SBCERS

Comprehensive Annual Financial Report

FOR FISCAL YEAR ENDED JUNE 30, 2017

SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM

A Pension Trust Fund for the County of Santa Barbara, California

Santa Barbara County Employees' Retirement System

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

ISSUED BY:

Gregory E. Levin, Chief Executive Officer

SBCERS

3916 State Street, Suite 100   Santa Barbara, CA 93105   805-568-2940

www.sbcers.org

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OUR MISSION

The Santa Barbara County Employees' Retirement System is committed to fulfilling its fiduciary responsibility by providing the highest quality of service to all members and plan sponsors, and protecting promised benefits through prudent investing, while ensuring reasonable expenses of administration.

INTRODUCTION

SBCERS

Santa Barbara County Employees' Retirement System Gregory E. Levin, Chief Executive Officer

December 27, 2017

Board of Retirement
Santa Barbara County Employees' Retirement System
3916 State Street, Suite 100
Santa Barbara, CA 93105

Dear Board Members:

I am pleased to submit this *Comprehensive Annual Financial Report (CAFR) of the Santa Barbara County Employees' Retirement System (SBCERS or the System) for the Fiscal Year Ended June 30, 2017.* This report is intended to provide readers with complete and reliable information about SBCERS' financial status, compliance with the law, and administrative consistency with policy.

SBCERS QUICK FACTS	
Net Position:	$ 2.8 billion
Net Investment Return:	10.49%
Number of Members:	10,137

As of June 30, 2017, the SBCERS Net Position Restricted for Benefits was $ 2.8 billion. Net position grew by $ 252 million during the fiscal year. The increase reflects the growth of SBCERS' investments for the current period. The pension fund experienced a market rate of return of 10.49% (net of fees), underperforming its policy benchmark (11.47%) by approximately -0.98% (net of fees) for the year ended June 30, 2017.

The Other Postemployment Benefit Trust (OPEB) or 401(h) Retiree Health Medical Trust Fund was established in September 2008. The assets of this fund are invested separately from pension assets. The activity in the OPEB Trust Fund is separate from the pension fund activity and is recorded as such in the financial statements. The retiree health fund experienced a market rate of return of 10.61% for the year ended June 30, 2017.

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

Responsibility for both accuracy of the data and the completeness and fairness of the presentation rests with SBCERS' management. It is our intent and belief that 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 SBCERS.

SBCERS AND ITS SERVICES

SBCERS was established on January 1, 1944, and is administered by the Board of Retirement (the Board) to provide service retirement, disability, death, and survivor benefits for County of Santa Barbara (County) employees and ten contracting employers under the California Government Code §31450 et seq., (County Employees' Retirement Law of 1937 or CERL). SBCERS also administers the OPEB healthcare plan on behalf of the County. This plan is created under section 401(h) of the Internal Revenue Service (IRS) Code.

Members include all permanent full and part-time employees of the County, the Santa Barbara County Superior Court, and nine special districts.

The Board is responsible for establishing policies governing the administration of the retirement plan and managing the investment of SBCERS' assets under authority granted by Article XVI, Section 17 of the Constitution of the State of California.

SBCERS PLAN SPONSORS	
County of Santa Barbara	Santa Barbara County Superior Court
Carpinteria Cemetery District	Santa Barbara County Air Pollution Control District
Carpinteria-Summerland Fire Protection District	Santa Barbara County Association of Governments
Goleta Cemetery District	Santa Maria Cemetery District
Oak Hill Cemetery District*	Summerland Sanitary District
Mosquito & Vector Management District of Santa Barbara County*	

** These districts do not participate in the Other Postemployment Benefit Plan.*

The Board consists of nine members and two alternates. The County Board of Supervisors appoints four members to the Board, members of SBCERS elect four members and two alternates, and the County Treasurer is an ex-officio member. SBCERS is an independent entity and not a component unit of the County. The Board continues to demonstrate its commitment to providing accurate and timely service to our 4,299 active, 1,463 deferred members, and 4,375 benefit recipients into the future.

SERVICE EFFORTS AND ACCOMPLISHMENTS

Benefits Administration

During the fiscal year, the member services team processed over 240 retirements, a 25% increase over the prior fiscal year. The information technology division completed the first phases of a significant pension administration system upgrade; once completed this will improve overall internal controls and enable SBCERS to provide online services to our members. Also during the year, a new monthly email newsletter was created to provide members with additional information on the activities of the System and the Board of Retirement.

The Board completed its triennial experience study for the period July 1, 2013 through June 30, 2016. As part of this process the Board determined to modify the mortality assumptions of the plan to more accurately reflect the System's actual experience by adopting new base mortality tables, as well as implementing generational mortality improvements and benefit weighted analysis. The disability, termination, and retirement rates were also revised, as were other miscellaneous demographic assumptions. The demographic assumption changes implemented as part of the experience study increased employer contribution rates by an average of 0.9%.

Investments

During the fiscal year ending June 30, 2017 the Board completed a comprehensive Asset and Liability Study with its General Investment Consultant, RVK, Inc. The General Investment Consultant concluded that the present funding level and current contribution policy result in a strong financial position for the plan. The study also recommended that the Board continue to focus on further diversifying the investment portfolio and reducing the volatility of the portfolio. Following the Asset Liability Study, the Board revised its target asset allocation. This process resulted in:

- Increased allocation to private asset classes for added diversification and to leverage the plan's strong liquidity position. The allocations to private equity, real return and real estate increased by 3%, 3% and 2% respectively. A sub-target to publicly traded REITS was removed from the real estate mandate.
- The allocation to emerging markets was decreased by 4% and developed market equities were increased by 2%.
- The allocation to investment grade fixed income was reduced 4% and the non-investment grade fixed income allocation was increased by 2%.

As part of the revised asset allocation, the System eliminated several managers and consolidated similar allocations.

Accounting and Finance

The SBCERS finance team received the GFOA award for CAFR reporting for its work on the fiscal year ended June 30, 2016 CAFR. The finance team significantly improved internal controls over cash management by implementing a new cash flow analysis and reporting package for Quarterly review by the Board. During the period reported, SBCERS hired a new Controller, a licensed CPA, and completed the transition of accounting staff to the Santa Barbara Office. As part of the triennial experience study the Board determined to lower the System's assumed rate of return from 7.5% to 7.0%. SBCERS uses the building block approach to develop its assumed rate of return. SBCERS assumption rate for real return was lowered from 4.25% to 4% and the assumption rate for inflation was lowered from 3.25% to 3%.

Legal and Compliance

During the fiscal year significant improvements were made to the Board's policy framework with several new operating policies developed during the fiscal year. The revisions to this policy framework include the Board's Code of Conduct and policies on Trustee Education, Communications and Budget Approval.

Disability

The SBCERS disability team timely completed the review and appointment of its disability referee panel during the fiscal year ended June 30, 2017. As part of this process, 2 additional referees were added to the System's roster. For the period covered in this report, the disability team processed 28 matters for Board consideration and conducted 3 hearings. The Board made 48 determinations and 26 cases were closed.

FINANCIAL INFORMATION

SBCERS' management is responsible for the accuracy of the data, the completeness and fairness of the presentation of financial information, including all disclosures, and establishing and maintaining an internal control structure designed to provide reasonable assurance regarding the safekeeping of assets and the reliability of financial records. SBCERS' management is responsible for establishing and maintaining an internal control structure designed to ensure that SBCERS' assets are protected from loss, theft, or misuse. Because the cost of the control should not exceed the benefits derived, the objective is to provide reasonable, rather than absolute assurance that the financial statements are free of any material misstatements. Brown Armstrong Accountancy Corporation, SBCERS' independent auditors, have audited the financial statements and expressed their opinion that SBCERS' financial statements are presented in conformity with accounting principles generally accepted in the United States of America and are free of material misstatement.

INVESTMENTS

The Board has exclusive control of all investments of SBCERS and is responsible for the establishment of investment objectives, strategies, and policies. Each member of the Board serves in a fiduciary capacity and the Board is authorized to invest in any form or type of investment it collectively deems prudent.

SBCERS INVESTMENT CONSULTANTS	
Investment Type	**Consultant**
General Investments	RVK, Inc.
Private Equity, Natural Resources and Infrastructure	Hamilton Lane, LLC
Real Estate	ORG Portfolio Investments, LLC

External investment management firms manage the assets of SBCERS. Under the direction of the Board, staff and investment consultants work together to closely monitor the activity of investment managers. To assist in portfolio management, SBCERS has retained three separate consultants. RVK, Inc. serves as SBCERS general investment consultant in a non-discretionary capacity. Hamilton Lane, LLC and ORG Portfolio Management, LLC both have discretionary authority to acquire partnerships and other investment interests on behalf of SBCERS.

All investments are made pursuant to investment policies and long-term investment strategies. The Investment Policy Statement and sub-policies for private market investments establish investment program goals, asset allocation, and discretionary authority for consultants, performance objectives, risk controls and other constraints on investing activity. Compliance with investment policies are monitored by SBCERS' staff and RVK, Inc., as well as by Hamilton Lane, LLC, and ORG Portfolio Investments, LLC with respect to their private market investment portfolios.

SBCERS' annualized rate of return over the last three and five-years (net of fees) as of June 30, 2017, is 4.00% and 6.98%, respectively. More detail on SBCERS' investment performance and policies can be found in the Management's Discussion and Analysis and in the Investment section.

PENSION ACTUARIAL FUNDED STATUS

SBCERS' funding objective is to satisfy all benefit commitments by following an actuarially prudent funding plan, obtaining investment returns consistent with established risk controls, and minimizing plan sponsor contributions to the retirement fund. SBCERS engages Cheiron, Inc., an independent actuarial consulting firm, to conduct an annual actuarial valuation. The purpose of the valuation is to evaluate the fiscal health of the plan and establish plan sponsor and member contribution rates.

The funding policy for amortizing the Unfunded Actuarial Accrued Liability (UAAL) is a layered 19-year closed amortization period using direct smoothing rate. On June 30, 2017, SBCERS' funded ratio was 74.9% using a roll-forward calculation based on the actuarial valuation conducted as of June 30, 2016, with the actuarial value of assets totaling $2.8 million and the actuarial accrued liability totaling $ 3.7 billion.

More detailed information on actuarial methods and funding status can be found in the Financial and Actuarial sections of the CAFR. On a triennial basis, the actuarial firm also conducts an experience study and makes recommendations to the Board on all economic and non-economic assumptions. The experience study used for these financial statements was conducted as of June 30, 2016.

ACKNOWLEDGMENTS

I would like to express my appreciation for the dedication and efforts of the staff members who contributed to the preparation of the CAFR. Their combined efforts have produced a report that will enable the Board, members and the plan sponsors to better evaluate and understand SBCERS. I also want to express my thanks to the Board for its dedicated effort and to the retirement staff for its commitment to SBCERS, a combination that assures SBCERS' continued successful operation.

Respectfully submitted,

Gregory E. Levin, CPA
Chief Executive Officer

BOARD OF RETIREMENT

Harry Hagen

Chair
Ex Officio, County Treasurer

Al Rotella

Vice Chair
Appointed Member
Term Exp: Dec 2017

Janet Wolf

Secretary
Appointed Member
Term Exp: Dec 2019

Fredrick Tan

Safety Member
Term Exp: Dec 2019

Jennifer Christensen

General Member
Term Exp: Dec 2017

Pancho Occiano II

General Member
Term Exp: Dec 2019

Michael Vidal

Appointed
Term Exp: Dec 2019

Suzi Schomer

Appointed
Term Exp: Dec 2017

Zandra Cholomondeley

Retired Member
Term Exp: Dec 2017

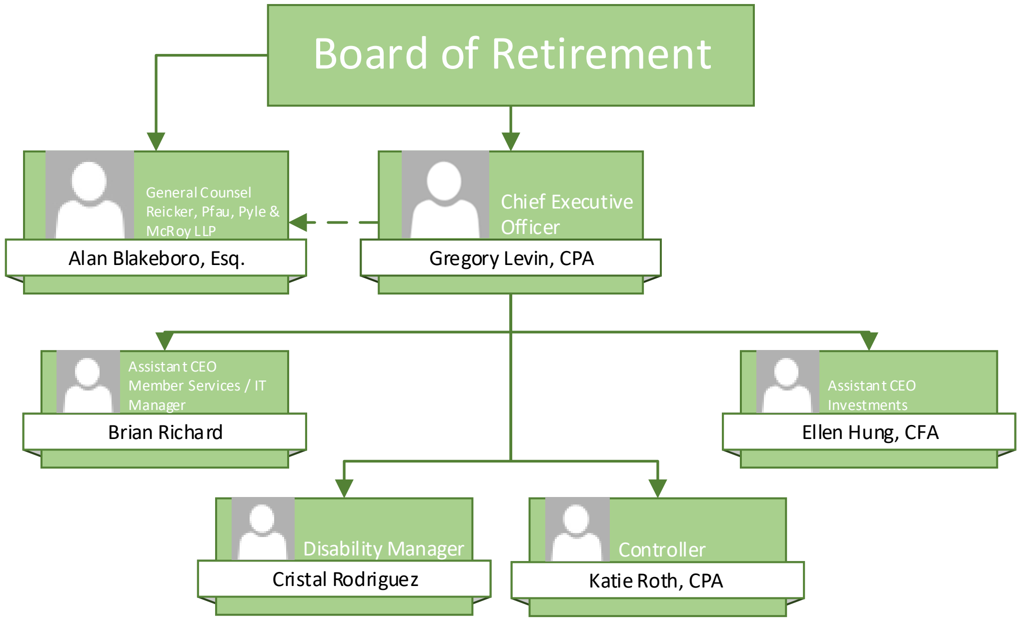
John McMillin

Retired Alternate
Term Exp: Dec 2017

Ryan Sullivan

Safety Alternate
Term Exp: Dec 2019

SBCERS MANAGEMENT TEAM



PROFESSIONAL CONSULTANTS

Actuary	Cheiron, Inc.
Independent Auditor	Brown Armstrong Accountancy Corporation
Investment Custodian	BNY Mellon Global Securities Services
Investment Consultants & Other Special Services:	
General Investments	RVK Inc.
Real Estate Investments	ORG, Portfolio Management, LLC
Private Equity, Natural Resources, and Infrastructure Investments	Hamilton Lane, LLC
Legal Advisors:	
General Counsel	Reicker, Pfau, Pyle & McRoy, LLP
Investment and Fiduciary Counsel	Reed Smith, LLP
Tax Counsel	Steptoe & Johnson, LLP

A listing of investment managers is located in the Investment section along with a Schedule of Professional Fees and Services – Pension and OPEB Plans (page 80).

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FINANCIAL

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Retirement
Santa Barbara County Employees' Retirement System

Report on the Financial Statements

We have audited the accompanying Pension Benefit Trust and Postemployment Benefit Trust Statement of Fiduciary Net Position of Santa Barbara County Employees' Retirement System (SBCERS) as of June 30, 2017, the related Pension Benefit Trust and Postemployment Benefit Trust Statement of Changes in Fiduciary Net Position for the year then ended, and the related notes to the financial statements, which collectively comprise SBCERS' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements and other information based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to SBCERS' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SBCERS' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Pension Benefit Trust and Postemployment Benefit Trust of SBCERS as of June 30, 2017, and the changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 4 to the basic financial statements, in the fiscal year of 2017, SBCERS adopted Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which modified the current financial reporting of those elements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) and Required Supplemental Information (RSI), as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise SBCERS' basic financial statements. The other supplementary information and introduction, investment, actuarial, statistical, and glossary sections, as noted in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introduction, investment, actuarial, statistical, and glossary sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Report on Summarized Comparative Information

We have previously audited SBCERS' June 30, 2016 financial statements, and our reported dated January 23, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of June 30, 2016, is consistent in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2017, on our consideration of SBCERS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SBCERS' internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
December 27, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This Management's Discussion and Analysis of the financial activities of Santa Barbara County Employees' Retirement System (SBCERS) is an overview of fiscal operations for the fiscal year ended June 30, 2017. Please review it in conjunction with the Financial Statements.

FINANCIAL HIGHLIGHTS

Pension Trust

- Net Position Restricted for Benefits - Pension, as reported in the Statement of Fiduciary Net Position, total $ 2.8 billion, an increase of $ 246 million or 9.6% from the prior year of $ 2.6 billion. This is due to an increase in overall investment return.

- Net pension investment income (including securities lending) increased by $ 232 million from $ 31 million in the fiscal year ended June 30, 2016, to $264 million in the fiscal year ended June 30, 2017. The increase is related to market conditions favoring SBCERS investment allocation.

- Pension contributions (member and plan sponsor) increased by $1.3 million from the fiscal year ended June 30, 2016, to $ 142 million in fiscal year ended June 30, 2017. The change is due to a slight increase in plan sponsor and certain employee contribution rates and an increase in covered payroll.

- Pension benefit payments increased by $ 7.5 million or 5.1% from the fiscal year ended June 30, 2016 to $ 153 million in the fiscal year ended June 30, 2017. The increase is related to rising benefit rolls as the number of retirees continue to increase.

- On June 30, 2017, SBCERS' funded ratio was 74.9%. The decrease in funded ratio reflected an asset value of $ 2.8 billion as of June 30, 2017 and a rolled-forward total pension liability totaling $ 3.7 billion. Although the actual investment return (on the fair value of assets net of investment expenses) was greater than the expected rate of return, the total pension liability outpaced the investment returns and resulted in a slight decrease in funded ratio. The fiduciary net position as a percentage of total pension liability as of June 30, 2016, was 75.2%, based on the fair value of assets and a roll forward of the June 30, 2014 liability.

Other Postemployment Benefit (OPEB) Trust

- Net Position Restricted for Benefits – Other Postemployment Benefits (OPEB), also reported in the Statement of Fiduciary Net Position totaled $ 14 million, an increase of $ 6 million or 74.2% from prior year. This is primarily due to a prefunding of contributions by the County of Santa Barbara (the County).

- $ 14 million of OPEB contributions were received and used to provide for $ 9 million of OPEB benefits and administrative expenses paid in the fiscal year ended June 30, 2017.

OVERVIEW OF FINANCIAL STATEMENTS

This Management's Discussion and Analysis serves as an introduction to the basic financial statements. SBCERS has two basic financial statements, the Notes to the Financial Statements (Notes), and additional required supplementary schedules of historical trend information. The basic financial statements and the required disclosures are prepared in accordance with Governmental Accounting Standards Board's (GASB) accounting principles and utilize the accrual basis of accounting.

- The Statement of Fiduciary Net Position is the first basic financial report. This statement of account balances at fiscal year-end reflects assets available for future payments to retirees and their beneficiaries and any current liabilities that are owed at fiscal year-end. Net Position Restricted for Benefits, which is the assets less the liabilities, reflect the funds available for future use.
- The Statement of Changes in Fiduciary Net Position is the second basic financial report. This report reflects all the activities that occurred during the fiscal year, and shows the impact of those activities as additions or deductions to the plan.
- The Notes are an integral part of the basic financial statements. They provide detailed discussion of key policies, programs, and activities that occurred during the year.
- The implementation of GASB Statement No. 67 (GASB 67) during the year ended June 30, 2014, increased the number of schedules in the Required Supplemental Information section. These new schedules provide a broad range of financial information including a pension liability measurement and changes to the liability, historical contributions, money-weighted investment return, and additional actuarial related disclosures.
- The Schedule of Funding Progress for OPEB, a required supplemental schedule, includes historical trend information about the funded status of the plan, and the progress made in accumulating sufficient assets to pay benefits when due.
- The implementation of GASB Statement No. 74 (GASB 74) during the year ended June 30, 2017, increased the number of schedules related to other postemployment benefits (OPEB) that are in Note 3 and the Required Supplemental Information sections. These new schedules are similar to those implemented for the Pension with GASB 67 and provide financial information including a liability measurement and changes to the liability, historical contributions, money-weighted investment return, and actuarial related disclosures.

FINANCIAL ANALYSIS

The following tables presents a condensed comparative summary of SBCERS' current and prior years' Net Position Restricted for Benefits and Changes in Fiduciary Net Position. The current fiscal period closed with a Net Position Restricted for Benefits of $ 2.8 billion.

NET POSITION RESTRICTED FOR BENEFITS *(In thousands)*

For the fiscal years ended	*June 30, 2017*	*June 30, 2016*	*Change*	*Percent Change*
Cash & Investments	$ 2,817,680	$ 2,577,786	$ 239,894	9%
Securities Lent	70,460	63,805	6,655	10%
Prepaids & Receivables	42,728	20,994	21,734	104%
Total Assets	**2,930,868**	**2,662,585**	**268,283**	**10%**
Securities Lent	70,460	63,805	6,655	10%
Other Liabilities	45,519	36,212	9,307	26%
Total Liabilities	**115,979**	**100,017**	**15,962**	**16%**
Net Position Restricted For Benefits	**$ 2,814,889**	**$ 2,562,570**	**$ 252,319**	**10%**

Additions to Fiduciary Net Position

The sources of assets to fund the benefits SBCERS provides are member and plan sponsor contributions, along with investment returns. These pension income sources for the fiscal year ended June 30, 2017, totaled $ 422 million, compared with $ 186 million on June 30, 2016. The increase in additions is primarily due to substantial investment portfolio performance improving over the prior the period.

CHANGES IN FIDUCIARY NET POSITION *(In thousands)*

For the fiscal years ended	*June 30, 2017*	*June 30, 2016*	*Change*	*Percent Change*
Contributions	$ 156,571	$ 152,758	$ 3,813	2%
Net Investment Income	264,092	31,606	232,486	736%
Net Securities Income	334	240	94	39%
Other	646	1,528	(882)	-58%
Total Additions	**421,643**	**186,131**	**235,511**	**127%**
Benefits Paid	162,170	154,528	7,642	5%
Member Withdrawals	1,044	946	98	10%
Administrative Expense	6,110	5,599	511	9%
Total Deductions	**169,324**	**161,073**	**8,251**	**5%**
Net Increase	**$ 252,319**	**$ 25,058**	**$ 227,261**	**907%**

Deductions from Fiduciary Net Position

The primary uses of SBCERS' pension assets include the payment of benefits to retired members and their beneficiaries, refunds of contributions to terminated employees, and the costs of administering SBCERS. Total deductions for the fiscal year ended June 30, 2017, were $ 169.3 million an increase of $ 8.3 million, or 5.1%, over the fiscal year ended June 30, 2016. This increase continues to be attributed to the increasing population of new retirees as well as increasing salaries upon which benefits are based.

