans I, III, and IV, APCD Plan II.
  - 50 percent of member's allowance payable to an eligible spouse for General Plan II

**VESTING**

- Must leave contributions on deposit.
- Five years of service for Plans I, III, and IV and APCD Plan II.
- Ten years of service for General Plan II.



**MEMBER'S CONTRIBUTIONS**

- Based on entry age
- Half rates for General IV, Safety, and APCD Plans I. Full rates for General IV and Safety Plans III, Probation, and APCD Plan II. General Plan II is noncontributory.

**MAXIMUM BENEFIT**

- 100 percent of final average salary for Plans I, III, and IV and APCD Plan II
- Benefit and Social Security combined cannot exceed 70 percent of final average salary if service is less than 35, otherwise 80 percent for General Plan II.

**COST-OF-LIVING**

- Up to 3 percent cost-of-living adjustment for Plans I, III, and IV and APCD Plan II
- None for General Plan II.

**STATISTICAL SECTION**

SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM  
 STATISTICAL SECTION  
 JUNE 30, 2000

**SCHEDULE OF REVENUES BY SOURCE**

Fiscal Year	Member Contributions	Employer Contributions	Net Return On Investments	Total
2000	\$7,348,582	\$30,057,229	\$65,684,528	\$103,090,339
1999	7,039,762	29,088,462	103,049,351	139,177,575
1998	5,725,100	30,138,293	152,637,712	188,501,105
1997	5,145,910	30,638,075	66,031,421	101,815,406
1996	4,917,240	26,105,266	78,900,683	109,923,191
1995	4,187,640	22,611,053	31,823,951	58,622,644
1994	3,989,265	21,355,077	45,522,224	70,866,566
1993	3,909,083	20,599,162	53,901,397	78,409,642
1992	2,641,245	20,146,098	46,909,344	69,696,687
1991	3,546,814	15,851,360	28,687,750	48,085,924

**SCHEDULE OF EXPENSES BY TYPE**

Fiscal Year	Benefits Paid	Refunds	Investment Expenses	Administrative Expenses	Total
2000	\$37,537,933	\$991,089	\$2,447,083	\$697,085	\$41,673,190
1999	33,493,394	893,349	2,505,666	620,626	37,513,035
1998	29,827,367	880,164	2,406,806	409,548	33,523,885
1997	27,352,099	557,461	2,397,480	239,205	30,546,245
1996	24,849,470	529,706	2,301,388	247,384	27,927,948
1995	22,610,749	573,736	2,031,883	186,030	25,402,399
1994	21,313,567	456,562	2,776,693	212,751	24,759,573
1993	19,426,379	499,763	1,492,823	214,572	21,633,538
1992	17,800,216	369,038	1,267,055	61,344	19,497,653
1991	15,561,597	469,492	1,079,936	101,784	17,212,809

SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM  
 STATISTICAL SECTION  
 JUNE 30, 2000

**SCHEDULE OF AVERAGE BENEFIT PAYMENTS**

	Years of Retirement					
	0-9	10-14	15-19	20-24	25-29	30+
<b>1999</b>						
Average Monthly Benefit	\$ 1,893	\$ 1,518	\$ 1,168	\$ 865	\$ 778	\$ 710
Average Annual Benefit	22,721	18,221	14,019	10,384	9,331	8,522
Number of Active Retirees	914	313	309	304	125	47
<b>1998</b>						
Average Monthly Benefit	\$ 1,839	\$ 1,314	\$ 1,058	\$ 834	\$ 741	\$ 735
Average Annual Benefit	22,063	15,762	12,700	10,004	8,895	8,823
Number of Active Retirees	857	309	328	287	102	39
<b>1997</b>						
Average Monthly Benefit	\$ 1,736	\$ 1,212	\$ 951	\$ 819	\$ 709	\$ 611
Average Annual Benefit	20,832	14,543	11,412	9,829	8,497	7,333
Number of Active Retirees	817	316	345	252	87	34
<b>1996</b>						
Average Monthly Benefit	\$ 1,672	\$ 1,161	\$ 832	\$ 799	\$ 672	\$ 591
Average Annual Benefit	20,065	13,933	9,985	9,586	8,067	7,089
Number of Active Retirees	776	325	356	211	84	30

**SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFITS**

	<u>Number of Retirees</u>	<u>Annual Allowance</u>	<u>Average Allowance</u>
<b>GENERAL MEMBERS</b>			
Service			
Males	582	\$ 9,490,463	\$16,307
Females	723	7,664,151	10,600
Disability			
Males	56	843,821	15,068
Females	43	614,216	14,284
Beneficiaries			
Males	50	289,841	5,797
Females	<u>211</u>	<u>1,640,087</u>	<u>7,773</u>
Total	<u>1,665</u>	<u>20,542,579</u>	<u>12,338</u>
<b>SAFETY MEMBERS</b>			
Service			
Males	195	7,439,900	38,153
Females	15	314,645	20,976
Disability			
Males	80	1,533,131	19,164
Females	9	167,628	18,625
Beneficiaries			
Males	3	29,926	9,975
Females	<u>45</u>	<u>654,407</u>	<u>14,542</u>
Total	<u>347</u>	<u>10,139,637</u>	<u>29,221</u>

**GLOSSARY**

**ACCUMULATED BENEFIT OBLIGATION:** The actuarial present value of benefits (whether vested or nonvested) attributed by the pension benefit formula to employee service rendered before a specific date and based on employee service and compensation (if applicable) before that date. The accumulated benefit obligation differs from the projected benefit obligation in that it includes no assumptions about future compensation levels.

**ACCUMULATED PLAN BENEFITS:** Benefits attributable under the provisions of a pension plan to employees for services rendered to the benefit information date.

**ACTUARIAL ASSUMPTIONS:** Assumptions used in the actuarial valuation process as to the occurrence of future events affecting pension costs, such as mortality, withdrawal, disablement and retirement; changes in compensation and national pension benefits; rates of investment earnings and asset appreciation or depreciation, procedures used to determine the actuarial value of assets, characteristics of future entrants for open group actuarial cost methods and other relevant items

**ACCRUAL BASIS:** The recording of the financial effects on a government of transactions and other events and circumstances that have cash consequences for the government in the periods in which those transactions, events and circumstances occur, rather than only in the periods in which cash is received or paid by the government

**ACTUARIAL ACCRUED LIABILITY:** The portion, as determined by a particular cost method, of the total present value of benefits that is attributable to past service credit.

**ACTUARIAL GAIN (LOSS):** A measure of the difference between actual and expected experience based upon a set of actuarial assumption. Examples include higher than expected salary increases (loss) and a higher return on fund assets than anticipated (gain).

**ACTUARIAL PRESENT VALUE:** The discounted value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of actuarial assumptions

**AMORTIZED OR UAAL PAYMENT:** The portion of the pension plan contribution which is designed to pay off (amortize) the unfunded actuarial accrued liability in a systematic fashion. Equivalently, it is a series of periodic payments required to pay off a debt

**AMORTIZATION:** (1) The portion of the cost of a limited-life or intangible asset charged as an expense during a particular period (2) The reduction of debt by regular payments of principal and interest sufficient to retire the debt by maturity

**AUDITORS' REPORT:** In the context of a financial audit, a statement by the auditor describing the scope of the audit and the auditing standards applied in the examination, and setting forth the auditor's opinion on the fairness of presentation of the financial information in conformity with GAAP or some other comprehensive basis of accounting.

**COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR):** The official annual report of a government. It includes (a) the five combined financial statements in the combined statements - overview and their related notes (the "liftable" GPFS) and (b) combining statements by fund type and individual fund and account group financial statements prepared in conformity with GAAP and organized into a financial reporting pyramid. It also includes supporting schedules necessary to demonstrate compliance with finance-related legal and contractual provisions, required supplementary information, extensive introductory material and a detailed statistical section. Every government reporting entity should prepare a CAFR

**ENTRY AGE ACTUARIAL COST METHOD:** A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age(s). The portion of this actuarial present value allocated to a valuation year is called the normal cost. The portion of this actuarial present value not provided for at a valuation date by the actuarial present value of future normal costs is called the actuarial accrued liability

**NORMAL COST:** The ongoing annual cost allocated to the system by a particular actuarial cost method for providing benefits (future cost). Normal cost payments are made during the working lifetime of the member

**PENSION BENEFIT OBLIGATION (PBO):** The standardized measure of funding status and progress required by the GASB to be disclosed in the notes to the financial statements. It is the actuarial present value of credited projected benefits, prorated on service and discounted at a rate equal to the expected return on present and future plan assets

**PENSION CONTRIBUTION:** The amount paid into a pension plan by an employer (or employee), pursuant to the terms of the plan, state law, actuarial calculations or some other basis for determinations.

**PENSION TRUST FUND:** A trust fund used to account for a PERS. Pension trust funds, like nonexpendable trust funds, use the accrual basis of accounting and have a capital maintenance focus

**UNFUNDED ACTUARIAL ACCRUED LIABILITY:** The excess of the actuarial accrued liability over the actuarial value of assets