Contributions

Total contributions (Pension and OPEB) increased by $ 3.8 million over the contributions made in the fiscal year ended June 30, 2016. Of this amount, increases related to the pension contributions were $ 1.2 million and increases related to OPEB contributions were $ 2.6 million.

OPEB contributions are made by participating employers on a pay-as-you-go basis with the exception of the County and the County Air Pollution Control District who have adopted funding policies that prefund at different levels. Courts made a one-time payment to the program as of June 30, 2016 but did not modify their funding policy. Pay-as-you-go is the minimum amount of contributions made to cover existing administrative expenses as well as benefit payments.

Pension Liabilities

GASB Statement No. 67 requires that SBCERS report the Total Pension Liability and the Net Pension Liability as calculated by SBCERS' actuary. These liabilities are solely calculated for financial reporting purposes and are not intended to provide information about the funding of SBCERS' benefits.

SBCERS' Total Pension Liability as of June 30, 2017, was $ 3.7 billion. The liability increased 10.2% from $ 3.4 billion as of June 30, 2016. SBCERS' Net Pension Liability as of June 30, 2017, was $ 940.8 million, representing an increase of 11.9% from $ 840.7 million as of June 30, 2016. The $ 100.1 million increase in the Net Pension Liability is primarily due to the increase in SBCERS' total pension liability and less than anticipated investment returns.

For the fiscal years ended June 30, 2017 and June 30, 2016, the Fiduciary Net Position as a percentage of the Total Pension Liability is reported as 74.9% and 75.2%, respectively. The change is a 0.4% decrease and is due to the growth in Total Pension Liability of $ 3.7 billion compared to the smaller increase in SBCERS' Fiduciary Net Position.

SCHEDULE OF NET PENSION LIABILITY *(In thousands)*

	June 30, 2017	*June 30, 2016*
Total Pension Liability	$ 3,742,076	$ 3,395,252
Less : Fiduciary Net Pension	(2,801,307)	(2,554,539)
Net Pension Liability	$ 940,769	$ 840,713
Fiduciary Net Position as a Percentage of Total Pension Liability	74.9%	75.2%

Investment Analysis

SBCERS' investment performance is a function of the underlying financial markets for the period measured, asset allocation and individual investment manager performance. SBCERS follows a Board of Retirement adopted investment policy that provides structure and guidance for the management of the investment portfolio. All of SBCERS' assets are externally managed on a discretionary basis. SBCERS' total portfolio gained 10.49 % (net of fees) over the twelve month period ended June 30, 2017. This represents a $ 264 million increase in value from June 30, 2016. For further information on SBCERS' investments please refer to the Investment Section.

PENSION RATES OF RETURN AND FUNDED POSITION *(In thousands)*

Fiscal Year Ending	*Total Pension Investment Portfolio Fair Value*	*Total Fund Money Weighted Return (Net of Fees)*	*Funded Ratio*
June 30, 2016	$ 2,557,094	1.38%	75.2%
June 30, 2017	$ 2,802,042	10.49%	74.9%

Pension Funded Status

The table above provides a two-year history of pension investment, and actuarial returns, and the actuarial funded ratio. The money-weighted rate of return is presented as an expression of investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended June 30, 2017, the annual money-weighted rate of return on plan investments was 10.49%.

An indicator of funded status is the ratio of the actuarial value of the assets to the Unfunded Actuarial Accrued Liability (UAAL). An increase in the percentage over time usually indicates a plan is becoming financially stronger. However, a decrease will not necessarily indicate a plan is in financial decline. Changes in actuarial assumptions can significantly impact the UAAL. Performance in the capital markets can also have a material impact on the actuarial value of assets.

The fiduciary net position as a percentage of total pension liability as of June 30, 2017 was 74.9%, using a roll-forward calculation based on the actuarial valuation conducted as of June 30, 2016. As of the fiscal year ended June 30, 2017, Net Position Restricted for Benefits was $ 2.8 billion and the Total Pension Liability was $ 3.7 billion. A primary concern to most pension plan participants is the amount of money available to pay benefits. All Net Position is available to meet SBCERS' respective obligations to plan participants and their beneficiaries. The next actuarial valuation will be completed as of June 30, 2017.

OPEB Funded Status

The table below displays the OPEB total investment at fair value and actual returns. The money-weighted rate of return is presented as an expression of investment performance, adjusted for the changing amounts actually invested. For the year ended June 30, 2017, the annual money-weighted rate of return on OPEB plan investments was 10.61%.

OPEB RATES OF RETURN *(In thousands)*

Fiscal Year Ending	*Total OPEB Investment Portfolio Fair Value*	*Total Fund Money Weighted Return*
June 30, 2016	$ 3,442	3.70%
June 30, 2017	$ 11,098	10.61%

If all participating employers in the OPEB plan elect to use the June 30, 2017 as their initial measurement date, under the implementation of GASB 74/75, then the net impact on the aggregate of participating employers' Statements of Net Position due the thee OPEB Plan would be $137 million as of the June 30, 2017 measurement date. The annual OPEB expense for all participants is $11 million or 3.3% of covered payroll.

IMPLEMENTATION OF NEW ACCOUNTING PRONOUNCEMENTS

SBCERS implemented GASB Statement No. 74 (GASB 74), "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" and GASB Statement No. 75 (GASB 75), "Accounting for Financial Reporting for Postemployment Benefits Other Than Pensions," for the fiscal year June 30, 2017. The intent of GASB 74 and GASB 75 is to improve the usefulness of information about postemployment benefits other than pensions and results from a comprehensive review of the existing standards. GASB 74 replaces Statements No. 43, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans", as amended, and No. 57, "OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans". It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans", as amended, GASB Statement No. 43, and GASB Statement No. 50, "Pension Disclosures". GASB 75 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain non-employer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. GASB 74 implementation is included in the Financial Statements, Notes to Financial Statements, Required Supplementary Information, and Other Supplemental Information. The required measurement of the Net OPEB Liability is determined by an actuarial valuation and an actuarial issued GASB 74/75 report.

SBCERS also implemented GASB 82 Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73. GASB 82 amends GASB Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

REQUESTS FOR INFORMATION

This comprehensive annual financial report is designed to provide the Board of Retirement, our membership, plan sponsors, taxpayers, and investment managers with a general overview of SBCERS' finances and to show accountability for the money it receives.

Questions concerning any of the information provided in this report or requests for copies or additional financial information should be addressed to:

SBCERS
3916 State Street, Suite 100
Santa Barbara, California 93105

This report is also available on SBCERS' website under "Forms and Publications" at www.sbcers.org.

Respectfully submitted,

Gregory E. Levin, CPA
Chief Executive Officer

STATEMENT OF FIDUCIARY NET POSITION

As of June 30, 2017, with Comparative Totals
(In thousands)

	Pension Benefit Trust	OPEB Benefit Trust	June 30, 2017 Total	Pension Benefit Trust	OPEB Benefit Trust	June 30, 2016 Total
ASSETS						
Cash	$ 1,699	$ 2,841	$ 4,540	$ 12,736	$ 4,514	$ 17,250
Collateral Held for Securities Lent	70,460	-	70,460	63,806	-	63,806
Short-Term Investments	44,786	-	44,786	72,625	-	72,625
Total Cash & Cash Equivalents	116,945	2,841	119,786	149,167	4,514	153,681
Prepaids and Receivables						
Prepaid Assets	3,082	-	3,082	-	-	-
Contributions	4,556	33	4,589	4,346	66	4,412
Accrued Interest	2,541	17	2,558	2,062	9	2,071
Dividends	1,472	-	1,472	1,502	-	1,502
Security Sales	31,027	-	31,027	13,010	-	13,010
Total Prepaids & Receivables	42,678	50	42,728	20,920	75	20,995
Investments at Fair Value						
Private Equity	226,891	-	226,891	187,873	-	187,873
Domestic Equity	612,635	6,618	619,253	567,083	2,064	569,147
Domestic Bonds	518,340	4,480	522,820	486,329	1,378	487,707
International Equity	581,363	-	581,363	450,390	-	450,390
International Bonds	300,959	-	300,959	324,608	-	324,608
Real Estate	246,497	-	246,497	225,252	-	225,252
Real Assets	270,571	-	270,571	242,934	-	242,934
Total Investments	2,757,256	11,098	2,768,354	2,484,469	3,442	2,487,911
TOTAL ASSETS	**$ 2,916,879**	**$ 13,989**	**$ 2,930,868**	**$ 2,654,556**	**$ 8,031**	**$ 2,662,587**
LIABILITIES						
Accounts Payable	$ 629	$ -	$ 629	$ 10,033	$ -	$ 10,033
Collateral Held for Securities	70,460	-	70,460	63,805	-	63,805
Investment Manager Fees	1,435	-	1,435	1,442	-	1,442
Security Purchases	43,455	-	43,455	24,737	-	24,737
TOTAL LIABILITIES	**$ 115,979**	**$ -**	**$ 115,979**	**$ 100,017**	**$ -**	**$ 100,017**
NET POSITION RESTRICTED FOR BENEFITS	**$ 2,800,900**	**$ 13,989**	**$ 2,814,889**	**$ 2,554,539**	**$ 8,031**	**$ 2,562,570**

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

As of June 30, 2017, with Comparative Totals
(In thousands)

	Pension Benefit Trust	OPEB Benefit Trust	June 30, 2017 Total	Pension Benefit Trust	OPEB Benefit Trust	June 30, 2016 Total
ADDITIONS						
Contributions						
Employers	$ 121,991	$ 14,260	$ 136,251	$ 122,748	$ 11,698	$ 134,446
Plan Members	20,320	-	20,320	18,312	-	18,312
Total Contributions	142,311	14,260	156,571	141,060	11,698	152,758
Investment Income						
Net Increase in Fair Value of Investments	244,103	631	244,734	11,762	142	11,904
Interest	10,420	52	10,472	8,842	26	8,868
Dividends	17,024	-	17,024	18,602	-	18,602
Total Investment Income	271,547	683	272,230	39,206	168	39,374
Less Investment Expense	(8,134)	(4)	(8,138)	(7,766)	(2)	(7,768)
Net Investment Income	263,413	679	264,092	31,440	166	31,606
Securities Lent Income	319	-	319	111	-	111
Securities Lent Expense						
Borrower Rebates	126	-	126	209	-	209
Management Fees	(111)	-	(111)	(80)	-	(80)
Net Securities Income	334	-	334	240	-	240
Class Action Settlements	182	-	182	520	-	520
Commission Recapture	80	-	80	144	-	144
Miscellaneous Income	4	380	384	456	408	864
Total Miscellaneous Income	266	380	646	1,120	408	1,528
TOTAL ADDITIONS	**$ 406,324**	**$ 15,319**	**$ 421,643**	**$ 173,860**	**$ 12,272**	**$ 186,132**
DEDUCTIONS						
Benefits Paid	153,185	8,985	162,170	145,711	8,817	154,528
Member Withdrawals	1,044	-	1,044	946	-	946
Administrative Expense	5,734	376	6,110	5,193	406	5,599
TOTAL DEDUCTIONS	**$ 159,963**	**$ 9,361**	**$ 169,324**	**$ 151,850**	**$ 9,223**	**$ 161,073**
Net Increase in Net Position	246,361	5,958	252,319	22,010	3,049	25,059
NET POSITION RESTRICTED FOR BENEFITS						
Beginning of Year	2,554,539	8,031	2,562,570	2,532,529	4,982	2,537,511
Net Increase in Net Position	246,361	5,958	252,319	22,010	3,049	25,059
END OF YEAR	**$ 2,800,900**	**$ 13,989**	**$ 2,814,889**	**$ 2,554,539**	**$ 8,031**	**$ 2,562,570**

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

NOTES TO FINANCIAL STATEMENTS

1. REPORTING ENTITY

The Santa Barbara County Employees' Retirement System (SBCERS or the System) is an independent public employee retirement system with its own governing board, separate and distinct from the County of Santa Barbara (the County). These financial statements cover the 401(a) pension plan (the Plan) and the 401(h) Other Postemployment Benefit (OPEB) plan; both plans are fiduciary funds defined as pension and other employee benefit trust funds, respectively, and are accounted for separately. SBCERS' annual financial statements are referenced in the Notes to the Basic Financial Statements in the County's Comprehensive Annual Financial Report available at www.countyofsb.org.

General

SBCERS was established on January 1, 1944, and is administered by the Board of Retirement (the Board) to provide service retirement, disability, death, and survivor benefits for employees of the County and 10 contracted agencies under the County Employees' Retirement Law of 1937 (CERL), California Government Code §31450 et seq., and section 401(a) of the Internal Revenue Service Code (IRSC). SBCERS also administers an OPEB healthcare plan on behalf of the County and contracted agencies. The OPEB healthcare plan was created under section 401(h) of the IRSC.

Governance

The Board is composed of nine voting members and two alternates. Four members are appointed by the County Board of Supervisors, two are elected by general members, a member and alternate are elected by safety members, a member and alternate are elected by retired members and one, the County Treasurer-Tax Collector is ex officio. The County Board of Supervisors may adopt resolutions, as permitted by the CERL, which may affect the benefits of SBCERS members.

2. PENSION PLAN DESCRIPTION

Plan Sponsors

SBCERS operates as a cost-sharing multiple-plan sponsor defined benefit plan for the County, Santa Barbara County Superior Court and nine special districts. The following is a list of the nine special district sponsors:

- Carpinteria Cemetery District
- Carpinteria-Summerland Fire Protection District
- Goleta Cemetery District
- Mosquito & Vector Management District of Santa Barbara County
- Oak Hill Cemetery District
- Santa Barbara County Air Pollution Control District (APCD)
- Santa Barbara County Association of Governments
- Santa Maria Cemetery District
- Summerland Sanitary District

Plan Membership

The System has 10 retirement plans of which five plans are currently available to new full-time permanent employees, new employees with reciprocity and those part-time employees working at least half-time. General Plan 5 applies to all County general employees hired prior to June 25, 2012, and legacy employees returning to active membership; while General Plan 7 applies to all hired on or after June 25, 2012 through December 31, 2012, and employees hired after December 31, 2012, who have reciprocity rights. Prior to January 1, 2013, Safety members were enrolled in the contributory Safety Plan 4 or Safety Plan 6.

Since January 1, 2013, all new Safety members and General members have been enrolled in Plan 8, pursuant to the California Public Employees' Pension Reform Act of 2013 (PEPRA) unless they establish reciprocity or are legacy employees returning to active membership and can then be placed in either General Plan 5, or Safety Plans 4 or 6 depending the employee's bargaining unit.

Multiple contribution rates are applicable based upon negotiated bargaining unit Memoranda of Understanding and on age of entry into membership subject to the provisions of the CERL or PEPRA. The retirement benefits within the Plan are based on age, years of service, final average salary and the benefit option selected.

SBCERS' RETIREMENT PLANS

As of June 30, 2017

Plan	Rate Tier	Plan Formula	Type	New Membership
General	Plan 2	2% (SSA Int.)	Non-Contributory	Closed
	Plan 5	2% @ 57	Contributory	Closed*
	Plan 7	1.67% @ 57-1/2	Contributory	Reciprocity
	Plan 8	2% @ 62	Contributory	Open
Safety	Plan 4	3% @ 55	Contributory	Reciprocity
	Plan 6	3% @ 50	Contributory	Reciprocity
	Plan 8	2.7% @ 57	Contributory	Open
APCD	Plan 1	2% @ 55	Contributory	Closed
	Plan 2	2% @ 55	Contributory	Reciprocity
	Plan 8	2% @ 62	Contributory	Open

*Plan 5 is still open for reciprocal hires of certain participating employers other than the County. Additionally, employees returning to the County after previous service in Plan 5 are also eligible to return to Plan 5.

SBCERS' RETIREMENT PLAN MEMBERSHIP

As of June 30, 2017 and 2016

	2017	2016
Members Now Receiving Benefits		
Service Retirement	3,562	3,398
Disability Retirement	256	243
Beneficiaries and Survivors	557	530
Subtotal	4,375	4,171
Active Members		
Active Vested	2,986	3,105
Active Non-Vested	1,313	1,243
Subtotal	4,299	4,348
Deferred Members	1,463	1,391
Total Membership	**10,137**	**9,910**

Benefit Provisions

All Plans (Except General Plan 2)

- Pension benefits are based upon a combination of plan, age, years of service, average monthly salary for the highest one or three consecutive years' covered compensation, and the benefit payment option selected by the member.
- Disability benefits are based upon whether the disability was service or non-service connected.
- Death benefits are based upon whether the death occurred before or after retirement and whether the death was service or non-service connected.

General Plan 2

- Pension benefits are based upon a combination of age, years of service, and highest average monthly salary during any three years 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.

Cost-of-Living Adjustment (COLA)

- All plans, excluding the County General Plan 2, provide for retirement benefits subject to cost-of-living adjustments (COLA) for retired members. COLA's are granted to eligible retired members each April based upon the Bureau of Labor Statistics Average Consumer Price Index (CPI) for All Urban Consumers for the Los Angeles-Riverside-Orange County area as of the preceding January 1 and for most members is subject to a 3% maximum limitation. The portion of a CPI increase that exceeds 3% is accumulated for credit in future years.
- General Plan 7 and General Plan 8 (County) is limited to an annual maximum 2% COLA.
- General Plan 2 does not have a COLA.

Ad Hoc Cost-of-living Adjustment (Ad Hoc COLA)

The Interest Crediting and Undesignated Earnings Policy, available at www.sbcers.org, governs the calculation and use of available earnings and the conditions to be met prior to the award of an Ad Hoc COLA.

Vesting

All Plans (Except General Plan 2)

Upon completing five years of creditable service, employees have irrevocable rights to receive benefits attributable to a plan sponsor's contributions, provided their contributions have not been withdrawn.

Members are eligible to retire at age 50 with five years of creditable service and ten years of elapsed time since hire (including reciprocal time), or thirty years of creditable service (twenty years for safety members) regardless of age, or upon attaining age 70 for General Members or age 60 for Safety Members.

If an employee terminates employment before rendering five years of service, the employee is entitled to withdraw the employee contributions made, together with accumulated interest or may elect to leave contributions on deposit.

If a separated member enters a reciprocal retirement system within six months of separation and elects to leave their accumulated contributions on deposit with SBCERS, that member can vest reciprocally.

General Plan 2

Upon completing ten years of creditable service, General Plan 2 members have irrevocable rights to receive benefits. General Plan 2 members are eligible to retire at age fifty-five with retirement credit of ten or more years of service. Once vested, General Plan 2 members have a one-time election to defer the accrued General Plan 2 benefits and enter the contributory retirement plan in effect at that time. Contributions are based upon age at the time of transfer.

Pension Plan Actuarial Valuation

SBCERS retains an independent actuarial firm to conduct an annual actuarial valuation to monitor SBCERS' funding status and funding integrity. The fiduciary net position as a percentage of total pension liability of the Plan was 74.9%. The pension liability was determined using a roll-forward calculation based on the actuarial valuation conducted as of June 30, 2016.

The purpose of the valuation is to reassess the magnitude of SBCERS' benefit commitments in comparison with the assets expected to be available to support those commitments, so plan sponsor and member contribution rates can be adjusted accordingly. The actuarial assumptions estimate as closely as possible what the actual cost of the Plan will be in order to determine rates for setting aside contributions today to provide benefits in the future.

Contribution requirements are determined under the individual entry age actuarial cost method. This method is designed to collect contributions as a level percentage of pay. Any gains or losses that occur under this method are amortized as a level percentage of pay. To reduce the contribution volatility caused by any new sources of Unfunded Actuarial Accrued Liability (UAAL) due to actuarial gains and losses, assumption changes, or method changes are amortized over a closed 19-year period with a five-year ramp up and down of the amortization payment at the beginning and end of the amortization period, and nine years of level payments as a percentage of payroll between ramping periods.

The Required Supplementary Information (RSI) section immediately following the Notes to the Financial Statements includes the Changes in Net Pension Liability schedule.

Plan Termination

There are no plan termination provisions under the CERL, which governs the operation of the Plan.

3. OTHER POSTEMPLOYMENT BENEFITS (OPEB) PLAN

OPEB Plan Description

Plan administration. SBCERS administers an agent multiple-employer OPEB plan that provides health care benefits for retired members and their eligible dependents. The OPEB plan is funded by the County and other plan sponsors (see insert), and is administered in accordance with §401(h) of the Internal Revenue Code. It was established on September 16, 2008, by the County Board of Supervisors who created a 401(h) Medical Trust. Also in 2008, an application for determination and a voluntary compliance plan was submitted to the Internal Revenue Service (IRS), and in October 2013, the IRS acted favorably on the application. SBCERS and its plan sponsors currently operate under the Voluntary Compliance Plan Statement and regulations adopted in 2013.

Plan membership. On June 26, 2012, the County closed the OPEB plan to new general employees, and on June 20, 2016, the OPEB plan was closed to new County Safety members. At June 30, 2017, 100% of eligible SBCERS' retirees participated in the OPEB program. The membership consisted of the following as of the June 30, 2016 valuation report.

OPEB Plan Sponsors

- County of Santa Barbara
- Air Pollution Control District
- Courts
- Carpinteria Cemetery
- Goleta Cemetery
- Santa Maria Cemetery
- SBCAG
- Summerland Sanitary
- Carpinteria-Summerland Fire Protection District

Oak Hill Cemetery and Mosquito & Vector Control do not participate in the OPEB plan.

Inactive plan members or beneficiaries currently receiving benefit payments	3,976
Inactive plan members entitled to but not yet receiving benefit payments	926
Active plan members/active employees	3,346
Total	8,248

OPEB Benefit Provisions

Benefits provided. SBCERS offers healthcare, vision, and dental benefits for retirees and their dependents. Benefits are provided by third party providers. The County negotiates the health care insurance contracts with the carriers covering both active and retired members. Retirees are offered the same health plans as active employees, as well as plans for retirees on Medicare. Retiree premiums are calculated by the County and its consultants.

SBCERS retirees who elect to purchase plan sponsor qualified health plans are eligible to receive an explicit subsidy for medical premiums funded by the County and other plan sponsors. The monthly subsidy is $15 per year of service. If the monthly premium for the health plan selected is less than $15 times the member's years of service, the subsidy is limited to the entire premium. The health plans include coverage for eligible spouses and dependents. After the member's death, a beneficiary is eligible to continue health plan coverage. The subsidy benefit will be equal to $15 per year of service times the survivor continuation percentage applicable for pension benefits. If a member is eligible for a disability retirement benefit, the member can receive a monthly health plan subsidy of $187 or $15 per year of service, whichever is greater.

Retirees who choose not to participate in a plan sponsor qualified health plan receive a monthly benefit of $4 per year of service. This benefit, known as a Healthcare Reimbursement Arrangement, reimburses qualified health care expenses through a health savings account.

The table below is a summary of the actual benefits awarded and actual enrollees participating in the OPEB plan as of June 30, 2017.

SBCERS' ACTUAL OPEB HEALTH CARE BENEFITS

(Benefits in thousands)	June 30, 2017	
	Benefits	Enrollees
$15 per year of service health premium subsidy	$ 7,598	1,760
$4 health reimbursement subsidy	1,387	2,311
Total Health Care Benefit/Enrollees	$ 8,985	4,071

OPEB Funding Policy – Contributions

All OPEB Plan Sponsors Other than the County and APCD

Through the fiscal year ended June 30, 2017, the OPEB plan was funded on a "pay-as-you-go" basis by all plan sponsors with the exception of the County and the Santa Barbara County Air Pollution Control District.

County of Santa Barbara

The County began increasing funding contributions beyond "pay-as-you-go" during the fiscal year ended June 30, 2014, when the County adopted a budget policy of increasing the contributions to the plan by .25% of covered payroll per fiscal year. On March 1, 2016, the County adopted a resolution approving an OPEB (401(h) Account) Funding Policy. This policy provides for funding the plan at 4% of Covered Payroll for the 401(a) Pension Plan (as opposed to the smaller covered payroll of the OPEB plan). This funding policy is applicable to the fiscal year beginning July 1, 2016. As of June 30, 2016, the last actuarial valuation of the plan, the County plan was funded at 4.9%.

Santa Barbara County Air Pollution Control District (APCD)

APCD has been advance funding the OPEB plan since the calendar year 2009. The contributions made by APCD have exceeded the actuarially developed cost of the plan for several years. As of June 30, 2016, the last actuarial valuation of the OPEB plan, the APCD plan was funded at 79.7%.

OPEB Investments

Investment policy. SBCERS' maintains the allocation of invested assets and implements a strategy that reduces risk through diversification of 60% Domestic Equity and 40% Fixed Income asset classes.

OPEB ASSET CLASS AND TARGET ALLOCATION

Asset Class	Target Allocation
Domestic Equity	60%
Fixed Income	40%
Total	100%

Rate of Return. For the year ended June 30, 2017, the annual money-weighted rate of return on investments was 10.61%. Investment fees are presented in financial statements separately for informational purposes. The fees are allocated to the plan sponsors and included in the administrative expense reimbursement paid by plan sponsors, therefore the money-weighted rate of return expresses investment performance is only adjusted for the changing amounts actually invested and not the fees paid.

Employers' Net OPEB Liability

The new net OPEB liability is measured at the Total OPEB Liability (TOL) less the amount of the OPEB Plan's fiduciary net position. This new net OPEB liability is an accounting measurement for financial statement reporting purposes as a result of GASB 74. The measurements are based on the fair value of assets as of June 30, 2017 and the TOL as of the valuation date, June 30, 2016, updated to June 30, 2017. There were no significant events between the valuation date and the measurement date. The components of the OPEB Plan's net OPEB liability on June 30, 2017, are as follows:

SCHEDULE OF NET OPEB LIABILITY

(In thousands)

		June 30, 2017
Total OPEB Liability (TOL)	$	149,928
Less: Fiduciary Net Position		(13,988)
Net OPEB Liability	$	135,940
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability		9.33%

OPEB Actuarial Valuation and GASB 74 Reporting

SBCERS' OPEB Program's actuarial valuation was conducted by Cheiron, Inc. as of June 30, 2016 and updated to June 30, 2017**.** The June 30, 2016 valuation was performed in accordance with Governmental Accounting Standards Board (GASB) Statements No. 43 and No. 45. GASB Statements No. 74 and No. 75 replaces the requirements of GASB Statement No. 43 and No. 45 respectively. Additionally, Cheiron Inc. issued a GASB 74/75 report as of June 30, 2017 for the OPEB program in accordance with Governmental Accounting Standards Board (GASB) Statement No. 74 and No. 75. These two reports meet the requirements to satisfy financial statement reporting guidelines that apply to organizations that administer the OPEB program. The valuation must be conducted at least every two years. This is the first report implementing GASB No. 74 and No. 75.

Actuarial Assumptions and Methods

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The assumptions and methodology for developing the Total OPEB Liability (TOL) as of June 30, 2017 are the same as used in the June 30, 2016 actuarial valuation report.

SUMMARY OF OPEB ACTUARIAL ASSUMPTIONS

June 30, 2017

Economic Assumptions

Discount Rate (Expected Return on Plan Assets)	7.00% per year
Payroll Growth Rate	3.00% per year
Per Person Cost Trends	N/A

SUMMARY OF OPEB VALUATION ASSUMPTIONS

OPEB Valuation Date	June 30, 2016
Actuarial Cost Method	Entry age normal
Amortization Method	For Santa Barbara County a 19-year closed amortization period is used with 19 years remaining. For other employers this period is 30 years open.

Actuarial Assumptions used for Valuation:

Expected Return on Trust Assets	7.00%
Expected Return Assets for Benefits	3.75%
Valuation Discount rates	6.39% Santa Barbara County 7.00% Air Pollution Control District 3.75% All others
Projected salary increases	Future salary increases do not have an impact on OPEB benefit levels, but do have an impact on the annual required OPEB contribution (ARC), i.e. funding of the benefit.
Valuation of Subsidy	The monthly Health Insurance Subsidy will be equal to the maximum subsidy of $15 per year of service.
Valuation of Assets	The 401(h) account will be used to pay for the retiree health benefits.

Post-Retirement Benefit Increases

Assumptions of no future increases granted in any of the following:

- Monthly Health Insurance Subsidy of $15 per year of service.
- Monthly Health Reimbursement of $4 per year of service for those electing to forego the health subsidy.
- Monthly Subsidy of $187 for members receiving disability retirement benefits.

Health Plan Description

Future Retirees are assumed to select and receive the following:

55% will select the health subsidy of $15 per year of service.

45% will select the cash benefit of $4 per year of service.

Healthcare Cost Trend Rate

The Healthcare Cost Trend Rate is not applicable because the total cost of health benefits is not valued. Only the monthly health insurance subsidy of $15 per year of service is valued using the assumption that no future increase will be granted to the amount.

OPEB Sensitivity Analysis

Discount rate. The long-term expected return on OPEB plan assets or discount rate used to measure the TOL was 7.00% as of June 30, 2017. The changes in the discount rate affect the measurement of the TOL in that a lower discount rate or expected rate of return will generate a higher TOL and a higher discount rate will produce a lower TOL. The affect on the TOL of a 1.0% increase or decrease in the discount rate is illustrated in the chart below.

SCHEDULE OF NET OPEB LIABILITY SENSITIVITY

As of June 30, 2017 (In thousands)

	1% Decrease	Discount Rate	1% Increase
Total OPEB Liability	$ 167,113	$ 149,928	$ 135,491
Less: Plan Fiduciary Net Position	(13,988)	(13,988)	(13,988)
Net OPEB Liability	$ 153,125	$ 135,940	$ 121,503
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	8.4%	9.3%	10.3%

The RSI section immediately following the Notes to the Financial Statements includes:

- Schedule of Changes in Employer’s Net OPEB Liability and Related Ratios
- OPEB Money Weighted Rate of Return
- Schedule of Employer OPEB Contributions – ARC
- Schedule of Employer OPEB Contributions with AOC
- Schedule of Funding Progress
- Additional Information used to determine Actuarial Valuation
- Schedule of Employer OPEB Allocations

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting, Revenue and Expense Recognition

For financial reporting purposes, SBCERS adheres to accounting principles generally accepted in the United States of America. SBCERS follows the accounting principles and reporting guidelines set forth by the GASB. SBCERS' financial statements are prepared using the economic resources measurement focus and on an accrual basis of accounting.

Member and plan sponsor contributions are recognized as revenue in the period in which the contributions are due. Other revenues are recognized as available if they are estimated to be received within 60 days of the fiscal year end. Retirement benefits and member refunds are recognized as expenses when due and payable in accordance with the terms of the Plan. Other expenses are recognized when the corresponding liabilities are incurred.

The financial statements include certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the System's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

New Other Postemployment Benefit (OPEB) Financial Reporting Standard

For the fiscal year ended June 30, 2017, SBCERS implemented GASB Statement No. 74 (GASB 74), "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans"* and GASB Statement No. 75 "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*." GASB 74 replaces Statements No. 43, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*," as amended, and No. 57, "*OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*". GASB 74 is effective for periods beginning after June 15, 2016. GASB 75 applies to the plan sponsors and for fiscal years beginning after June 15, 2017 and establishes new accounting and financial reporting requirements for plan sponsors whose employees are provided with OPEB. SBCERS' contracted with Cheiron Inc. for an OPEB actuarial valuation and specific GASB 74/75 report.

GASB 74 is intended to improve the usefulness of information about postemployment benefits other than pensions (OPEB) included in the financial reports of OPEB plans for making decisions and assessing accountability. GASB 74 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB). GASB 74 requires a statement of fiduciary net position and a statement of changes in fiduciary net position. SBCERS' reports the OPEB trust on the face of its financial statements and continues this reporting under the column heading "Other Postemployment Benefit Trust" on the financial statements.

The implementation of GASB 74 includes expanded disclosure requirements to include expanded descriptive information, OPEB plan investments, investment policies, plan's fiduciary net position, and the annual money-weighted rate of return on OPEB plan investments. Additionally, information about the components of the net OPEB liability and related ratios, including the OPEB plan's fiduciary net position as a percentage of the total OPEB liability with the significant assumptions and other inputs used to measure the total OPEB liability are required to be reported. A schedule of the sensitivity of the measure of the net OPEB liability to changes in the discount rate and changes is also a significant change required by GASB 74. Other required note disclosures include information about contributions, reserves, and allocated insurance contracts.

Required Supplementary Information is also expanded by requiring all defined benefit OPEB plans to present schedules covering each of the 10 most recent fiscal years that include the annual money-weighted rate of return on OPEB plan investments for each year.

The measurement of the Net OPEB Liability, is clarified in GASB 74 by requiring that at least every two years an actuarial valuation will determine the net OPEB liability which is measured by using the total OPEB liability, less the amount of the OPEB plan's fiduciary net position. There was no material impact on the System's financial statements as a result of the implementation of GASB 74.

The implementation of GASB Statement No. 82, Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73 is applicable to SBCERS in fiscal year ending 2018. GASB 82 addresses issues regarding the presentation of payroll related measures in the Required Supplemental Information This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

Cash and Short-Term Investments

Cash and short-term investments consist of short-term investments with fiscal agents as well as deposits in a pooled account with the County.

Investments

The Board adopts an investment policy statement and reviews that policy periodically. The investment policy statement sets forth the asset allocation and controls for the investment portfolio. The policy was updated in December 2016. The policy statement is available on the SBCERS website www.sbcers.org.

Investments are reported at fair value. Investment income is recognized as revenue when earned. Net appreciation in fair value of investments held by the System is recorded as an increase 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.

Debt and equity securities are reported at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Fair value of investments in commingled funds is based on the fund share price provided by the fund manager, which is based on net asset value.

Related Party Transactions

By necessity, SBCERS is involved in various business transactions with the County, the primary plan sponsor. SBCERS reimburses the County for the cost of services provided by the following agencies: County Counsel, Auditor-Controller, Purchasing, Human Resources, and County Treasurer. In addition, SBCERS reimburses the County for cost of services in the areas of information technology, telecommunications, motor pool services, and Board elections.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reports' amounts and disclosures. Accordingly, actual results may differ from those estimates.

Reclassification

Comparative data from the prior year has been presented in the selected sections and may have been reclassified. Such reclassifications had no effect on previously reported net plan assets.

5. DEPOSITS AND INVESTMENTS

SBCERS operates under the "Prudent Person Rule" which authorizes the Board, at its discretion, to purchase, hold, or sell any form or type of investment, financial instrument, or enter into any financial transaction when prudent in the informed opinion of the Board.

Deposits and Short-Term Investments

Amounts shown as Cash are held as a part of the County Treasurer's investment pool. Amounts held as Short-Term Investments are held with SBCERS' Investment Custodian, BNY Mellon Global Securities Services (BNY Mellon) and also with StoneCastle, LLC Short-term investments consist of cash held in money market accounts, securities readily convertible to cash and amounts held in a Federally Insured Cash Account (FICA) program. All cash, deposits, and short-term investments are carried at cost, which approximates fair value.

Santa Barbara County Treasurer's Investment Pool

The funds in the County Treasury are intended to provide for liquidity needed to meet benefit payroll and operating needs of the System. The balances in the County Treasury are funded by the plan sponsor and employee contributions and if necessary, transfers from the investment pool. All participants in the County pool share earnings and losses. The County Treasury Oversight Committee has regulatory oversight for all monies deposited into the County investment pool. Such amounts are invested in accordance with investment policy guidelines in compliance with California Government Code requirements, established by the County Treasurer and approved by the County Board of Supervisors. Interest earned on pooled investments is apportioned quarterly to participating funds based upon each fund's average daily deposit balance. The County has not provided nor obtained any legally binding guarantees during the fiscal year ending June 30, 2017, to support the value of shares in the pool. More information on the risk of the County Treasurer's Investment pool and the Treasurer's policies can be found on the County's website available at www.countyofsb.org.

BNY Mellon Global Securities Services Employee Benefit Temporary Investment Fund (EBTF)

SBCERS' short-term investments include funds held with SBCERS' investment custodian, BNY Mellon Global Securities Services, and also funds held in FICA. Balances held by the custodian are held in the BNY Mellon Global Securities Services EBTF. This fund is intended to provide liquidity to fund capital calls, portfolio rebalancing activities and, when needed, replenishment of the funds on account at the County Treasury. The primary sources of these accounts are cash transfers from other investments in the portfolio.

The EBTF is invested primarily in instruments issued by the U.S. Government, Federal agencies, sponsored agencies, and sponsored corporations. The fund must have 10% of its assets in "daily liquid assets," defined as cash, direct obligations of the U.S. Government, or securities readily convertible to cash within one business day. 30% of the fund's assets must be in "weekly liquid assets" defined as cash direct obligations of the U.S. Government, including certain government agency securities with remaining maturities of 60 days or less and securities readily convertible to cash within five business days. The fund may invest up to five percent of its assets in illiquid securities. The fund maintains prudent diversification across instruments, market sectors, industries, and specific issuers.

StoneCastle, LLC Cash Management Federally Insured Cash Account (FICA)

StoneCastle, LLC Cash Management FICA is used to manage short-term cash positions that arise from tactical investment allocation decisions made pursuant the SBCERS investment policy which provides for a zero to two percent allocation to cash. The FICA fund provides for daily deposits and withdrawals twice weekly.

SBCERS' DEPOSITS AND SHORT-TERM INVESTMENTS

As of June 30, 2017 (In thousands)

		2017
Cash Held for Pension Benefits	$	1,699
Cash Held for OPEB Benefits		2,841
Short-Term Investments for Pension Benefits		44,786
Total	$	49,326

Custodial Credit Risk for Deposits and Short-Term Investments

Custodial Credit Risk for deposits is the risk that, in the event of a financial institution's failure, SBCERS would not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not insured or not collateralized. SBCERS does not have a policy on Custodial Credit Risk for Deposits and Short-Term Investments.

Santa Barbara County Treasury

SBCERS' investments held in the name of the County are not specifically identifiable. On June 30, 2017, cost approximated fair value of the SBCERS' share of pooled cash and investments. Deposits with the County Treasury are insured and/or collateralized to the extent the monies are held in its depository institution. The fair value of deposits approximated the bank balances on June 30, 2017 and June 30, 2016.

BNY Mellon Global Securities Services Employee Benefit Temporary Investment Fund (EBTF)

SBCERS maintains balances in EBTF to facilitate funding investment mandates and receiving distributions from investment mandates. Additionally, when underlying managers maintain a tactical position to cash, these amounts are also held in EBTF. Amounts held at SBCERS' custodian bank are uninsured over $250,000 and uncollateralized.

StoneCastle, LLC in a Cash Management Federally Insured Cash Account (FICA)

SBCERS maintains balances in FICA when the Board has elected to maintain a cash position as part of its investment policy and asset allocation. These amounts are reported as short-term investments and placed into federally insured cash accounts and are fully insured by the Federal Deposit Insurance Corporation (FDIC).

SBCERS' SUMMARY OF PENSION AND OPEB INVESTMENTS

As of June 30, 2017 (In thousands)

		2017
Pension Plan Investments at Fair Value:		
Private Equity	$	226,891
Domestic Equity		612,635
Domestic Bonds		518,340
International Equity		581,363
International Bonds		300,959
Real Estate		246,497
Real Assets		270,571
Short-Term Investments		44,786
Collateral Held for Securities Lent		70,460
Total Pension Plan Investments at Fair Value		2,872,502
OPEB Plan Investments at Fair Value:		
Domestic Equity		6,618
Domestic Bonds		4,480
Total OPEB Plan Investments at Fair Value		11,098
Total All Plans	**$**	**2,883,600**

Fair Value Measurements

SBCERS categorizes fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Level 1:	Unadjusted quoted prices for identical instruments in active markets.
Level 2:	Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.
Level 3:	Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. In instances where inputs used to measure fair value fall into different levels in the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. SBCERS' assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The table *Investments Measured at Fair Value* in this footnote (presented on the next two pages) shows the fair value leveling of the investments for SBCERS.

Bid evaluations may include market quotations, yields, maturities, call features, and ratings.

Level 1 investments are valued using pricing derived from in active markets, examples of which include NYSE, NASDAQ, Chicago Board of Trade and Pink Sheets. US Government Treasury Securities are classified at Level 1 due to the reduced risk component and because they are traded in more actively than other fixed income instruments. US Government Agency Notes are not classified in Level 1.

Level 2 Investments are evaluated using matrix pricing, market corroborated pricing and inputs such as yield curves and indices. Examples of Level 2 investments include Corporate Bonds and Asset Backed Securities and Government Bonds that are not US Treasury Securities.

Level 3 Investments are valued using pricing provided by Investment Managers and also information provided by investment management firms. Examples of Level 3 investments include pooled investment funds and term loans.

INVESTMENTS MEASURED AT FAIR VALUE

As of June 30, 2017 (In thousands)

	Market Value	Quoted Prices in Active Markets for Identical Assets: Level 1	Significant Other Observable Inputs: Level 2	Significant Unobservable Inputs: Level 3
Equity				
Domestic Equity	$ 261,250	$ 261,250	$ -	$ -
International Equity	247,912	247,912	-	-
Total Equity	$ 509,162	$ 509,162	$ -	$ -
Fixed Income Securities				
Asset Backed Securities	$ 11,577	$ -	$ 11,577	$ -
Corporates and Other Credits	153,980	-	152,645	1,335
Government Securities	155,558	118,754	36,804	-
Total Fixed Income Securities	$ 321,115	$ 118,754	$ 201,026	$ 1,335
Real Estate				
REITS	23,277	23,277	-	-
Total Real Estate	$ 23,277	$ 23,277	$ -	$ -
Short-Term Investments	$ 44,786		$ 44,786	
Securities Lending	70,460		70,460	
Total Investments at Fair Value	$ 968,800	$ 651,193	$ 316,272	$ 1,335
Investments Measured at the Net Asset Value (NAV):				
Commingled Funds	$ 1,401,607			
Private Real Estate Funds	225,515			
Private Equity Funds	226,891			
Real Asset Funds	49,689			
Total Investments Measured at the NAV	$ 1,903,702			
Total Investments Measured at Fair Value	$ 2,872,502			
Investment Derivative Instruments:				
Options	$ 274	$ -	$ -	$ 274
Swap Agreements	145	-	-	$ 145
Futures Contracts	8,180	-	-	$ 8,180
Forward Contracts	4,408	-	-	$ 4,408
Total Investment Derivative Instruments	$ 13,007	$ -	$ -	$ 13,007
OPEB Trust Investments Measured at the Net Asset Value (NAV):				
Equity Commingled Funds	$ 6,618			
Debt Commingled Funds	4,480			
Total OPEB Trust Investments Measured at the NAV	$ 11,098			

Investments Measured at the Net Asset Value

The fair values of investments in these types of funds have been determined using the Net Asset Value (NAV) per share of the investments.

PENSION & OPEB TRUST INVESTMENTS MEASURED AT THE NET ASSET VALUE

As of June 30, 2017 (In thousands)

Investments	Fair Value	Unfunded Commitments	Redemption Frequency	Notice
Commingled Funds [1]	$ 1,401,607	$ -	Daily to Monthly	Daily to 90 Days
Private Real Estate Funds [2]	225,515	82,112	Quarterly Annually or Not Redeemable	Daily to 90 Days
Private Equity Funds [3]	226,891	195,069	Not Redeemable	
Real Asset Funds [4]	49,689	108,094	Not Redeemable	
Total Assets Measured at Net Asset Value	$ 1,903,702			
Total Unfunded Commitments		$ 385,275		
Equity Commingled Funds	$ 6,618			
Debt Commingled Funds	4,480			
Total OPEB Trust Investments Measured at the NAV	$ 11,098			

(1) Commingled Funds (Pension Trust Investments and OPEB)

This investment type consists of commingled funds that invest primarily in equity, debt, or real estate investments. There were 15 commingled funds as of June 30, 2017. The commingled equity funds in this investment type include foreign, domestic, and emerging market investments. There were 6 commingled equity funds as of June 30, 2017. The 5 commingled debt funds contain Treasury Inflation Protected Securities (TIPS), investment grade bonds, foreign bonds and bank loans. The real asset commingled funds consist of 4 commingled funds encompassing public infrastructure, global listed natural resources, and commodities businesses. Each investment fund is benchmarked to an appropriate index and investments can be redeemed daily or monthly with daily to 90 day advance notice. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the investments.

(2) Private Real Estate Funds

This investment type is comprised of investments that are allocated to value added, core and opportunistic real estate strategies. Investments in this type are geographically diversified across the

United States and Europe. The fair value of these investments have been determined by the investment custodian bank by using the last capital account statement from the respective general partner and adjusting for capital calls, management fees inside the commitment, return of capital, gain or loss, and income.

For June 30, 2017, this investment type consists of 27 limited partnership investments ranging in commitment sizes from $ 3.7 million to $ 20 million. The remaining commitments outstanding on these funds as of June 30, 2017 are $ 82.1 million.

(3) Private Equity Funds

Investments of this type consist of corporate finance/buy out, distressed debt, venture capital, and secondary funds and are globally diversified. The fair value of these investments have been determined by the investment custodian bank by using the last capital account statement from the respective general partner and adjusting for capital calls, mgmt. fees inside the commitment, return of capital, gain or loss, and income

For June 30, 2017, this investment type consists of 60 limited partnership investments ranging in commitment size from approximately $2 million to $30 million with $195 million remaining commitments outstanding.

(4) Real Asset Funds

Investments of this type include infrastructure and natural resources oriented partnerships and are globally diversified. The fair value of these investments have been determined by the custodian bank using monthly data from several vendors who provide various information that estimates a price that would likely prevail in a liquid market.

For June 30, 2017, these investment type of funds consists of 14 limited partnership investments ranging in commitment sizes from approximately $5 million to $15 million. The remaining commitments outstanding on these funds as of June 30, 2017 are $108 million.

Investment Risk

The Board's investment policies and guidelines allocate the asset classes of the portfolio investments within ranges. The portfolio is maintained within the ranges and reported each month. The Board annually reviews the allocation model and the risk structure of the total portfolio. The investment policy does not address Credit Risk, Concentration of Credit Risk, Interest Rate Risk, or Foreign Currency Risk, as investment managers within their specific mandates are given risk parameters that would result in limiting these types of risk on a total portfolio level. GASB Statement No. 40 requires that investments be evaluated to give an indication of the level of risk assumed at year-end.

Concentration Risk

The Plan does not hold investments in any one underlying security that represents 5% or more of the Plan's fiduciary net position.

Credit Risk

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. SBCERS seeks to maintain a diversified portfolio of fixed income instruments in order to obtain the highest total return for the fund at an acceptable level of risk within this asset class. To control Credit Risk, credit quality guidelines have been established. The credit quality ratings of investments in fixed income securities by a nationally recognized statistical rating organization are shown in the *Credit Risk by Quality* tables on the following page.

CREDIT RISK BY QUALITY ANALYSIS

As of June 30, 2017 (In thousands)

S & P Rating	Treasurer Investment Pool	Cash & Cash Equivalents	Convertibles	Domestic Equity	Domestic Fixed Income	International Fixed Income	Mutual Funds	Total	%
AAA	$ 1,276	$ -	$ -	$ -	$ 8,331	$ 75	$ -	$ 9,682	1.2%
AA+	-	-	-	-	138,704	-	-	138,704	17.0%
AA	2,828	-	-	-	1,952	-	-	4,780	0.6%
AA-	-	-	-	-	3,022	713	-	3,735	0.5%
A+	-	-	-	-	2,581	922	-	3,503	0.4%
A	-	-	-	-	14,432	2,857	-	17,289	2.1%
A-	-	-	-	-	10,613	2,242	-	12,855	1.6%
BBB+	-	-	-	-	24,437	886	-	25,323	3.1%
BBB	-	-	-	-	11,611	3,926	-	15,537	1.9%
BBB-	-	-	-	-	8,748	2,429	-	11,177	1.4%
BB+	-	-	-	-	2,940	362	609	3,911	0.5%
BB	-	-	-	-	4,905	1,559	-	6,464	0.8%
BB-	-	-	-	-	10,191	2,830	-	13,021	1.6%
B+	-	-	-	-	11,313	1,391	587	13,291	1.6%
B	-	-	-	-	7,651	3,365	-	11,016	1.4%
B-	-	-	-	-	6,129	2,144	-	8,273	1.0%
CCC+	-	-	-	-	3,613	882	-	4,495	0.6%
CCC	-	-	294	-	692	-	-	986	0.1%
CCC-	-	-	-	-	950	-	-	950	0.1%
CC	-	-	-	-	-	-	-	-	0.0%
C	-	-	-	-	-	-	-	-	0.0%
Not Rated	436	35,633	-	1,797	367,511	104,699	-	510,076	62.6%
Totals	$ 4,540	$ 35,633	$ 294	$ 1,797	$ 640,326	$ 131,282	$ 1,196	$815,068	100.0%

Custodial Credit Risk for Investments

Custodial Credit Risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, SBCERS would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in SBCERS' name, and held by a counter party. Generally, SBCERS' securities are not exposed to custodial risk as they are held by our custodial bank in our nominee name.

Short-term investments held in the FICA account are placed into federally insured cash accounts and are fully insured by the FDIC.

Short-term investments held in the BNY Mellon Global Securities Services EBTF are uninsured over $250,000 and uncollateralized.

Concentrations of Credit Risk

As of June 30, 2017, SBCERS' investment portfolio contained no concentration of investments in any one entity (other than investments guaranteed by the U.S. Government, investments in mutual funds, and external investment pools) that represented 5 percent or more of the total investment portfolio.

Securities Lending

SBCERS is legally authorized to engage in securities lending transactions pursuant to the CERL, California Government Code §31594. SBCERS participates in securities lending through its custodian BNY Mellon to increase income. Securities are lent to brokers and dealers (borrower) and in turn, SBCERS receives collateral. Collateral can be in the forms of cash (both United States and foreign currency), securities issued or guaranteed by the U.S. Government, sovereign debt of foreign countries, or irrevocable bank letters of credit or such other forms as may be agreed upon. SBCERS pays the borrower a negotiated rebate rate on the collateral received and invests the collateral with the goal of earning a higher yield than the rebate rate paid to the borrower. Earnings generated above and beyond the rebate paid to the borrower represent the net income to SBCERS from the transaction.

At year end, SBCERS had no credit risk exposure to borrowers, because the amount of collateral received exceeded the value of securities on loan. As of June 30, 2017 there were no violations of legal or contractual provisions. SBCERS had no losses on securities lending transactions resulting from the default of a borrower for the years ended June 30, 2017.

Transactions are collateralized at no less than 100% of the security's fair value. Collateral is marked to market daily. The custodian invests the collateral received in short-term investment funds (maintained by the custodian), money market mutual funds, and other similar investments as the custodian may select.

The average term of all SBCERS' loans is overnight or "on demand". The custodian ensures that there is an absolute right to terminate the agreement without cause, upon short notice and without any penalty. SBCERS cannot pledge or sell collateral securities received unless the borrower defaults. In the event of a borrower default, BNY Mellon indemnifies SBCERS to the extent of replacing the securities loaned.

As of June 30, 2017, the fair value of securities on loan was $71.1 million and the value of collateral received for the securities on loan was $73.5 million of which $44.1 million was non-cash collateral and $29.3 million was cash collateral from equity and fixed income securities. SBCERS' income net of expense from securities lending was $344 thousand for the fiscal year ending June 30, 2017.

SBCERS' SECUITIES LENDING PROGRAM

As of June 30, 2017 (In thousands)

Securities on Loan	Fair Value of Securities on Loan	Collateral Received	Collateral Percent
Domestic Equities	$ 16,160	$ 16,483	
International Equities	1,680	2,013	
Domestic Corporate Fixed Income	10,619	10,879	
Total Cash	28,459	29,375	
Total Non-Cash	42,676	44,141	
Total Securities on Loan	**$ 71,135**	**$ 73,516**	**103%**

Interest Rate Risk

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of the price sensitivity of a fixed income portfolio to changes in interest rates. It is calculated as the weighted average of time to receive a bond's coupon and principal payments. The longer the duration of a portfolio, the greater its price sensitivity to changes in interest rates.

Foreign Currency Risk

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. SBCERS' international equity managers are permitted to invest in authorized countries. Forward currency contract and currency futures (maturity ranging from at least 20 days and not to exceed one year for either instrument) are permitted for defensive currency hedging.

FOREIGN CURRENCY RISK SCHEDULE

As of June 30, 2017

Currency	Cash	Equity	Fixed Income	Market Value
Australian Dollar	2,262	5,067,782	-	5,070,044
Brazilian Real	1	31,707	-	31,708
Canadian Dollar	737	1,321,834	75,661	1,398,232
Danish Krone	-	2,739,369	-	2,739,369
Euro	(840,695)	42,818,937	-	41,978,242
Hong Kong Dollar	3	4,488,657	-	4,488,660
Indian Rupee	59	-	-	59
Indonesian Rupiah	-	-	45,082	45,082
Israeli Shekel	12,770	460,572	-	473,342
Japanese Yen	(1,571,362)	31,776,589	-	30,205,227
Mexican Peso	-	243,405	391,081	634,486
New Taiwan Dollar	-	772,781	-	772,781
New Zealand Dollar	2,140	-	-	2,140
Norwegian Krone	10,078	731,755	-	741,833
Singapore Dollar	(310)	1,155,648	485,830	1,641,168
South African Rand	1	-	-	1
South Korean Won	26	1,324,044	-	1,324,070
Swedish Krona	9,402	3,028,771	-	3,038,173
Swiss Franc	37,656	12,477,501	-	12,515,157
Thai Baht	-	359,048	-	359,048
Turkish Lira	2	96,322	-	96,324
United Kingdom Pound Sterling	(152,075)	19,867,735	108,275	19,823,935
Total Securities Held in Foreign Currency	(2,489,305)	128,762,457	1,105,929	127,379,081

Derivatives

Derivatives are investments that derive their value, usefulness, and marketability from an underlying instrument, and represents direct ownership of an asset or obligation of an issuer whose payments are based on or "derived" from the performance of an agreed upon benchmark. The notional amount is the nominal or face amount that is used to calculate payments made on that instrument. As of June 30, 2017, SBCERS' derivatives investments were in Swap Agreements, Futures Contracts, Forward Contracts, and Options.

Swap Agreements

A swap is an agreement between two or more parties to exchange a sequence of cash flows over a period of time in the future. The swap agreement defines the dates when the cash flows are to be paid and the way they are calculated. The cash flows are calculated over a notional amount.

Futures Contracts

A futures contract represents an agreement to buy (long position) or sell (short position) an underlying asset at a specified future date for a specified price. Payment for the transaction is delayed until a future date. Futures contracts are standardized contracts traded on organized exchanges.

Forward Contracts

A forward contract represents an agreement to buy or sell an underlying asset at a specified date in the future at a specified price. Payment for the transaction is delayed until the settlement or expiration date. Currency forward contracts are used to control currency exposure and facilitate the settlement of international security purchase and sale transactions.

Options

An option specifies a contract between two parties for a future transaction on an asset at a reference price. The seller incurs the obligation to fulfill the transaction while the buyer gains the right, but not the obligation, to engage in the transaction.

HOLDINGS OF DERIVATIVE SECURITIES

As of June 30, 2017 (In thousands)

Derivative Type	Notional Amount	Fair Value
Options	$ 274	$ 274
Swap Agreements	145	145
Futures Contracts	24,937	8,180
Forward Contracts	39,026	4,408
Total	**$ 64,382**	**$ 13,007**

Derivative Credit Risk

SBCERS is exposed to credit risk on investment derivatives that are traded over the counter and are reported in asset positions. Derivatives exposed to derivative credit risk include collateralized mortgage obligations, swap agreements, and futures contracts. The following Derivative Credit Risk Analysis schedule discloses the counterparty ratings of SBCERS' investment derivatives in asset positions by type, as of June 30, 2017. These amounts represent the maximum loss that would be recognized if all counterparties fail to perform as contracted, without respect to any collateral or other security, or netting arrangement. The schedule displays the fair value of investments by credit rating. As of June 30, 2017, SBCERS' has a net exposure to derivative credit risk of ($2.1 million).

DERIVATIVE CREDIT RISK SCHEDULE

As of June 30, 2017 (In thousands)

	Derivative Type				
S&P Investment Rating	**Option Contracts**	**Forward Contracts**	**Futures Contracts**	**Swap Agreements**	**Total Fair Value**
Investment Grade					
AAA	$ -	$ 34	$ -	$ -	$ 34
AA	-	-	2,248	-	2,248
A	-	2,640	-	-	2,640
BBB	-	1,526	-	-	1,526
Total Investment Grade	-	4,200	2,248	-	6,448
Speculative Grade					-
B	274	-	-	-	274
NR	-	-	-	145	145
Total Speculative Grade	274	-	-	145	419
Total Fair Value	$ 274	$ 4,200	$ 2,248	$ 145	$ 6,867

Derivative Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. As of June 30, 2017, SBCERS did not have any derivatives with material exposure to interest rate risk.

Derivative Foreign Currency Risk

For those dollar-denominated securities issued by foreign countries, there is an exposure to a foreign currency risk. Currency forward contracts represent foreign exchange contracts that are used to control currency exposure and facilitate the settlement of international security purchase and sale transactions.

DERIVATIVE FOREIGN CURRENCY RISK SCHEDULE

As of June 30, 2017 (In thousands)

Currency	Options	Swap Agreements	Futures	Forwards
Argentinian Peso	-	-	-	452
Austrialian Dollar	-	-	-	460
Brazilian Real	-	-	-	454
Canadian Dollar	-	-	80	1,052
Chilean Peso	-	-	-	379
Colombian Peso	-	-	-	(65)
Czech Koruna	-	-	-	1,301
Euro Currency Unit	-	-	-	(867)
Great British Pound	-	-	-	2,866
Indian Rupee	-	-	-	384
Indonesian Rupiah	274	-	-	(161)
Japanese Yen	-	-	-	1,808
Mexican Peso	-	-	-	(1,205)
Norwegian Krone	-	-	-	2,773
Peruvian Nuevo Sol	-	145	-	(70)
Polish Zloty	-	-	-	460
Romanian Leu	-	-	-	1,007
Russian Ruble	-	-	-	(1,061)
South African Rand	-	-	-	(636)
Swedish Krona	-	-	-	2,622
Thai Baht	-	-	-	31
Turkish Lira	-	-	-	329
Uruguayan Peso	-	-	-	143
Total	**274**	**145**	**80**	**12,456**

6. LEASE COMMITMENTS

SBCERS leases property under lease agreements that expire in 2018. In 2014, SBCERS renewed its Santa Maria lease agreement for an additional four years effective August 15, 2014.

The Santa Barbara office lease was also renewed for an additional three years, extending to June 30, 2018. As part of this agreement, SBCERS acquired new space on the first floor of its existing Santa Barbara building and sub-leased the space it previously occupied. The sub-lease began January 1, 2015, and expires June 30, 2018. The monthly rent due under the sub-lease was $5,179 along with common area expenses of $3,728, and a $5,000 deposit was provided.

The Santa Barbara office lease requires that SBCERS pay a portion of the building's operating expenses based on square footage occupied. Lease expense, exclusive of common area maintenance fees, in fiscal year 2017 was $177,990. Minimum non-cancelable lease commitments net of sublease income as of June 30, 2017, are shown in the adjacent table.

MINIMUM LEASE COMMITMENTS

Fiscal Year		Amount
2017 - 2018	$	192,593
2018 - 2019		5,513
Total	$	198,106

7. PENSION PLAN RESERVES

The reserves represent the components of SBCERS' fiduciary net position. Reserves are established from member and plan sponsor contributions and the accumulation of investment income after satisfying investment and administrative expenses. Following are brief explanations of the reserves and accounts used by SBCERS.

Member Deposit Reserve

Consists of contributions made by active and deferred members and accrued interest. Amounts are deducted from this reserve when a refund of member contributions is made or, when a member retires and amounts are transferred to the Retired Member Reserve.

Retired Member Reserve

Consists of funds accumulated to pay retirement benefits to retired members. Additions to this reserve consist of transfers from the Member Contribution Reserve and Plan sponsor Reserve, along with interest earnings. Benefit payments to retired members, beneficiaries and survivors reduce this reserve.

Plan Sponsor Advance Reserve

Consists of plan sponsor contributions for future retirement payments to current active members and deferred members. Additions to this reserve include plan sponsor contributions and interest earnings. Deductions to this reserve consist of transfers to the Retired Member Reserve, lump sum death benefits, and supplemental disability allowance payments. A refund of member contributions has no corresponding effect on the balance of the Plan Sponsor Advance Reserve because the plan sponsor contribution rates are based on assumptions that include an expected rate of member termination.

Contra Tracking Account

Represents the difference between the value of the reserves and the fair value of assets. This account is negative unless the fair value of assets exceeds the actuarially accrued liability.

Contingency Reserve

Consists of funds accumulated in excess of amounts necessary to fully fund the actuarially accrued liability. The Contingency reserve balance is zero unless the fair value of assets exceeds the actuarially accrued liability.

SBCERS' VALUATION RESERVES – PENSION PLAN

In thousands

		June 30, 2017
Member Deposit Reserve	$	186,760
Retired Member Reserve		2,383,460
Plan Sponsor Advance Reserve		1,024,928
Contra Tracking Account		(794,248)
Total Value of Fiduciary Net Position	**$**	**2,800,900**

8. PENSION PLAN CONTRIBUTIONS

Funding Objective

The funding for retirement benefits comes from member contributions, plan sponsor contributions, and the earnings on investments held by the Plan. Contributions are made by members and employers at rates recommended by an independent actuary, approved by the Board, and adopted by the Board of Supervisors. The funding objective of SBCERS is to establish member and participating plan sponsor contribution rates that will remain level over time as a percentage of payroll, unless plan benefit provisions or actuarial assumptions are changed.

Money-Weighted Rate of Return

For the fiscal year ending June 30, 2017, the annual money-weighted rate of return on Plan investments, net of Plan investment expense was 10.49%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Target Allocation and Long-term Expected Real Rate of Return

The long-term expected rate of return on pension plan investments of 7.00% was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of Plan investment expense inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class, without consideration of inflation, which are summarized in the following table on the next page.

SBCERS' TARGET ALLOCATION & LONG-TERM EXPECTED REAL RATE OF RETURN

As of June 30, 2017

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Broad US Equity	19%	4.55%
Dev'd Market Non-US Equity	11%	5.75%
Emerging Markets Equity	7%	8.25%
Core Fixed Income	17%	1.00%
Custom Non-Core Fixed Income	11%	3.33%
Custom Real Return	15%	4.44%
Custom Real Estate	10%	5.02%
Private Equity	10%	7.50%
Cash	0%	-0.25%
Total	**100%**	

The investment rate of return assumption used for actuarial funding was 7.00% for the fiscal year ending June 30, 2017. The 7.00% is comprised of an assumed real rate of return of 4.0% and an inflation assumption of 3%.

Discount Rate

Statement No. 67 (GASB 67) requires a determination that the Plan's fiduciary net position is projected to be sufficient to make projected benefit payments. The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that Plan member contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Member Contribution Policy

Participating members are required by various CERL statutes to contribute a percentage of covered compensation based on certain actuarial assumptions and their age at entry into the Plan. Member contributions are based upon each individual member's age of entry into SBCERS, except for General Plan 8 members who pay a rate equivalent to one half of the normal cost of the plan and General Plan 2 members who do not make contributions. Member contributions cannot be withdrawn until separation from employment.

Plan Sponsor Contribution Policy

Plan sponsor contributions are adopted in accordance with §31453 and §31454 of the CERL. Actuarial funding is based on the Entry Age Normal Cost Method. Under this method the plan sponsor contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize the unfunded actuarial accrued liability (UAAL).

Contributions for the fiscal year ended June 30, 2017, were developed using the June 30, 2015 actuarial valuation. For the June 30, 2015 valuation, plan assets were valued at the fair value of assets and new sources of UAAL due to actuarial gains and losses, assumption changes or method changes are amortized over a closed 19-year period with a five-year ramp up and down of the amortization payment at the beginning and end of the amortization period and nine years of level payments as a percentage of a payroll between the ramping periods.

For certain bargaining units and plans, a portion of the member contribution is paid by the plan sponsor.

Contribution Rates

The following schedule summarizes the contribution rates in effect for the fiscal year ended June 30, 2017. Contribution rates are expressed as a percentage of covered payroll. The member contribution rates depicted below vary according to age at entry, benefit plan, and tier level.

Contributions made for the year ended June 30, 2017, were in accordance with actuarially determined contributions for the year. Actuarially determined net employer contribution rates were 36.55% of payroll while actuarially determined employee contributions were 5.19%. For the years ended June 30, 2017 covered payroll was $341 million.

MEMBER CONTRIBUTION RATES

For the fiscal year ended June 30, 2017

Member Classification	Plan Sponsor Rates	Member Rates
General Members	19.86% - 32.47%	2.22% - 11.44%
Safety Members	39.59% - 57.32%	4.93% - 18.09%
APCD Members	31.53% - 39.85%	3.27% - 12.07%

SBCERS' PENSION CONTRIBUTIONS MADE TO PLAN

For the fiscal year ended June 30, 2017 (In thousands)

			2017
General Plan 2	Employer contributions	$	122
General Plan 5, 7 & 8	Employer contributions		73,991
	Member contributions		13,425
Safety Plans 4, 6 & 8	Employer contributions		46,610
	Member contributions		6,679
APCD 1, 2 & 8	Employer contributions		1,268
	Member contributions		216
Total		**$**	**142,311**

SBCERS' PENSION CONTRIBUTOR COMPARISON

For the fiscal year ended June 30, 2017 (In thousands)

		2017	
Employer Contributions			
Santa Barbara County	$	113,544	93.1%
Santa Barbara Superior Court		4,465	3.7%
APCD		1,268	1.0%
Special Districts		2,714	2.2%
Total Employer Contributions	$	121,991	100.0%
Member Contributions			
Santa Barbara County	$	18,721	92.1%
Santa Barbara Superior Court		959	4.7%
APCD		216	1.1%
Special Districts		424	2.1%
Total Member Contributions	$	20,320	100.0%
Total Contributions	**$**	**142,311**	

9. NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS

Employers' Net Pension Liability

The net pension liability is measured as the total pension liability less the amount of the Plan's fiduciary net position. The net pension liability is an accounting measurement for financial statement reporting purposes. The components of the Plan's net pension liability on June 30, 2017, were as follows:

SCHEDULE OF NET PENSION LIABILITY SCHEDULE

	June 30, 2017
Total Pension Liability	$ 3,742,076
Less : Fiduciary Net Pension	(2,801,307)
Net Pension Liability	$ 940,769
Fiduciary Net Position as a Percentage of Total Pension Liability	74.9%

Actuarial Assumptions

SUMMARY OF ACTUARIAL INFORMATION

Valuation Date	June 30, 2016
Actuarial Cost Method	Individual entry-age
Amortization Method	Level percent of pay
Amortization Period	Nineteen years (closed)
Asset Valuation Method	Direct rate smoothing

Summary Of Valuation Assumptions

Investment Rate of Return (As of June 30, 2016)	7.0%, net of investment expenses (3.0% for CPI and 4.0% for real increases above inflation)
Projected Salary Increase	Variable percentage based on service
Wage Inflation	3.00%
Cost-of-Living Adjustments for Retirees	2.60% All plans except APCD Plan 8 and General Plan 7 & 8
	1.90% APCD Plan 8 and General Plan 7 & 8
Mortality Rates	Mortality rates for actives, retirees, beneficiaries, terminated vested, and reciprocals are based on the sex distinct retired pension (RP) 2000 Combined Healthy Tables published by the Society of Actuaries, with Generational Improvement using Projection Scale BB

Sensitivity Analysis

The net pension liability is calculated using the discount rate. The following table presents the net pension liability change when a modification (increase and decrease) of 1% is applied to the current discount rate of 7.00%. The sensitivity schedule calculates what the net pension liability would be if it were calculated using a discount rate that is 1-percent point lower or 1-percent point higher than the current rate:

SCHEDULE OF NET PENSION LIABILITY SENSITIVITY

As of June 30, 2017 (In thousands)

	1% Decrease 6.00%	Discount Rate 7.00%	1% Increase 8.00%
Total Pension Liability	$ 4,279,279	$ 3,742,076	$ 3,303,939
Less: Fiduciary Net Pension	(2,801,307)	(2,801,307)	(2,801,307)
Net Pension Liability	$ 1,477,972	$ 940,769	$ 502,632
Fiduciary Net Position as a Percentage of Total Pension Liability	65.5%	74.9%	84.8%

10. ADMINISTRATIVE EXPENSE

The Board adopted an annual budget for the year ended June 30, 2017, that covers the administration expense of the System with the earnings of the retirement fund. Such expenditures are subject to limitations imposed by statute, California Government Code §31580.2. Expenditures for computer software, computer hardware, and computer technology consulting services in support of these computer products shall not be considered a cost of administration of the retirement system for purposes of this code section.

SBCERS has been in compliance with the rules governing administrative expense in prior years. The actuarial accrued liability was used to calculate the statutory budget amount. Total administrative expense for the year ended June 30, 2017, was $ 5.7 million and $ 5.4 million was subject to the limitation. In accordance with government code section §31580.2, the limit for the year ended June 30, 2017 was $ 6.8 million, calculated using the actuarial liability for the period.

Administrative expenses for OPEB are allocated back to the participating employers based on level of participation in the program. These administrative costs are billed to these employers and are therefore not paid for by the Plan.

SBCERS' ADMINISTRATIVE EXPENSE

As of June 30, 2017 (In thousands)

		2017
Expense Subject to Statutory Limitation		
Employee Salaries and Benefits	$	2,917
Operating Expenses		593
Professional Services		1,256
Actuarial Costs		279
Legal Costs		424
Total Expense Subject to Statutory Limitation	$	**5,469**
Expense Not Subject to Statutory Limitation		
Computer Software Services and Support	$	173
Computer Equipment and Supplies		92
Total Expense Not Subject to Statutory Limitation		**265**
Total Pension Administrative Expense	$	**5,734**

11. Commitments and Contingencies

As of June 30, 2017, SBCERS was committed to future purchases of private real estate, private equity, and real asset funds at an aggregate cost of approximately $385 million including agreements for acquisitions not yet initiated. In addition to these commitments, SBCERS and the Board have an outstanding offer to purchase a building in the Santa Barbara area as an investment and administrative office space.

An excise tax commitment may exist related to OPEB and the implementation of GASB 74. The actuary will include the impact of the excise tax that the Patient Protection and Affordable Cara Act established on employer-provided health insurance benefits in excess of a defined threshold beginning in calendar year 2018, assuming that ACA will remain applicable.

In the normal course of business, denials of applications for benefits are appealed to the Superior Court. The outcome of these decisions will have no material impact on the financial status of SBCERS.

12. Subsequent Events

Management has reviewed and identified, up to the date of the Independent Auditor's Report of December 27, 2017, and has no subsequent events to report.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION – PENSION

CHANGES IN NET PENSION LIABILITY

(In thousands)

	Fiscal Year Ended			
	2017	**2016**	**2015**	**2014**
Total pension liability				
Service Cost (MOY)	$ 77,134	$ 71,218	$ 70,057	$ 66,696
Interest (includes interest on service cost)	250,124	241,734	231,804	220,239
Diff. btw expected & actual experience	(42,043)	(31,199)	(27,901)	-
Changes of assumptions *	215,838	-	-	-
Benefit payments, including refunds of member contributions	(154,229)	(146,658)	(137,771)	(131,101)
Net change in total pension liability	346,824	135,095	136,189	155,834
Total pension liability - beginning	3,395,252	3,260,157	3,123,968	2,968,134
Total pension liability - ending	3,742,076	3,395,252	3,260,157	3,123,968
Plan fiduciary net position				
Contributions - employer	121,991	122,748	123,612	119,228
Contributions - member	20,320	18,312	16,622	14,514
Net investment income	264,420 *	32,800	20,840	328,852
Benefit payments, including refunds of member contributions	(154,229)	(146,658)	(137,771)	(131,101)
Administrative expense	(5,734)	(5,193)	(4,404)	(4,289)
Net change in plan fiduciary net position	246,768	22,010	18,899	327,204
Plan fiduciary net position - beginning	2,554,539	2,532,529	2,513,630	2,186,425
Plan fiduciary net position - ending	2,801,307 *	2,554,539	2,532,529	2,513,630
Net pension liability - ending	**$ 940,769**	**$ 840,714**	**$ 727,628**	**$ 610,338**
Plan fiduciary net position as a percentage of the total pension liability	74.9%	75.2%	77.7%	80.5%
Covered employee payroll	$ 341,098	$ 328,935	$ 319,547	$ 307,422
Net pension liability as a percentage of covered payroll	275.8%	255.6%	227.7%	198.5%

** Amounts do not agree to Financial Statements due to Journal Entry not provided to Cheiron, amount immaterial.*

EMPLOYER PENSION CONTRIBUTION HISTORY

Last Ten Fiscal Years (In thousands)

	2017	2016	2015	2014	2013
Actuarially Determined Contributions	$ 121,991	$ 122,748	$ 123,612	$ 119,228	$ 110,583
Contributions in Relation to the Actuarially Determined Contribution	121,991	122,748	123,612	119,228	110,583
Contribution Deficiency/(Excess)	$ -	$ -	$ -	$ -	$ -
Covered Employee Payroll*	341,098	328,935	319,547	307,422	302,708
Contributions as a Percentage of Covered Employee Payroll	35.8%	37.3%	38.7%	38.8%	36.5%

	2012	2011	2010	2009	2008
Actuarially Determined Contributions	$ 108,764	$ 94,437	$ 84,647	$ 75,902	$ 69,461
Contributions in Relation to the Actuarially Determined Contribution	108,764	94,437	84,647	75,902	69,461
Contribution Deficiency/(Excess)	$ -	$ -	$ -	$ -	$ -
Covered Employee Payroll*	305,758	306,963	306,524	307,264	294,163
Contributions as a Percentage of Covered Employee Payroll	35.6%	30.8%	27.6%	24.7%	23.6%

** Covered Employee Payroll for FYE 2015 and after was based on actual pensionable payroll provided by SBCERS. In years prior to 2015, payroll was based on payroll reported in the actuarial valuation data.*

MONEY WEIGHTED RATE OF RETURN- PENSION

For the fiscal year ending June 30,

	2017	2016	2015	2014
Annual Money-Weighted Rate of Return, Net of Investment Expenses	10.49%	1.38%	0.42%	15.20%

Notes to Required Supplementary Information – Pension Schedules

The Required Supplementary Information Schedules will ultimately show information for ten years. Additional years will be displayed as they become available.

Additional Information - Pension

Date of Valuation used for Contributions:	June 30, 2016
Timing:	Actuarially determined contribution rates are calculated based on the actuarial valuation two years prior to the date of the financial statements.
Actuarial cost method:	Entry Age
Asset valuation method:	Fair Value
Amortization method:	As of the June 30, 2014 actuarial valuation, any new sources of unfunded actuarial liability are amortized over a closed 19-year period with a five year ramp up at the beginning of the period, a four year ramp down at the end of the period, and ten years of level payments as a percentage of payroll. This method is a type of direct rate smoothing. Unfunded Liabilities realized as of the June 30, 2013 valuation, exclusive of liabilities related to Safety Plan 6, are amortized over a closed 17 year period, of which 13 years remained as of June 30, 2017. Unfunded liabilities realized as part of the creation of Safety Plan 6 are amortized over a separate closed period of 15 years of which 11 years remained as of June 30, 2017.
Discount rate:	7.00%, net of investment expenses

REQUIRED SUPPLEMENTARY INFORMATION – OPEB

Other Postemployment Benefits (OPEB)

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS

(In thousands)

		Fiscal Year Ended 2017	
Total OPEB Liability			
Service Cost (BOY)	$	2,352	
Interest (includes interest on service cost)		9,514	
Differences between expected & actual experience		-	
Changes of assumptions		(1,560)	
Benefit payments		(8,985)	
Net change in total pension liability		1,321	
Total OPEB liability - beginning		148,607	
Total OPEB liability - ending		149,928	
OPEB Plan fiduciary net position			
Contributions - employer		14,639	*
Contributions - member		-	
Net investment income		683	*
Benefit payments		(8,985)	
Administrative expense		(380)	*
Net change in plan fiduciary net position		5,957	
Plan fiduciary net position - beginning		8,031	
Plan fiduciary net position - ending		13,988	
Net OPEB liability - ending	**$**	**135,940**	
Plan fiduciary net position as a percentage of the total OPEB liability		9.33%	
Covered employee payroll	$	339,733	
Net OPEB liability as a percentage of covered payroll		40.01%	

**Data from Cheiron report, does not include all adjusting Journal Entries and therefore does not tie to the financial Statements, amount is immaterial.*

June 30, 2017 is the first year of implementation of GASB 74 reporting. The data presented above is for one year and will eventually build up to 10 years of information.

OPEB MONEY WEIGHTED RATE OF RETURN

For the fiscal year ending June 30, 2017

	2017
Annual Money-Weighted Rate of Return, Net of Investment Expenses	10.61%

SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS- ARC

(In thousands)

Fiscal Year Ended	**Annual Required Contributions (ARC)**	**Actual Employer Contributions**	**% of ARC Contributed**
6/30/2009	$ 13,353	$ 7,251	54.3%
6/30/2010	$ 19,791	$ 8,782	44.4%
6/30/2011	$ 21,784	$ 8,666	39.8%
6/30/2012	$ 22,601	$ 8,362	37.0%
6/30/2013	$ 25,226	$ 8,358	33.1%
6/30/2014	$ 28,155	$ 8,899	31.6%
6/30/2015	$ 30,363	$ 9,421	31.0%
6/30/2016	$ 34,709	$ 11,698	33.7%

Contribution data is derived from the Basic Financial Statements and Actuarial Data.

SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS WITH AOC

(In thousands)

Fiscal Year Ended	**Annual OPEB Cost (AOC)**	**Actual Employer Contributions**	**% of AOC Contributed**	**Net OPEB Obligation**
6/30/2011*	$ 20,367	$ 8,666	42.5%	$ 41,093
6/30/2012*	$ 20,309	$ 8,362	41.2%	$ 53,039
6/30/2013*	$ 21,795	$ 8,358	38.3%	$ 66,476
6/30/2014	$ 23,055	$ 8,899	38.6%	$ 80,631
6/30/2015	$ 23,005	$ 9,421	41.0%	$ 94,215
6/30/2016	$ 24,225	$ 11,698	48.3%	$ 106,742
6/30/2017**	$ 12,990	$ 13,592	104.6%	$ 106,140

Contribution data is derived from the Basic Financial Statements and Actuarial Data.

* As calculated by prior Actuary

*** 6/30/2017 estimated amounts in Actuarial Valuation*

SCHEDULE OF OPEB FUNDING PROGRESS

(In thousands)

*Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	([b-a]/c) UAAL as a % of Covered Payroll
6/30/2009	$ 1,169	$ 174,532	$ 173,363	0.67%	$ 306,524	56.56%
6/30/2010	$ 2,153	$ 187,220	$ 185,067	1.15%	$ 306,357	60.41%
6/30/2012	$ 3,035	$ 190,179	$ 187,144	1.60%	$ 302,379	61.89%
6/30/2014	$ 4,070	$ 193,205	$ 189,135	2.11%	$ 282,963	66.84%
6/30/2016	$ 8,031	$ 155,477	$ 147,446	5.17%	$ 269,245	54.76%

**OPEB valuations are completed biennially; data provided as of the last OPEB valuation.*

Notes to Required Supplementary Information – OPEB Schedules

The Required Supplementary Information Schedules will ultimately show information for ten years. Additional years will be displayed as they become available.

Additional Information - OPEB

The information presented in the required supplementary schedules was determined as part of the actuarial valuation dated June 30, 2016 and GASB74/75 report. The data is also included in the Notes to the Financial Statements. Key assumptions used in the development of the valuation are listed below.

Valuation Date:	June 30, 2016
Timing:	Actuarial valuations determined on a biennial statements.
Actuarial Cost Method:	Entry age normal
Asset Valuation Method:	Market value
Amortization Methods:	For Santa Barbara County, level dollar, 19 years, closed For APCD and SBCAG, level dollar, 30 years, open All others, level percentage of pay, 30 years, open/rolling
Expected Return on Trust Assets:	7.00%
Expected Return Assets for Benefits:	3.75%
Discount rate:	7.00% Air Pollution Control District 6.39% Santa Barbara County 3.75% All others
Payroll Growth Rate:	3.00% per year

OTHER SUPPLEMENTARY INFORMATION

OTHER SUPPLEMENTARY INFORMATION- PENSION

SCHEDULE OF PENSION ADMINISTRATION EXPENSE

For the Fiscal Year Ended June 30, 2017 (In thousands)

		2017
Personnel Services		
Salaries and Employee Benefits	$	2,917
Total Personnel Services		2,917
Professional Services		
Actuarial Costs		279
Legal Costs		424
Computer Software Services and Support		173
County Cost Allocation		50
Disability Hearing Officer Fees		33
Disability Medical Fees		184
Disability Transcription Fees		17
External Audit Fees		71
Other Professional Services		901
Total Professional Services		2,132
Communication		
Postage		53
Telecommunication		48
Training		61
Transportation and Travel		59
Total Communication		221
Rents / Leases / Structures		
Rents/Leases/Structure		243
Furniture & Fixtures		5
Building Maintenance		4
Total Rents / Leases / Structures		252
Miscellaneous		
Computer Equipment and Supplies		92
Other Office Expenses		65
Insurance		55
Total Miscellaneous		212
Total Administrative Expenses	**$**	5,734

SCHEDULE OF PENSION INVESTMENT EXPENSE

For the Year Ended June 30, 2017 (In thousands)

		2017
Investment Activity		
Stock Managers		
Domestic	$	1,773
International		1,497
Bond Managers		
Domestic		711
International		457
Private Equity		712
Real Assets		950
Real Estate		100
Total From Investment Activity		6,200
Other Investment Expense		
Investment Consultants		1,472
Custodian		462
Total Other Investment Expense		1,934
Total Fees and Other Investment Expense	**$**	**8,134**

SCHEDULE OF CONSULTANT PAYMENTS- PENSION

For the Year Ended June 30, 2017 (In thousands)

		2017
Actuarial Services	$	279
Audit Services		71
Legal Services		424
Total Payments to Consultants	**$**	**774**

Note: The expenses above are part of deductions from the Basic Financial Statements

INVESTMENT

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RVK

Memorandum

To	Retirement Board
From	RVK, Inc.
Subject	2017 Comprehensive Annual Financial Report ("CAFR")
Date	November 10, 2017

Dear Board Members:

This letter serves to provide an overview of the capital markets and the Santa Barbara County Employees' Retirement System ("System") portfolio positioning for the fiscal year ended June 30, 2017.

Capital Markets Review

The 2017 fiscal year (July 1, 2016 to June 30, 2017) benefitted through strong performance from risk assets, with gains supported by strengthening economic data related to global inflation, job and wage growth, and corporate fundamentals. Gains across most risk assets occurred despite persistent political divisiveness in the U.S., heightened geopolitical risks (most notably in North Korea), and a range of other international issues. Although positive economic fundamentals have thus far supported 2017 market gains, it is possible that unanticipated global central bank policy and US political events, such as the current administration's economic stimulus falling short of expectations, could have a larger influence on markets in the upcoming year. The U.S. equity markets, as measured by the S&P 500 Index, returned 17.9%, as U.S. economic conditions continued to improve. Developed non-U.S. equity markets, as measured by the MSCI EAFE Index, gained 20.3%, while emerging markets, as measured by the MSCI EM Index, gained 23.7%. The weakening of the U.S. dollar during the second half of the fiscal year, and election results in France and the Netherlands reduced political uncertainty and further supported favorable international equity performance.

Continued improvement in U.S. economic fundamentals prompted the Federal Reserve Open Market Committee ("FOMC") to raise policy rates twice during the 2017 fiscal year, to a range of 0.75%-1.00%. The FOMC cited strengthened labor market conditions and progress toward its inflation objectives as factors driving their decision, and further guided the markets toward another possible rate hike in 2017. The potential for a more hawkish Federal Reserve did lead to interest rate volatility.

Recent and anticipated interest rate hikes negatively affected bond market returns during the fiscal year. The Bloomberg U.S. Aggregate Bond Index lost 0.3%, while the Bloomberg Global Aggregate Bond Index lost 2.2%. Performance for inflation-sensitive assets varied as the Wilshire U.S. REIT Index declined 1.7% and the Bloomberg Commodity Index declined 6.5%. While commodity markets rebounded in 2016, losses were experienced in 2017 as oil prices declined.

Asset Allocation

The total portfolio was valued at $2.8 billion as of June 30, 2017, an increase of approximately $232.5 million from June 30, 2016. The portfolio is well diversified across a broad range of asset classes that are generally categorized as equity, fixed income, real return, real estate, and private equity.

An asset allocation review was completed in conjunction with and supported by a comprehensive asset/liability analysis during summer/fall 2016, and a new asset allocation was approved by the Board. The new asset allocation approved in September 2016 reduces the allocation to public equity and fixed income investments, and increases the allocation to private asset classes. The asset liability study completed in 2016 indicated that liquidity is not an immediate concern, suggesting that additional illiquidity can be assumed with private assets to achieve a better risk-adjusted return. Additionally, the new asset allocation reduces emerging markets equity exposure, which in turn lowers the equity beta of the portfolio and reduces the portfolio's sensitivity to publicly traded equities.

Equity assets include allocations to U.S. equity, developed market non-U.S. equity, and emerging market equity. Fixed income assets include allocations to investment grade bonds, foreign bonds, emerging market bonds, high yield bonds, and bank loans. Real return assets include allocations to TIPS, natural resources (public and private), commodities, and infrastructure (public and private).

At the end of the fiscal year 2017, all asset classes, with the exception of Developed Market Non-U.S. Equity and REITs, were within their target ranges.

Performance

The System's overall investment return over the past year was 10.5%, the System's three-year annualized return was 4.0%, and the System's five-year annualized return was 7.0%. The ten-year annualized return was 4.1%, and the annualized return since inception in 1987 was 8.3%. Investment results are calculated using a time-weighted rate of return based on the market values and cash flows. Performance quoted represents net of fees returns reported by BNY Mellon. The System's current actuarial assumed rate of return is 7.00%, which represents the System's long-term return goal.

Summary

We believe that the course undertaken by the Board to adopt an improved asset allocation and refine the structure of the System's asset classes will enhance future portfolio returns while also improving the risk/return profile of the System. We are confident that the Board's decisions in this respect will preserve and enhance the System's ability to meet its long-term goals.

The System's investment policies, goals, and objectives, as well as the performance of its assets and transaction costs are regularly monitored by the Board and by RVK, Inc. These evaluations include analysis of the investment management firms and the custodial bank that serve the System.

The System's assets are held in custody at BNY Mellon Global Securities Services (BNY Mellon). Market values and returns referenced above are based upon financial statements prepared by BNY Mellon. The statements are, to the best of our knowledge, reliable and accurate. The System employs RVK, Inc. to serve as SBCERS' independent investment consultant.

An uncertain market environment demands careful attention and thoughtful treatment of the assets entrusted to the Board's care by the System's employee participants. We expect the Board's continued high standard of care for these assets and commitment to diversification to allow the System to meet its long-term goals and objectives.

Sincerely,

Rebecca Gratsinger
Chief Executive Officer
RVK, Inc.

INVESTMENT POLICIES

External investment management firms manage Santa Barbara County Employees' Retirement System (SBCERS) investment assets. Professional investment consultants, along with staff, closely monitor the activity of these managers and assist the Board of Retirement (the Board) with the implementation of investment policies and long-term investment strategies.

The Board, having sole and exclusive authority and fiduciary responsibility for the investment and administration of the System, has adopted various investment policies which cover various investment types. These documents reflect the Board's policies for management of the System's investments.

The Board recognizes that a prudent, well-articulated investment policy is crucial to the long-term success of the System. As such, the Board has developed these investment policies with the following goals in mind:

- To clearly and explicitly establish the objectives and parameters that govern the investment of the System's assets.
- To establish a target asset allocation designed to satisfy the System's long-term objective of funding the benefits promised to members and beneficiaries.
- To establish the guidelines by which the Board will delegate a portion of its authority over investment of the assets of the System to consultants, managers, and partners, and will monitor their performance to assure compliance with the investment policies.

The following general investment goals broadly articulate the philosophy by which the Board will manage the assets of the System in accordance with the law.

- The Board seeks to achieve a return on investment relative to acceptable levels of liquidity and investment risk that are prudent and reasonable, given capital market conditions from time to time. While the Board recognizes the importance of the preservation of capital, it also acknowledges the theory of capital market pricing which maintains that varying degrees of investment risk should be rewarded with compensating returns. Consequently, prudent risk-taking is appropriate.
- The Board's investment policies and practice shall at all times comply with all applicable state and federal laws and regulations.

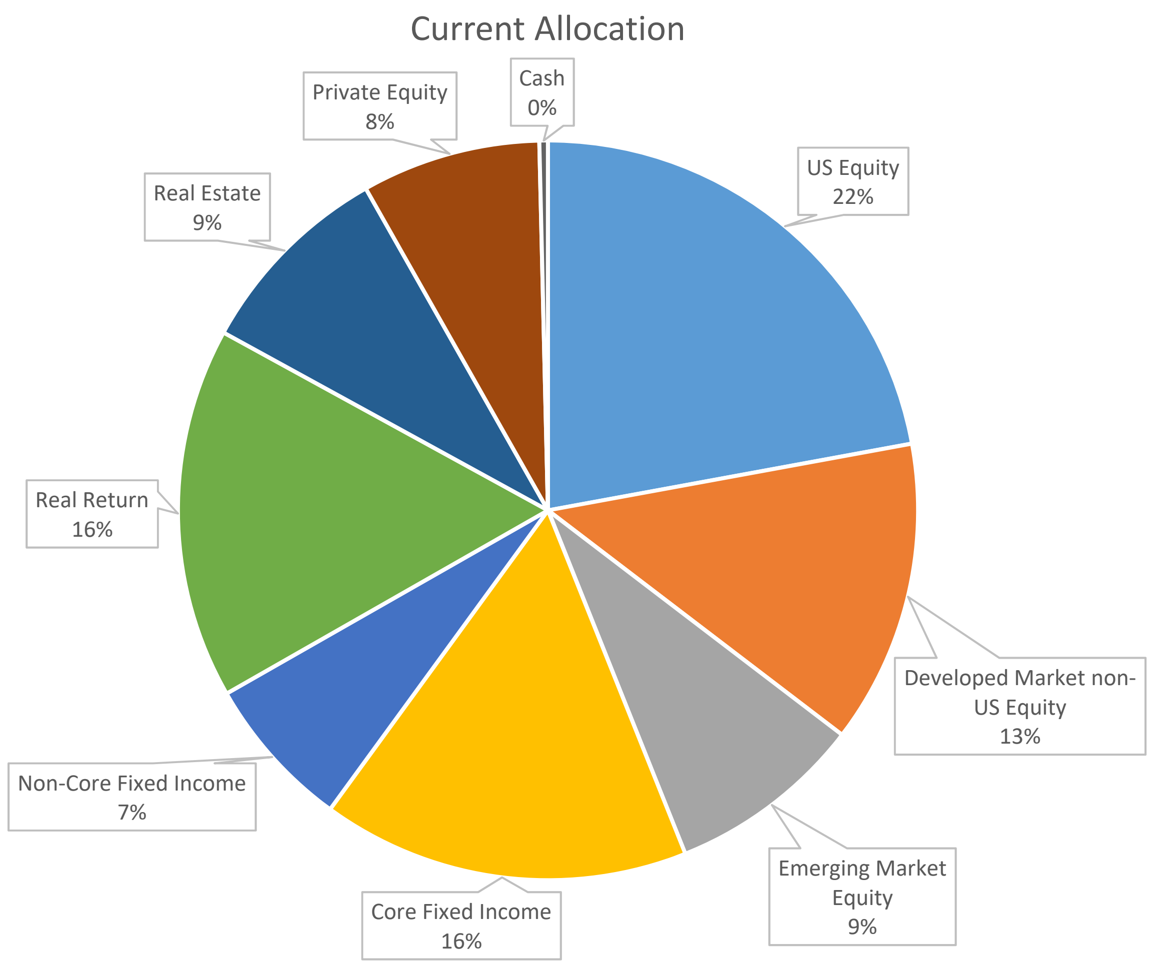
The Board's investment strategy is designed to ensure the prudent and diversified investment of assets in such a manner as to provide real growth of assets over time while protecting the value of such assets from undue risk of loss, at the minimum possible cost, and without sacrificing return.

INVESTMENT SUMMARY – PENSION PLAN

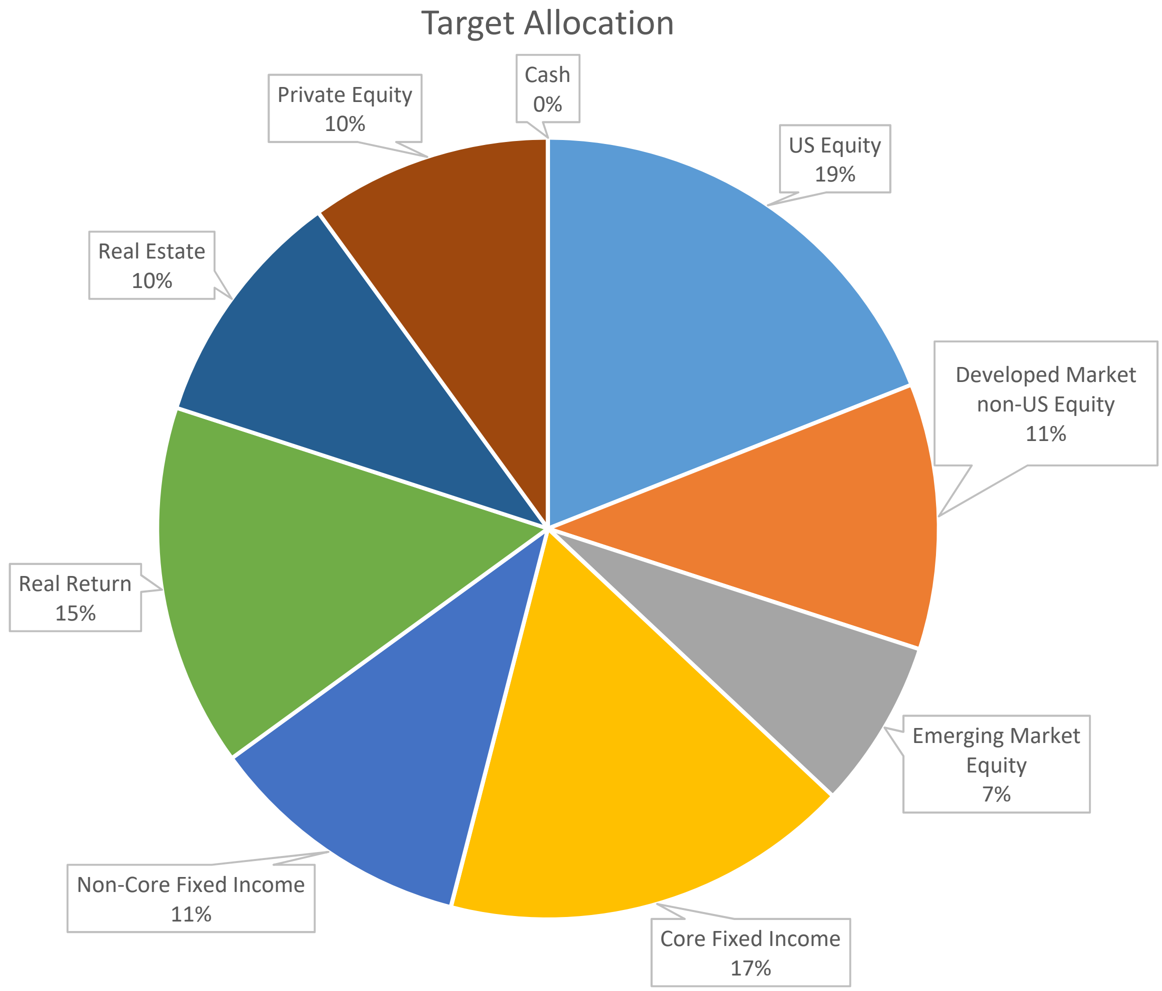
As of June 30, 2017 (In thousands)

	Fair Value	Percent of Total Fair Value
Cash		
Treasurer's Cash	$ 1,699	0.06%
Short-Term Investments	44,786	1.60%
Total Cash	46,485	1.66%
Domestic Bonds		
Investment Grade Bonds	337,916	12.05%
TIPS	180,424	6.44%
Total Domestic Bonds	518,340	18.49%
International Bonds		
Foreign Bonds	116,689	4.16%
Emerging Market Bonds	69,892	2.49%
High Yield Bonds	66,529	2.37%
Bank Loans	47,849	1.71%
Total International Bonds	300,959	10.73%
Private Equity	226,891	8.09%
U.S. Equity	612,635	21.85%
International Equity		
Developed Market Non-U.S. Equity	291,746	10.39%
Emerging Markets Non-U.S. Equity	238,163	8.49%
Small Cap	51,454	1.84%
Total International Equity	581,363	20.72%
Real Estate		
Private Real Estate	225,515	8.04%
REITS	20,982	0.75%
Total Real Estate	246,497	8.79%
Real Assets		
Commodities	63,026	2.25%
Natural Resources (Public)	73,342	2.62%
Natural Resources (Private)	13,418	0.48%
Infrastructure (Public)	84,514	3.01%
Infrastructure (Private)	36,271	1.29%
Total Real Assets	270,571	9.65%
Total Pension Cash & Investments	**2,803,741**	**99.98%**
Collateral Held for Securities Lent	70,460	-
Grand Total	**$ 2,874,201**	**100%**

ACTUAL ASSET ALLOCATION



TARGET ASSET ALLOCATION



INVESTMENT RESULTS BASED ON FAIR VALUE

As of June 30, 2017

Investments	Current Year	Annualized 3- year	5-year
U.S. Equity	14.82%	8.01%	13.50%
Russell 3000 Benchmark	*18.51%*	*9.10%*	*14.58%*
Developed Market Non-U.S. Equity	16.86%	2.64%	9.83%
MSCI EAFE	*20.27%*	*1.15%*	*8.69%*
Emerging Markets Equity	22.55%	1.21%	3.89%
MSCI Emerging Markets	*23.75%*	*1.07%*	*3.96%*
Investment Grade Bonds	-0.13%	2.39%	2.85%
Investment Grade Bonds Blended Index	*-0.31%*	*2.48%*	*2.21%*
Foreign Bonds	-0.04%	2.19%	3.29%
JPMorgan Global Bond (ex. U.S. Index)	*-5.66%*	*-2.04%*	*-0.87%*
Emerging Market Bonds	6.73%	0.42%	1.06%
Stone Harbor Blended Benchmark	*6.34%*	*1.23%*	*2.53%*
High Yield Bonds	12.94%	2.91%	N/A
Bloomberg US Corp: Hi Yld	*12.70%*	*4.48%*	*6.89%*
Bank Loans	3.92%	3.21%	N/A
CS Lvg'd Loan	*7.49%*	*3.49%*	*4.83%*
TIPS	-0.57%	0.62%	-0.01%
Bloomberg U.S. TIPS	*-0.63%*	*0.63%*	*0.27%*
Commodities	-11.36%	-10.44%	-6.60%
Bbrg Cmdty Index (TR)	*-6.50%*	*-14.81%*	*-9.25%*
Natural Resources Public	8.72%	-7.62%	-2.00%
S&P Global LargeMid Cap Commodities & Resources	*8.82%*	*-7.47%*	*-1.81%*
Natural Resources Private	15.66%	6.72%	N/A
CPI + 4% (1-Quarter Lagged)	*6.48%*	*5.09%*	*5.27%*
Infrastructure Public	13.26%	3.31%	N/A
DJ Brookfield Global Infrastructure Index	*7.11%*	*1.43%*	*9.32%*
Infrastructure Private	36.25%	-12.54%	N/A
CPI + 4% (1-Quarter Lagged)	*5.70%*	*4.95%*	*5.37%*
Private Equity	18.96%	11.44%	13.31%
Russell 3000 + 3% (1-Quarter Lagged)	*21.61%*	*13.05%*	*16.58%*
Private Real Estate	10.24%	11.21%	11.34%
NCREIF ODCE - Index (AWA) (Net) (1-Quarter Lagged)	*7.36%*	*10.77%*	*10.94%*
REITS	2.57%	8.97%	9.54%
FTSE NAREIT All Eq REITs TR Index	*0.22%*	*8.86%*	*9.95%*
Cash	0.75%	0.34%	0.27%
CitiGroup T-Bill - 3 Month	*0.46%*	*0.20%*	*0.15%*
Total Fund	10.49%	4.00%	6.98%
SBCERS Policy Benchmark	*11.47%*	*4.80%*	*7.79%*

Calculations were prepared using a time-weighted rate of return based on the market rate of return in accordance with Global Investment Performance Standards (GIPs). Returns shown here for SBCERS are net of fees.

SCHEDULE OF TOP TEN EQUITY SECURITIES

As of June 30, 2017

Shares	Security Name	Fair Value
52,258	APPLE INC	$ 7,526,197
76,763	NESTLE SA	6,689,158
79,295	MICROSOFT CORP	5,465,804
39,591	JOHNSON & JOHNSON	5,237,493
29,107	BERKSHIRE HATHAWAY INC	4,929,853
53,918	MEDTRONIC PLC	4,785,223
24,806	LINDE AG	4,690,894
59,163	WAL-MART STORES INC	4,477,456
22,639	ALLIANZ SE	4,451,525
42,001	DEUTSCHE BOERSE AG	4,427,310

SCHEDULE OF TOP TEN BOND HOLDINGS

As of June 30, 2017

Par	Security Name	Fair Value
18,020,000	U S TREASURY NOTE 1.250% 10/31/2021 DD 10/31/16	$ 17,601,936
16,000,000	U S TREASURY NOTE 1.625% 03/15/2020 DD 03/15/17	16,050,560
14,520,000	COMMIT TO PUR FNMA SF MTG 3.000% 08/01/2047 DD 08/01/17	14,478,037
13,975,000	U S TREASURY NOTE 2.250% 02/15/2027 DD 02/15/17	13,910,016
11,779,000	U S TREASURY NOTE 2.000% 11/15/2026 DD 11/15/16	11,485,467
10,040,000	U S TREASURY NOTE 1.375% 09/30/2020 DD 09/30/15	9,965,503
8,508,000	U S TREASURY BOND 3.000% 02/15/2047 DD 02/15/17	8,776,512
6,830,000	U S TREASURY NOTE 1.625% 10/31/2023 DD 10/31/16	6,652,557
4,926,000	U S TREASURY BOND 4.625% 02/15/2040 DD 02/15/10	6,495,374
6,156,300	U S TREASURY NOTE 1.750% 05/31/2022 DD 05/31/17	6,120,224

A complete list of portfolio holdings is available upon request.

INVESTMENT HOLDINGS PENSION PLAN

As of June 30, 2017 (In thousands)

Type Of Investment	Fair Value	% Of Portfolio
PRIVATE EQUITY	$ 226,891	8.08%
Private Equity Total	$ 226,891	8.08%
EQUITY		
Commingled Funds-US/Int'l	684,836	24.43%
Consumer Discretionary	72,653	2.59%
Consumer Staples	64,419	2.30%
Energy	15,103	0.54%
Financial Services	102,746	3.66%
Health Care	54,258	1.94%
Materials and Processing	34,990	1.25%
Producer Durables	79,867	2.85%
Technology	64,614	2.30%
Utilities	19,844	0.71%
Unclassified	668	0.02%
Equity Total	$ 1,193,998	42.59%
BONDS		
Asset Backed Securities	$ 11,577	0.41%
Commingled Funds Debt	498,184	17.77%
Corporates and Other Credits	153,980	5.49%
Government Bonds	155,558	5.55%
Bonds Total	$ 819,299	29.22%
REAL ESTATE/REAL ASSETS		
Private Real Estate	246,497	8.79%
Real Assets	270,571	9.65%
Real Estate/Real Assets Total	$ 517,068	18.44%
CASH AND SHORT-TERM INVESTMENTS	46,485	1.66%
Grand Total	**$ 2,803,741**	**100%**

LIST OF INVESTMENT MANAGERS

Domestic Equity

US Equity

- Analytic Investors
- Artisan Partners
- Dimensional Fund Advisors
- RBC Global Asset Management
- Rhumbline
- Rice Hall James
- State Street Global Advisors
- The London Company

International Bonds

Foreign Bonds

- Aberdeen
- BlackRock
- Brandywine

Emerging Market Debt

- Stone Harbor

High Yield Bonds

- Aberdeen
- Hotchkis & Wiley

Bank Loans

- Beach Point

International Equity

Developed Markets

- Artisan Partners
- First Eagle
- Panagora
- State Street Global Advisors

Emerging Markets

- BlackRock
- Dimensional Fund Advisors
- RBC Global Asset Management

Frontier Markets

- Aberdeen

Small Cap

- Copper Rock

Natural Resources (Public)

- State Street Global Advisors

Natural Resources (Private)

- Hamilton Lane

Infrastructure (Public)

- Rare Infrastructure

Infrastructure (Private)

- Hamilton Lane

Real Estate

Private Real Estate

- ORG Real Estate

REITS

- Harrison Street

Real Assets

Commodities

- BlackRock
- Mount Lucas

Domestic Bonds

Investment Grade Bonds

- BlackRock
- Reams
- Schroders

TIPS

- BlackRock

Private Equity

- Hamilton Lane

SCHEDULE OF PROFESSIONAL FEES AND SERVICES – PENSION & OPEB PLANS

As of June 30, 2017 (In thousands)

	Assets Under Management	Fees *	Basis Points
Investment Managers:			
Bond Managers	$ 823,779	$ 1,170	4.15
Equity Managers	1,200,616	3,272	11.61
Real Assets	270,571	950	3.37
Real Estate	246,497	100	0.35
Short Term Investments	44,786	-	-
Private Equity	226,891	712	2.53
Total Investment Managers	2,813,140	6,204	22.03
Other:			
Cash	4,540	-	-
Custodian Fees	-	462	1.64
Investment Consultant Fees	-	1,472	5.22
Total Other	4,540	1,934	6.86
Total	**$ 2,817,680**	**$ 8,138**	**28.89**

** Note: Some fees are netted directly against assets under management.*

ACTUARIAL

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Via Electronic Mail

December 27, 2017

Actuarial Certification

This is the Actuary's Certification Letter for the Actuarial Section of the Comprehensive Annual Financial Report (CAFR) for the Santa Barbara County Employees' Retirement System (the Plan) as of June 30, 2017. This letter includes references to four documents produced by Cheiron for the Plan: the Actuarial Valuation Report as of June 30, 2016 (transmitted December 8, 2016), the Governmental Accounting Standards Board (GASB) 67/68 Report as of June 30, 2017 (transmitted October 31, 2017), the Other Post-Employment Benefits (OPEB) Actuarial Valuation Report as of June 30, 2016 (transmitted March 14, 2017), and the Governmental Accounting Standards Board (GASB) 74/75 Report as of June 30, 2017 (transmitted November 6, 2017).

Actuarial Valuation Report as of June 30, 2016

The purpose of the annual Actuarial Valuation Report as of June 30, 2016 is to determine the actuarial funding status of the Plan on that date and to calculate recommended contribution rates for the participating employers and Plan members for the Fiscal Year 2017-2018. The prior review was conducted as of June 30, 2015, and included recommended contribution rates for the Fiscal Year 2016-2017.

Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost and expected administrative expenses) plus a contribution to amortize the Unfunded Actuarial Liability (UAL). At a special meeting held on September 5, 2014, the Board of Retirement adopted a new funding policy for any subsequent unexpected change in the Unfunded Actuarial Liability after June 30, 2013. Effective with the June 30, 2014 valuation, any new sources of UAL due to actuarial gains and losses, assumption changes, or method changes are amortized over a closed 19-year period, with a five-year ramp up and down of the amortization payment at the beginning and end of the amortization period and nine years of level payments as a percentage of payroll between the ramping periods. The Board also adopted a policy to replace the smoothed Actuarial Value of Assets with the Market Value of Assets for valuation purposes. These new amortization and funding policies in conjunction are a type of policy known as direct rate smoothing.

The funding objective of the Plan is to accumulate sufficient assets over each Member's working life to provide for Plan benefits after termination of employment or retirement. For actuarial valuation purposes beginning June 30, 2014, Plan assets are valued at market value. Prior valuations measured the assets using a smoothed Actuarial Value, wherein the assets used to determine employer contribution rates took into account market value by spreading all investment gains and losses (returns above or below expected returns) over a period of five years, limited by a corridor that restrained the Actuarial Value to within 20% of the Market Value of Assets. Beginning with the June 30, 2014 valuation, the smoothing on the contribution rates occurs directly through the determination of the amortization payments as described above, rather than using a smoothed asset value.

The Board of Retirement is responsible for establishing and maintaining the funding policy of the Plan.

We prepared the following schedules, which we understand will be used in the Actuarial Section of the CAFR, based on the June 30, 2016 actuarial valuation. All historical information prior to the June 30, 2013 actuarial valuation shown in these schedules is based on information reported by Milliman, who served as the Actuary prior to 2013.

- Statement of Current Actuarial Assumptions and Methods
- Change in Unfunded Actuarial Liability (Actuarial Analysis of Financial Experience)
- Solvency Test
- Schedule of Funding Progress
- Summary of Plan Provisions

The following schedules are based on the June 30, 2017 actuarial valuation data.

- Schedule of Active Member Valuation Data
- Schedule of Retirees and Beneficiaries Added to and Removed from Retirement Payroll

The assumptions used in this report reflect the results of an Experience Study performed by Cheiron covering the period from July 1, 2013 through June 30, 2016, and adopted by the Board on October 26, 2016. The assumptions used in the most recent valuation are intended to produce results that, in the aggregate, reasonably approximate the anticipated future experience of the Plan. The next experience analysis will cover the years through 2019.

We certify 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 requirements of the Actuarial Standards of Practice, in particular Standards No. 4, 27, 35, and 44.

GASB 67/68 Report as of June 30, 2017

The purpose of GASB 67/68 Report as of June 30, 2017 is to provide accounting and financial reporting information under GASB 67 for the Plan and under GASB 68 for the County of Santa Barbara and other participating employers. This report is not appropriate for other purposes, including the measurement of funding requirements for the Plan.

For financial reporting purposes, the Total Pension Liability is based on the June 30, 2016 actuarial valuation updated to the measurement date of June 30, 2017. There were no significant events between the valuation date and the measurement date of which we are aware, so the update procedures only include the addition of service cost and interest cost offset by actual benefit payments.

Beginning of year measurements are based on the actuarial valuation as of June 30, 2016 updated to the measurement date of June 30, 2017. The June 30, 2017 Total Pension Liability presented in the GASB 67/68 Report was based upon the same data, plan provisions, actuarial methods and assumptions as were used in the Actuarial Valuation Report as of June 30, 2016.Please refer to our GASB 67 report as of June 30, 2017 for additional information related to the financial reporting of the System. We prepared the following schedules for inclusion in the Financial Section of the CAFR based on the June 30, 2017, GASB 67/68 Report:

- Change in Net Pension Liability
- Sensitivity of Net Pension Liability to Changes in Discount Rate
- Schedule of Changes in Net Pension Liability and Related Ratios
- Schedule of Employer Contributions
- Notes to the Schedule of Employer Contribution

We certify that the report was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for disclosure purposes have been prepared in accordance with our understanding of generally accepted accounting principles as promulgated by the GASB, including the requirements of the recently issued Statement 82.

GASB 82 prescribes additional guidance for the presentation of payroll-related measures in the Required Supplementary Information (RSI) Section, the treatment of deviations from the actuarial standards of practice when selecting actuarial assumptions, and the classification of member contributions (i.e., "pick-up" contributions) for reporting purposes. In addition, GASB 82 assists the Plan in providing information to the sponsors for their financial statement reporting. We have confirmed that the GASB 67/68 report complies with the requirements of GASB 82.

OPEB Actuarial Valuation Report as of June 30, 2016

The purpose of the annual OPEB Actuarial Valuation Report as of June 30, 2016 is to determine the Annual Required Contribution (ARC), the Annual OPEB Cost (AOC), and the Net OPEB Obligation (NOO) of the Post-Employment Healthcare Plan under GASB 45 for the fiscal year ending June 30, 2016.

The actuarial value of the assets on hand to pay future benefits is subtracted from the Actuarial Accrued Liability, producing the Unfunded Actuarial Accrued Liability.

The Unfunded Actuarial Accrued Liability determined from this valuation is amortized on a level percentage of pay for employers who allow newly hired employees to join the OPEB plan, and is on a level dollar basis for employers that have closed the plan to newly hired employees. The amortization period used depends on the funding policy of the employer. The amortization of the UAL is on a level dollar basis for the following employers: Santa Barbara County, the Santa Barbara Association of Governments, and the Air Pollution Control District. All other employers utilize a level percentage of pay amortization. For Santa Barbara County, a closed amortization period of 19 years was established as of June 30, 2016. For all other employers, an open/rolling period of 30 years is used. The Annual Required Contribution is the amortization of the Unfunded Actuarial Accrued Liability plus the Normal Cost for the year.

The Annual OPEB Cost is the ARC plus interest on the beginning of year NOO minus the adjustment to the ARC.

The NOO as of the FYE is the beginning of year NOO plus the AOC for the year, minus employer contributions for the year.

We prepared the following schedules, which we understand will be used in the Actuarial Section of the CAFR, based on the June 30, 2016 actuarial valuation. All historical information prior to the June 30, 2013 actuarial valuation shown in these schedules is based on information reported by Milliman, who served as the Actuary prior to 2013.

- Change in Unfunded Actuarial Liability (Actuarial Analysis of Financial Experience)
- Solvency Test

The demographic assumptions used in this report reflect the results of an Experience Study performed by Cheiron covering the period from July 1, 2013 through June 30, 2016, and adopted by the Board on October 26, 2016. The assumptions used in the most recent valuation are intended to produce results that, in the aggregate, reasonably approximate the anticipated future experience of the Plan. The next experience analysis will cover the years through 2019.

We certify 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 requirements of the Actuarial Standards of Practice, in particular Standards No. 4, 6, 27, 35, and 44.

GASB 74/75 Report as of June 30, 2017

The purpose of GASB 74/75 Report as of June 30, 2017 is to provide accounting and financial reporting information under GASB 74 for the Plan and under GASB 75 for the County of Santa Barbara and other participating employers. This report is not appropriate for other purposes, including the measurement of funding requirements for the Plan.

For financial reporting purposes, the Total OPEB Liability is based on the June 30, 2016 actuarial valuation updated to the measurement date of June 30, 2017. There were no significant events between the valuation date and the measurement date. However, for many of the employers, the beginning and end of year measurements are based on different assumptions, namely different discount rates. For employers with no change in discount rate between the beginning and end of the year, the updates only include the addition of service cost and interest cost offset by actual benefit payments. For all other employers, a gain or loss due to the assumption change must also be incorporated.

Beginning of year measurements are based on the actuarial valuation as of June 30, 2016 updated to the measurement date of June 30, 2017. The June 30, 2017 Total OPEB Liability presented in the GASB 74/75 Report was based upon the same data, plan provisions, actuarial methods and assumptions as were used in the OPEB Actuarial Valuation Report as of June 30, 2016. Please refer to our GASB 74 report as of June 30, 2017 for additional information related to the financial reporting of the System.

We certify that the report was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for disclosure purposes have been prepared in accordance with our understanding of generally accepted accounting principles as promulgated by the GASB.

Disclaimers

In preparing our reports, we relied on information (some oral and some written) supplied by the Plan. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice No. 23.

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and, changes in plan provisions or applicable law.

These reports are for the use of the Plan, the participating employers, and their auditors in preparing financial reports in accordance with applicable law and accounting requirements. Any other user of these reports is not an intended user and is considered a third party.

Cheiron's reports were prepared solely for the Plan for the purposes described herein, except that the Plan and participating employers' auditors may rely on these reports solely for the purpose of completing an audit related to the matters herein. They are not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

We are members of the American Academy of Actuaries and meet the Qualification Standards to render the actuarial opinion contained herein. These reports do not address any contractual or legal issues. We are not attorneys, and our firm does not provide any legal services or advice.

Respectfully Submitted,
Cheiron

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SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

ACTUARIAL ASSUMPTIONS AND METHODS

Recommended by the actuary and adopted by the Board of Retirement (the Board), the actuarial assumptions used to determine the liabilities are based on the results of the June 30, 2016 Experience Study covering the period from July 1, 2013 through June 30, 2016. The Board adopted the new assumptions on October 26, 2016. The total pension liability at June 30, 2017, was determined by completing a roll-forward calculation based on an actuarial valuation conducted as of June 30, 2016, using the actuarial assumptions from that valuation applied to all prior periods included in the measurement in accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 67 (GASB 67). Assumption changes from the prior valuation include discount rate, COLA and wage inflation assumptions, and mortality assumptions. The actuarial methods and assumptions for Other Postemployment Benefits (OPEB) can be found in the Notes to the Financial Statements.

ACTUARIAL COST METHOD

SBCERS uses the entry age normal actuarial cost method, with the total normal cost based on the sum of the normal costs for each individual active member (adopted November 20, 2013). The Unfunded Actuarial Accrued Liability (UAAL), if any, is amortized as a level of percentage of the projected salaries of present and future members of Santa Barbara County Employees Retirement System (SBCERS) over specified fixed periods of time. The Board of Retirement adopted a layered 19 year amortization with direct rate smoothing which remains in effect for June 30, 2017. The UAAL for periods prior to June 30, 2014 is being amortized as a single layer and funded over a “closed” 17 year period with 14 remaining amortization years as of the June 30, 2016 actuarial valuation. The exception is that the additional UAAL attributable to the creation of Safety Plan 6 which is being amortized over a closed 15 year period, with 12 years remaining for the June 30, 2016 actuarial valuation. The amortization factors will change each year as the amortization periods decline, and will also change when the discount rate or salary assumptions are changed. Because the discount rate (investment return) and salary scale did change from prior valuation due to the Investigation of Experience, the amortization factors have changed from the previous valuation.

ACTUARIAL ASSET VALUATION METHOD

Effective with the June 30, 2014 valuation, the assets are valued at fair value. Prior to the June 30, 2014 valuation, assets were valued using a five year smoothing method based on the difference between expected and actual fair value of assets.

AMORTIZATION OF GAINS AND LOSSES

Actuarial gains and losses reflected in the current UAAL are amortized over a closed seventeen year period effective June 30, 2013 (adopted November 20, 2013). Effective with the June 30, 2014 valuation any new sources of UAAL due to actuarial gains and losses, assumption changes or method changes is amortized over a closed 19 year period, with five year ramp up period at the beginning of the period, a four year ramp down at the end of the period and 10 years of level payments as a percentage of payroll. This method is a type of direct rate smoothing.

INVESTMENT RATE OF RETURN

Future investment earnings are assumed to accrue at an annual rate of 7.00%, compounded annually, exclusive of both investment, but not administrative, expenses. The investment rate of return of 7.00% is comprised of 2.75% for Consumer Price Index (CPI) and 4.25% real investment return.

ADMINISTRATIVE EXPENSES

Beginning with the June 30, 2013 actuarial valuation, the cost of expected administrative expenses are reflected directly in the employer and employee contribution rates, rather than being implicitly allocated based on a discount rate net of administrative expenses. As of the June 30, 2016 actuarial valuation, a load of 3.4% has been applied to the employer and employee contribution rates, based on an assumed administrative expense amount of $5.1 million for the current Plan year.

PROJECTED SALARY INCREASES

Rates of annual salary increases (adopted October 26, 2016) assumed for the purpose of the valuation are:

- Variable percentage annually for merit and longevity based on service (duration)
- 3.00% for wage inflation (2.75% for consumer price inflation and .25% for real wage inflation)

POST-RETIREMENT BENEFIT INCREASES

Cost of Living benefit increases after retirement are assumed at the following rates per year per Plan.

<table>
<tr><td rowspan="2">2.6%</td><td>General Plan 5, Safety Plans 4, 6, and 8 (PEPRA), APCD Plans 1 and 2</td></tr>
<tr><td>General Plan 8 (PEPRA) if employer did not implemented General Plan 7 prior to January 1, 2013</td></tr>
<tr><td rowspan="2">1.9%</td><td>General Plan 7, APCD Plan 8 (PEPRA)</td></tr>
<tr><td>General Plan 8 (PEPRA) if employer implemented General Plan 7 prior to January 1, 2013</td></tr>
<tr><td>0.0%</td><td>General Plan 2</td></tr>
</table>

- General Plan 7, General Plan 8 (PEPRA) and APCD Plan 8 (PEPRA) are limited to a maximum 2.0% cost of living adjustment.
- General Plan 2 is not eligible to receive these adjustments (adopted February 21, 2001).

EXPECTATION OF LIFE AFTER RETIREMENT

RP-2000 Combined Healthy Mortality Table, Projected using generational improvements based on Scale BB, with no set back or forward for any members (adopted November 20, 2013):

Note: No set back means that the table is used as published. When the table is set forward one year, the member's life expectancy is that of someone one year older. When the table is set back one year, the member's life expectancy is that of someone one year younger.

EXPECTATION OF LIFE AFTER DISABILITY

RP-2000 Combined Healthy Mortality Table, Projected using generational improvements based on Scale BB (adopted November 20, 2013):

- For male members, set forward five years
- For female members, set forward five years

Note: No set back means that the table is used as published. When the table is set forward one year, the member's life expectancy is that of someone one year older. When the table is set back one year, the member's life expectancy is that of someone one year younger.

MORTALITY TABLES IMPACT ON EMPLOYEE CONTRIBUTION RATES

Mortality rates for retirees, beneficiaries, terminated vested, and reciprocals are based on the sex distinct CalPERS Healthy Annuitant Morality Tables adjusted by .95 for males and .90 for females, with Generational improvement using Projection Scale MP-2016 from a base year of 2009.

Non-duty related mortality rates for active members are based on the sex distinct CalPERS Preretirement Non-Industrial Mortality Table, with no adjustment, with Generational improvement using Projection Scale MP-2016 from a base year of 2009. Safety members are also subject to the CalPERS Preretirement Industrial Mortality Table for duty-related deaths, with the same Generational improvements applied

Mortality rates for disabled retirees are based on CalPERS Industrial Disabled Annuitant Mortality, with no adjustment (Safety only), CalPERS Non-Industrial Disabled Annuitant Mortality, with no adjustment (General only), with Generational improvement using Projection Scaled MP-2016 from a base year of 2009.

PROBABILITY OF SEPARATION FROM ACTIVE SERVICE

The following tables indicate the probability of separation from active service for each of six separate sources of termination:

1. **Service Retirement:** Member retires after satisfaction of requirements of age and/or service for reasons other than disability.
2. **Duty Disability:** Member receives disability retirement; disability is employment related.
3. **Ordinary Disability:** Member receives disability retirement; disability not employment related.
4. **Ordinary Death:** Member dies prior to eligibility for retirement; death not employment related.
5. **Service Death:** Member dies in service as a result of injury or disease arising out of and in the course of employment.
6. **Other Terminations:** Member terminates and requests a refund of member contributions and/or terminates and leaves the contributions on deposit (vested terminations).

The probability shown for each cause of termination represents the probability that a given member will terminate at a particular age for the indicated reason. For example, if the probability of retirement age 50 is 3%, then we are assuming that 3% of eligible members at age 50 will retire during the next year.

The age at which a vested terminated member is assumed to commence the payment of retirement benefits is as follows:

AGE ASSUMPTION FOR COMMENCEMENT OF RETIREMENT

Assumptions effective June 30, 2016

PLAN	AGE
General Plan 2	65
General Plan 5,7 & 8	58
Safety Plan 4 & 8	54
Safety Plan 6	52
APCD	58

RATE OF SEPARATION FROM ACTIVE SERVICE- GENERAL PLANS

Assumptions effective June 30, 2017

Age	Service Retirement (Svc < 30 Yrs)	Service Retirement (Svc >= 30 Yrs)	Male	Female	Duty Disability	Ordinary Disability (Svc >= 5 Yrs)	Years of Service	Other Terminations
20	0.0%	0.0%	0.0%	0.0%	0.004%	0.006%	**5**	6.00%
30	0.0%	0.0%	0.0%	0.0%	0.004%	0.006%	**10**	4.50%
40	0.0%	0.0%	0.0%	0.0%	0.008%	0.012%	**15**	2.50%
50	3.0%	4.0%	0.0%	0.0%	0.028%	0.042%	**20**	1.50%
60	7.0%	15.0%	9.0%	9.0%	0.060%	0.090%	**25**	1.50%
70	26.0%	40.0%	25.0%	25.0%	0.060%	0.090%	**30+**	0.00%
75	100.0%	100.0%	100.0%	100.0%	0.000%	0.000%		

RATE OF SEPARATION FROM ACTIVE SERVICE- SAFETY PLANS

Assumptions effective June 30, 2017

	Safety Plan 4 - Unisex			Safety Plan 6 - Unisex	
Age	Service Retirement (Svc < 20 Yrs)	Service Retirement (Svc >= 20 Yrs)	Age	Service Retirement (Svc < 20 Yrs)	Service Retirement (Svc >= 20 Yrs)
20	0.0%	0.0%	**20**	0.0%	0.0%
30	0.0%	0.0%	**30**	0.0%	0.0%
40	0.0%	1.0%	**40**	0.0%	1.0%
50	4.0%	4.0%	**50**	20.0%	25.0%
60	25.0%	25.0%	**60**	15.0%	25.0%
65	100.0%	100.0%	**65**	100.0%	100.0%

RATE OF SEPARATION FROM ACTIVE SERVICE – SAFETY PLANS, DISABILITY RELATED

Assumptions effective June 30, 2017

Safety - Plan 4 and Plan 6 -Unisex

Age	Duty Disability	Ordinary Disability (Svc >= 5 Yrs)	Years of Service	Other Terminations
20	0.045%	0.005%	**5**	5.00%
30	0.054%	0.006%	**10**	2.00%
40	0.117%	0.013%	**15**	1.30%
50	0.252%	0.028%	**20+**	0.00%
60	0.720%	0.080%		
65	0.000%	0.000%		

All disabilities for those with less than five years or service are assumed to be service-related.
90% of Safety disabilities where the member has five or more years of service are assumed to be service-related.

SALARY INCREASE ASSUMPTIONS

Assumptions effective June 30, 2017

Salary Increase Assumption

Inflation: 3.00%

	Longevity and Promotion Increases		Total Annual Increase	
Years of Service	General	Safety	General	Safety
<1	4.75%	6.00%	7.89%	9.18%
1	4.00%	5.00%	7.12%	8.15%
2	3.25%	4.00%	6.35%	7.12%
3	2.50%	3.25%	5.58%	6.35%
4	2.00%	2.50%	5.06%	5.58%
5	1.50%	2.00%	4.55%	5.06%
6	1.25%	1.60%	4.29%	4.65%
7	1.00%	1.30%	4.03%	4.34%
8	0.90%	1.20%	3.93%	4.24%
9	0.80%	1.10%	3.82%	4.13%
10	0.78%	1.00%	3.80%	4.03%
11	0.75%	0.95%	3.77%	3.98%
12	0.70%	0.92%	3.72%	3.95%
13	0.65%	0.89%	3.67%	3.92%
14	0.60%	0.87%	3.62%	3.90%
15	0.55%	0.85%	3.57%	3.88%
16	0.50%	0.82%	3.52%	3.84%
17	0.48%	0.80%	3.49%	3.82%
18	0.46%	0.77%	3.47%	3.79%
19	0.44%	0.74%	3.45%	3.76%
20	0.42%	0.72%	3.43%	3.74%
21	0.40%	0.69%	3.41%	3.71%
22	0.38%	0.67%	3.39%	3.69%
23	0.36%	0.64%	3.37%	3.66%
24	0.34%	0.62%	3.35%	3.64%
25	0.32%	0.59%	3.33%	3.61%
26	0.30%	0.57%	3.31%	3.59%
27	0.28%	0.54%	3.29%	3.56%
28	0.26%	0.52%	3.27%	3.54%
29	0.25%	0.50%	3.26%	3.52%
30+	0.25%	0.50%	3.26%	3.52%

IMMEDIATE REFUND OF CONTRIBUTIONS UPON TERMINATION OF EMPLOYMENT

Assumptions effective June 30, 2017

% of Terminated Participants that take a Refund of Contributions

Years of Service	**General**	**Safety**
0	100%	100%
5	20%	20%
10	15%	10%
15	10%	10%
20	5%	0%
25	0%	0%
30+	0%	0%

% Of Terminated Participants That Leave Contributions On Deposit (Tv: Terminated Vested) And Go To Reciprocal Employers (Recip)

General Plans

Years of Service	TV	Recip
0	0%	0%
5	56%	24%
10	60%	26%
15	63%	27%
20	67%	29%
25	70%	30%
30+	70%	30%

Safety

Years of Service	TV	Recip
0	0%	0%
5	56%	24%
10	63%	27%
15	63%	27%
20	70%	30%
25	70%	30%
30+	70%	30%

Active Member Data

RETIREES & BENEFICIARIES ADDED TO & REMOVED FROM RETIREMENT PAYROLL- PENSION

	Added to Rolls		Removed from Rolls		Rolls at End of Year			
Fiscal Year	Member Count	Annual Allowance*	Member Count	Annual Allowance	Member Count	Annual Allowance	% Increase in Allowance	Average Annual Allowance
2008	232	$ 8,624,426	-72	$ (1,213,017)	2,972	$ 83,023,412	17.3%	$ 27,935
2009	239	$ 8,842,975	-94	$ (2,084,942)	3,117	$ 92,275,326	11.1%	$ 29,604
2010	301	$ 13,005,361	-100	$ 2,443,989	3,318	$ 104,978,781	13.8%	$ 31,639
2011	192	$ 5,922,775	-123	$ 2,942,348	3,387	$ 110,219,174	0.5%	$ 32,542
2012	226	$ 9,082,861	-106	$ 2,884,973	3,507	$ 118,545,000	7.6%	$ 33,802
2013	364**	$ 8,811,248	-98	$ 1,787,108	3,773	$ 126,691,263	6.9%	$ 33,578
2014	203	$ 6,842,058	-79	$ 2,112,523	3,897	$ 132,766,493	4.8%	$ 34,069
2015	241	$ 9,044,486	-108	$ 2,627,746	4,030	$ 141,193,001	6.3%	$ 35,035
2016	244	$ 9,705,939	-103	$ 2,534,190	4,171	$ 149,683,889	6.0%	$ 35,886
2017	314	$ 13,124,187	-110	$ 3,255,813	4,375	$ 162,510,138	8.6%	$ 37,146

** Annual allowance added during the year does not include Cost of Living Adjustmetns (COLAs) granted in year to continuing retirees and beneficiaries.*

*** Includes 119 members with benefits in more than one plan.*

Pension Plan

ACTUARIAL SOLVENCY TEST- PENSION

(Dollars in thousands)

		Actuarial Accrued Liabilities (AAL) for				Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date	Valuation Assets	Active Member Contribution (A)	Retirees and Beneficiaries (B)	Active Members (Employer Financed) (C)	Total AAL	(A)	(B)	(C)
6/30/2010	$1,927,299	$ 162,432	$ 1,483,728	$ 969,987	$ 2,616,147	100%	100%	29%
6/30/2011	$2,007,859	$ 165,774	$ 1,559,716	$ 1,024,324	$ 2,749,814	100%	100%	28%
6/30/2012	$2,046,641	$ 165,623	$ 1,660,773	$ 1,047,987	$ 2,874,383	100%	100%	21%
6/30/2013 *	$2,150,006	$ 171,614	$ 1,747,430	$ 1,049,090	$ 2,968,134	100%	100%	22%
6/30/2014	$2,513,630	$ 174,958	$ 1,822,654	$ 1,100,403	$ 3,098,015	100%	100%	47%
6/30/2015	$2,532,529	$ 178,233	$ 1,926,975	$ 1,125,926	$ 3,231,134	100%	100%	38%
6/30/2016	$2,554,539	$ 183,954	$ 2,142,873	$ 1,244,920	$ 3,571,747	100%	100%	18%

** Information for years prior to 2013 was provided by prior actuaries.*

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE-PENSION

(Dollars in millions)

As of June 30	2016	2015	2014	2013	2012	2011	2010
Prior Valuation							
Unfunded Actuarial Accrued Liability	**$ 698.6**	**$ 584.4**	**$ 818.10**	**$ 827.70**	**$ 742.00**	**$ 688.90**	**$ 558.10**
Expected Change from Prior Year	(15.0)	(23.2)	(6.4)	(7.1)	(0.8)	(10.1)	30.7
Actuarial (Gains) or Losses During the Year							
Asset Return (Greater) or Less than Expected	156.7	167.7	(71.7)	62.7	125.8	90.3	(85.3)
New Entrants	3.1	2.8	2.5	7.8	0.6	1.0	1.1
Salary Increases Greater or (Less) than Expect	(19.1)	(14.0)	(16.4)	(45.0)	(29.9)	(18.0)	(7.6)
Changes in Assumptions and Methodology	215.8	-	(132.3)	(26.0)	-	-	170.7
All Other (Including Demographic Experience)	(22.9)	(19.1)	(9.4)	(2.0)	(10.0)	(10.1)	21.2
Total Changes	318.6	114.2	(233.7)	(9.6)	85.7	53.1	130.8
Values as of Valuation Date	**$ 1,017.20**	**$ 698.60**	**584.40**	**$ 818.10**	**$ 827.70**	**$ 742.00**	**$ 688.90**

Information for years prior to 2012 was provided by prior actuaries.

Other Postemployment Benefit – OPEB

ACTUARIAL SOLVENCY TEST- OPEB

(Dollars in thousands)

Valuation Date	Active Member Contribution	Retirees and Beneficiaries	Remaining Members' Liabilities		Portion of Accrued Liabilities Covered by Reported Assets		
	(A)	**(B)**	**(C)**	**Reported Assets**	**(A)**	**(B)**	**(C)**
6/30/2012	N/A	$ 119,488	$ 70,691	$ 3,035	N/A	3%	0.0%
6/30/2014*	N/A	$ 121,241	$ 71,964	$ 4,070	N/A	3%	0.0%
6/30/2016	N/A	$ 104,178	$ 51,299	$ 8,031	N/A	3%	0.0%

* *Information for years prior to 2014 was provided by prior actuaries.*

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE- OPEB

(Dollars in millions)

As of June 30	2014	2016
Prior Valuation		
Unfunded Actuarial Accrued Liability	**$ 187.1**	**$ 189.1**
Expected Change from Prior Year	(25.7)	(39.6)
Actuarial (Gains) or Losses During the Year		
Asset Return (Greater) or Less than Expected	0.6	0.5
Shortfall in Contribution vs. ARC	34.8	44.9
Changes in Assumptions and Methodology	(10.7)	(39.2)
All Other (Including Demographic Experience)	3.0	(8.2)
Total Changes	2.0	(41.6)
Values as of Valuation Date	**$ 189.1**	**$ 147.5**

SCHEDULE OF RETIREES & BENEFICIARIES ADDED TO & REMOVED FROM ROLL – OPEB

(Dollars in thousands)

	June 30, 2014	June 30, 2016	% Change
Active Employees*			
Member Count	3,707	3,346	-9.74%
Average Age	46.8	47.4	1.28%
Average Service	13.8	14.9	7.97%
Total Payroll	$ 282,963	$ 269,245	-4.85%
Terminated Vested Participants Count	890	926	4.04%
Average Age	48.5	48.9	0.82%
Inactive Participants			
Retired Participants Count	3,246	3,247	0.03%
Average Age	69.2	69.9	1.01%
Disabled Participants Count	240	240	0.00%
Average Age	65.5	66.8	1.98%
Surviving Spouses Count	408	489	19.85%
Average Age	74.6	72.5	-2.82%
Total Count of Inactive Participants	3,894	3,976	2.11%

* Active census and salary information includes only those eligible for the OPEB benefit, and as a result will not match the SBCERS pension census information for the same period.

SUMMARY OF MAJOR PENSION PLAN PROVISIONS

ELIGIBILITY

The County has established several defined benefit tiers based primarily on a members' date of entry into SBCERS. There are two types of SBCERS members:

Safety Members: employees whose principal duty is active law enforcement or active fire suppression. Membership in a particular tier depends upon date of entry to the System and bargaining unit.

General members: all non-Safety members who are otherwise eligible for System membership. A member's tier depends primarily upon date of entry into the System.

APCD Plan 1:	APCD employees hired on or before July 3, 1995*
APCD Plan 2:	APCD employees hired after July 3, 1995*
General Plan 2:	Employees hired on or before January 11, 1999 who elected to join General Plan 2
Safety Plan 4A & General Plan 5A:	General employees hired before October 10, 1994 who did not elect to join General Plan 2, and Safety employees hired before October 10, 1994*
Safety Plan 4B & General Plan 5B:	Employees hired on or after October 10, 1994*
General Plan 5C:	Members in certain bargaining units hired on or after October 10, 1994, and those in bargaining units transferred from Plan 5B on March 10, 2008*
General Plan 7:	County General employees hired on or after June 25, 2012*
General Plan 8:	General (including APCD) new members hired on or after January 1, 2013 (PEPRA)
Safety Plan 4C:	Members in certain bargaining units who were hired on or after October 10. 1994 and those in bargaining units transferred from Plan 4B on July 3, 2006.*
Safety Plan 6A:	Members in certain bargaining units hired prior to October 10, 1994, and those in bargaining units transferred from Plan 4A on February 25, 2008*
Safety Plan 6B:	Members in certain bargaining units hired after October 10, 1994, and those in bargaining units transferred from Plan 4D on February 25, 2008*
Safety Plan 8:	New safety members hired on or after January 1, 2013 (PEPRA)

* Plan closed to new members hired on or after January 1, 2013, unless such members are prior members of these plans or qualify as reciprocal members from other retirement systems.

FINAL COMPENSATION

- Monthly average of highest 12 consecutive months of compensation earnable for General Plans 5A and 5B, Safety Plans 4A, 4B, 6A, and APCD Plans 1 and 2.
- Monthly average of highest 36 consecutive months of compensation earnable for General Plan 5C, 7, Safety Plans 4C, 6B and part-time members in all plans, and Plan 8 (PEPRA) members. Compensation for Plan 8 members excludes certain pay elements, such as terminal payouts, and is limited to 100% or 120% of 2013 Social Security Taxable Wage Base, indexed in future years by CPI-U, based on whether the member is covered under Social Security.
- Monthly average of highest 36 non-consecutive months of compensation for General Plan 2.

SERVICE RETIREMENT

Normal Retirement Age

- Age 59 for General Plan 2 (Government. Code Section. §31486.4)
- Age 59 for General Plan 5 (§31676.12)
- Age 59 for General Plan 7 (§31676.1)
- Age 59 for General Plan 8 (§7522.20
- Age 59 for APCD Plan (§31676.15)
- Age 55 for Safety Plan 4 (§31664.2)
- Age 50 for Safety Plan 6 (§31664.1)
- Age 55 for Safety Plan 8 (§7522.25)

Early Retirement

- Age 50 and 10 years for General Plan 5, 7, and APCD Plan
- Age 55 and 10 years for General Plan 2
- Age 50 and 10 years for Safety Plan 4
- Age 52 and 5 years for General Plan 8 (PEPRA)
- Age 50 and 5 years for Safety Plan 8 (PEPRA)
  OR
- 30 years for General Plan 5, 7 and APCD Plan (other than Plan 8)
- 20 years for Safety Plans 4 and 6

Benefit at Normal Retirement Age

- 2% of final average salary per year of service times age factor (§31676.12 and §31676.15, respectively) for General Plan 5, 7, and APCD Plan.
- 1/60 of final average salary per year of service times age factor (§31676.1) for General Plan 7.
- 2% of final average salary per year of service (maximum 35 years) plus 1% 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 2.
- 3% of final average salary per year of service times age factor for Safety Plans 4 (§31664.2) and 6 (§31664.1).
- 1% of final average salary per year of service at age 52, increasing by 0.1% for each year of age to 2.5% at age 67 for General Plan 8 (PEPRA). In between exact ages, the multiplier will increase by 0.025% for each quarter year increase in age.
- 2% of final average salary per year of service at age 50, increasing by 0.1% for each year of age to 2.7% at age 57 for Safety Plan 8 (PEPRA). In between exact ages, the multiplier will increase by 0.025% for each quarter year increase in age.

Benefit adjustments

Reduced for retirement before:

- Age 65 for §31486.4 (General Plan 2)
- Age 57 for §31676.12 (General Plan 5)
- Age 55 for §31664.2 (Safety Plan 4)
- Age 50 for §31664.1 (Safety Plan 6)
- Age 55 for §31676.15 (APCD Plan)
- Age 67 for General Plan 8 (PEPRA)
- Age 57 for Safety Plan 8 (PEPRA)

Reductions for §31486.4 are actuarial equivalents

Increased for retirement after:

- Age 57 for §31676.12 (General Plan 5)
- Age 55 for §31676.15 (APCD Plan)

DISABILITY RETIREMENT

- Non-service connected for General Plans 5, 7, and 8, Safety Plans 4, 6, and 8, and APCD Plans
  - 1.8% of final average salary per year of service (1.5% for General Plan 8 / PEPRA), with maximum of 33⅓% if projected service is used (age 62 for General Plan 5, age 55 for Safety Plans 4 and 6 and age 65 for Plan 8 / PEPRA and all APCD Plans) or
  - Service retirement benefit (if eligible).

- Service connected for General Plans 5, 7, and 8, Safety Plans 4, 6, and 8 and APCD Plans
  - Greater of 50% of final average salary or service retirement benefit (if eligible).

- General Plan 2 purchases long-term insurance policy.
  - 60% of salary provided outside of the Plan.
  - Payments are reduced by other disability income benefits.
  - Service retirement at age 65 (credit given toward service retirement while disabled under the Long-Term Disability (LTD) Plan).

DEATH BEFORE RETIREMENT

- Non-service connected before eligible to retire for General Plans 5, 7, and 8, Safety Plans 4, 6, and 8 and APCD Plans.
  - Refund of contributions plus 1/12 of last year's salary per year of service up to six years.
- Eligible for non-service connected disability or service retirement for General Plans 5, 7, and 8, Safety Plans 4, 6, and 8 and APCD Plans.
  - 60% of member's accrued allowance.
- Service connected for General Plans 5, 7, and 8, Safety Plans 4, 6, and 8 and APCD Plans.
  - 50% of salary or service retirement benefit (if eligible).
- Benefit for General Plan 2.
  - 1/12 of final year's salary per year of service up to six years.

DEATH AFTER RETIREMENT

- $5,000 lump sum death benefit for General Plans 5, 7, and 8, Safety Plans 4, 6, and 8, and APCD Plans.
- Service retirement or non-service connected disability.
  - 60% of member's allowance payable to an eligible spouse for General Plans 5, 7, and 8, Safety Plans 4, 6, and 8 and APCD Plans.
  - 50% of member's allowance payable to an eligible spouse for General Plan 2.
- Service connected disability
  - 100% of member's allowance payable to an eligible spouse for General Plans 5, 7, and 8, Safety Plans 4, 6, and 8 and APCD Plans.
  - 50% of member's allowance payable to an eligible spouse for General Plan 2.

VESTING

- Must leave contributions on deposit.
- Five years of service for General Plan 5, 7, and 8, Safety Plans 4, 6, and 8 and APCD Plans.
- Ten years of service for General Plan 2.

MEMBER'S CONTRIBUTIONS

- Based on entry age (except Plan 8 / PEPRA – General and Safety).
- Half rates for General Plans 5A and 5C, 7, Safety Plans 4A, 4C, 6A and 6B, and APCD Plan 1.
- Full rates for General Plan 5B, Safety Plan 4B, and APCD Plan 2.
- Half of total normal cost for All Plan 8 / PEPRA (General and Safety) members, with covered compensation limited to 100% or 120% of 2013 Taxable Wage Base (indexed based on CPI-U).
- General Plan 2 is noncontributory.

MAXIMUM BENEFIT

- 100% of final average salary for General Plans 5, 7, Safety Plans 4 and 6, and APCD Plans.
- No maximum for Plan 8 / PEPRA, other than limits on compensation specified in final average compensation provisions.
- Benefit and Social Security combined cannot exceed 70% of final average salary if service is less than 35 years, otherwise 80% for General Plan 2.

COST-OF-LIVING

- Up to 2.75% cost-of-living adjustment for General Plans 5, Safety Plans 4, 6, and 8 (PEPRA), and APCD Plans 1 and 2.
- Limited to a maximum 2% cost-of-living adjustment for General Plan 7 and any General Plan 8 members where the employer had adopted General Plan 7 for new hires.
- None for General Plan 2.

STATISTICAL

Introduction to the Statistical Section

The information in this section is not covered by the Independent Auditor's Report, but is presented as supplemental data for the benefit of the readers of the comprehensive annual financial report. The objective of this section is to provide historical perspective, context, and detail to assist in utilizing the basic financial statements, notes to the financial statements, and required supplementary information to understand and assess Santa Barbara County Employees' Retirement System (SBCERS or the System) economic condition. The following schedules reflect financial trend and operating information.

- The ***Schedule of Additions to Plan by Source*** reflects the various sources of income to the System net of investment fees.
- The ***Schedule of Deductions to Plan by Type*** reflects the major expenses to the System. The major expenses include benefits paid, refunds and administrative expenses.
- The ***Schedule of Benefit Expenses of Plan by Type*** reflect a breakdown of the types of benefits paid. These expenses cover benefits paid by pension plan grouping type, death benefits and OPEB.
- The ***Schedule of Participating Employers*** represents the System's participating employers and their active members covered by the plan.
- The ***Schedule of Employer Contribution Rates*** lists a schedule of retirement plans for which benefits are being paid for and the employer contribution rates associated with each of those plans by their respective employer.
- The ***Schedule of Member Contribution Rates*** lists member rates for all active retirement plans available through the fiscal year.
- The ***Schedule of Average Benefit Payments*** present the average monthly benefit, average annual benefit and number of active retirees, organized by increments of credited years of service.
- The ***Changes in Fiduciary Net Position – OPEB*** contains the financial trend information for the OPEB Plan.

SCHEDULE OF ADDITIONS TO PENSION AND OPEB PLAN BY SOURCE

Fiscal Year	Member Contributions	Employer Contributions	Gross Return on Investments	Investment Expenses	Other Income	Total
2008	15,479,629	69,460,616	(122,988,456)	(10,260,776)	629,238	(47,679,749)
2009	11,083,461	83,118,559	(328,434,883)	(5,321,065)	63,736	(239,490,192)
2010	11,648,995	93,429,332	198,920,921	(4,306,777)	228,877	299,921,348
2011	10,843,091	103,102,443	350,862,466	(5,141,373)	23,724,517	483,391,144
2012	14,524,627	117,126,395	44,319,664	(5,935,784)	223,470	170,258,372
2013	19,023,527	118,940,302	174,387,739	(6,175,490)	395,294	306,571,372
2014	14,514,010	128,126,717	335,037,717	(5,906,399)	543,990	472,316,035
2015	16,622,138	133,033,308	27,656,731	(6,899,225)	689,829	171,102,781
2016	18,311,646	134,445,930	39,484,948	(7,767,958)	1,527,699	186,131,425
2017	20,319,910	136,250,579	272,548,669	(8,123,504)	646,776	421,642,430

SCHEDULE OF DEDUCTIONS TO PENSION AND OPEB PLAN BY TYPE

Fiscal Year	Benefits Paid	Member Withdrawals	Administrative Expenses	Total
2008	84,409,181	1,819,710	3,604,096	89,832,987
2009	95,259,946	1,609,893	3,900,782	100,770,621
2010	105,642,308	1,319,448	4,045,903	111,007,659
2011	114,697,730	1,476,583	4,112,150	120,286,463
2012	121,684,623	1,071,850	4,023,062	126,779,535
2013	130,222,106	591,490	4,239,711	135,053,307
2014	138,898,965	812,467	4,607,478	144,318,910
2015	145,507,792	966,902	4,817,662	151,292,356
2016	154,527,560	946,405	5,600,783	161,074,748
2017	162,170,562	1,044,286	6,109,203	169,324,051

SCHEDULE OF BENEFIT EXPENSES OF PENSION PLAN BY TYPE

Fiscal Year	Benefits Paid General	Benefits Paid Safety	Benefits Paid APCD	Death Benefits	OPEB Benefits	Total
2008	$ 50,680,926	$ 32,900,009	$ 596,896	$ 231,350	$ -	$ 84,409,181
2009	50,499,643	37,495,522	710,087	475,527	6,079,167	95,259,946
2010	55,347,535	41,389,618	793,023	283,040	7,829,092	105,642,308
2011	59,908,869	45,400,748	980,330	371,566	8,036,217	114,697,730
2012	66,495,891	45,227,106	1,113,117	689,875	8,158,634	121,684,623
2013	64,629,373	55,375,280	1,520,394	330,305	8,366,754	130,222,106
2014	73,086,778	55,050,002	1,738,768	412,570	8,610,847	138,898,965
2015	76,809,418	57,519,938	2,051,853	423,108	8,703,475	145,507,792
2016	81,831,563	61,167,215	2,324,366	388,167	8,816,249	154,527,560
2017	84,061,870	66,382,371	2,397,315	343,589	8,985,416	162,170,562

SCHEDULE OF PARTICIPATING EMPLOYERS- PENSION

For the years ended June 30, 2017, 2016, and 2015

	2017	**2016**	**2015**
County of Santa Barbara:			
General Members	3,023	3,150	3,036
Safety Members	920	850	895
Total	3,943	4,000	3,931
Santa Barbara Courts:			
General Members	238	232	228
Total	238	232	228
Participating Special Districts:			
Santa Barbara County Air Pollution Control District	40	39	41
Carpinteria Cemetery District	2	2	2
Carpinteria-Summerland Fire Protection District	32	32	33
Goleta Cemetery District	4	4	4
Oak Hill Cemetery District	3	3	3
Santa Barbara County Association of Governments	19	19	19
Mosquito & Vector Management District of Santa Barbara County	7	7	7
Santa Maria Cemetery District	7	6	6
Summerland Sanitary District	4	4	4
Total	118	116	119
Total Active Membership	4,299	4,348	4,278

Data is for Pension Plan only.

SCHEDULE OF EMPLOYER CONTRIBUTION RATES- PENSION

Effective July 2016

Plan		APCD	SB County & SB Courts	Special Districts
General	APCD 1	39.85%		
	APCD 2	38.99%		
	APCD 7	30.39%		
	APCD 8	31.53%		
General	Plan 2		19.86%	
	Plan 5A		30.89%	30.89%
	Plan 5B		31.48%	
	Plan 5C		32.47%	
	Plan 7 *		30.39%	30.39%
	Plan 8		24.62%	24.62%
Safety	Plan 4A		51.08%	51.08%
	Plan 4B		50.00%	50.00%
	Plan 4C		50.14%	
	Plan 6A		57.32%	
	Plan 6B		57.24%	
	Plan 8		39.59%	39.59%

** General Plan 7 was not adopted by Santa Barbara Courts.*

SCHEDULE OF AVERAGE BENEFIT PAYMENTS- PENSION

	Years of Retirement					
	0-9	**10-14**	**15-19**	**20-24**	**25-29**	**30+**
June 30, 2008						
Average Monthly Benefit	$ 2,651	$ 2,176	$ 2,106	$ 1,764	$ 1,310	$ 1,332
Average Annual Benefit	$ 31,812	$ 26,112	$ 25,272	$ 21,168	$ 15,720	$ 15,984
Number of Active Retirees	1,776	340	305	228	192	131
June 30, 2009						
Average Monthly Benefit	$ 2,835	$ 2,321	$ 2,232	$ 1,960	$ 1,603	$ 1,378
Average Annual Benefit	$ 34,020	$ 27,852	$ 26,784	$ 23,520	$ 19,236	$ 16,536
Number of Active Retirees	1,742	485	296	228	177	207
June 30, 2010						
Average Monthly Benefit	$ 3,049	$ 2,419	$ 2,213	$ 2,180	$ 1,733	$ 1,406
Average Annual Benefit	$ 36,588	$ 29,028	$ 26,556	$ 26,160	$ 20,796	$ 16,872
Number of Active Retirees	1,858	537	320	221	173	209
June 30, 2011						
Average Monthly Benefit	$ 3,099	$ 2,455	$ 2,350	$ 2,326	$ 1,894	$ 1,448
Average Annual Benefit	$ 37,188	$ 29,460	$ 28,200	$ 27,912	$ 22,728	$ 17,376
Number of Active Retirees	1,912	556	308	244	162	205
June 30, 2012						
Average Monthly Benefit	$ 3,202	$ 2,673	$ 2,374	$ 2,363	$ 1,968	$ 1,545
Average Annual Benefit	$ 38,424	$ 32,076	$ 24,488	$ 28,356	$ 23,616	$ 18,540
Number of Active Retirees	1,949	612	311	264	157	214
June 30, 2013						
Average Monthly Benefit	$ 3,082	$ 2,856	$ 2,282	$ 2,518	$ 2,028	$ 1,625
Average Annual Benefit	$ 36,987	$ 34,271	$ 27,387	$ 30,212	$ 24,334	$ 19,503
Number of Active Retirees	2,080	692	361	270	162	208
June 30, 2014						
Average Monthly Benefit	$ 3,121	$ 2,838	$ 2,552	$ 2,402	$ 2,222	$ 1,716
Average Annual Benefit	$ 37,452	$ 34,056	$ 30,624	$ 28,824	$ 26,664	$ 20,592
Number of Active Retirees	2,097	731	423	247	175	224
June 30, 2015						
Average Monthly Benefit	$ 3,173	$ 3,040	$ 2,632	$ 2,354	$ 2,387	$ 1,779
Average Annual Benefit	$ 38,076	$ 36,480	$ 31,584	$ 28,248	$ 28,644	$ 21,348
Number of Active Retirees	2,128	766	473	273	172	218
June 30, 2016						
Average Monthly Benefit	$ 3,270	$ 3,079	$ 2,633	$ 2,441	$ 2,421	$ 1,850
Average Annual Benefit	$ 39,240	$ 36,948	$ 31,596	$ 29,292	$ 29,052	$ 22,200
Number of Active Retirees	2,170	832	496	271	185	217
June 30, 2017						
Average Monthly Benefit	$ 3,383	$ 3,117	$ 2,804	$ 2,503	$ 2,488	$ 1,978
Average Annual Benefit	$ 40,596	$ 37,404	$ 33,648	$ 30,036	$ 29,856	$ 23,736
Number of Active Retirees	2,298	833	574	259	197	214

CHANGES IN FIDUCIARY NET POSITION – OPEB

(In thousands)

	2017	2016	2015	2014	2013	2012
Additions						
Employer Contributions	$ 14,260	$11,698	$9,421	$8,899	$8,358	$8,362
Net Investment Income	679	167	194	500	257	28
Misc. Income	380	408	413	323	-	-
Total Additions	15,319	12,273	10,028	9,722	8,615	8,390
Deductions						
Benefits Paid	8,985	8,816	8,704	8,611	8,367	8,159
Administrative Expense	376	408	413	319	4	-
Total Deductions	9,361	9,224	9,117	8,930	8,371	8,159
Net Increase in Fiduciary Net Position	$ 5,958	$ 3,049	$ 911	$ 792	$ 244	$ 231

GLOSSARY

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 assumptions. Examples include a higher return on fund assets than anticipated (gain), and higher than expected salary increases (loss).

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.

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.

AUDITOR'S 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 accounting principles generally accepted in the United States of America (GAAP) or 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" General Purpose Financial Statements) 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.

OTHER POSTEMPLOYMENT BENEFITS (OPEB): Post-employment benefits that an employee will begin to receive at the start of retirement which does not include pension benefits paid. These Other Postemployment benefits can include life insurance premiums, health care premiums and deferred-compensation agreements.

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 public employees' retirement system. Pension trust funds, like nonexpendable trust funds, use the accrual basis of accounting and have a capital maintenance focus.

UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL): The excess of the actuarial accrued liability over the actuarial value of assets.

UAAL AMORTIZATION 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.