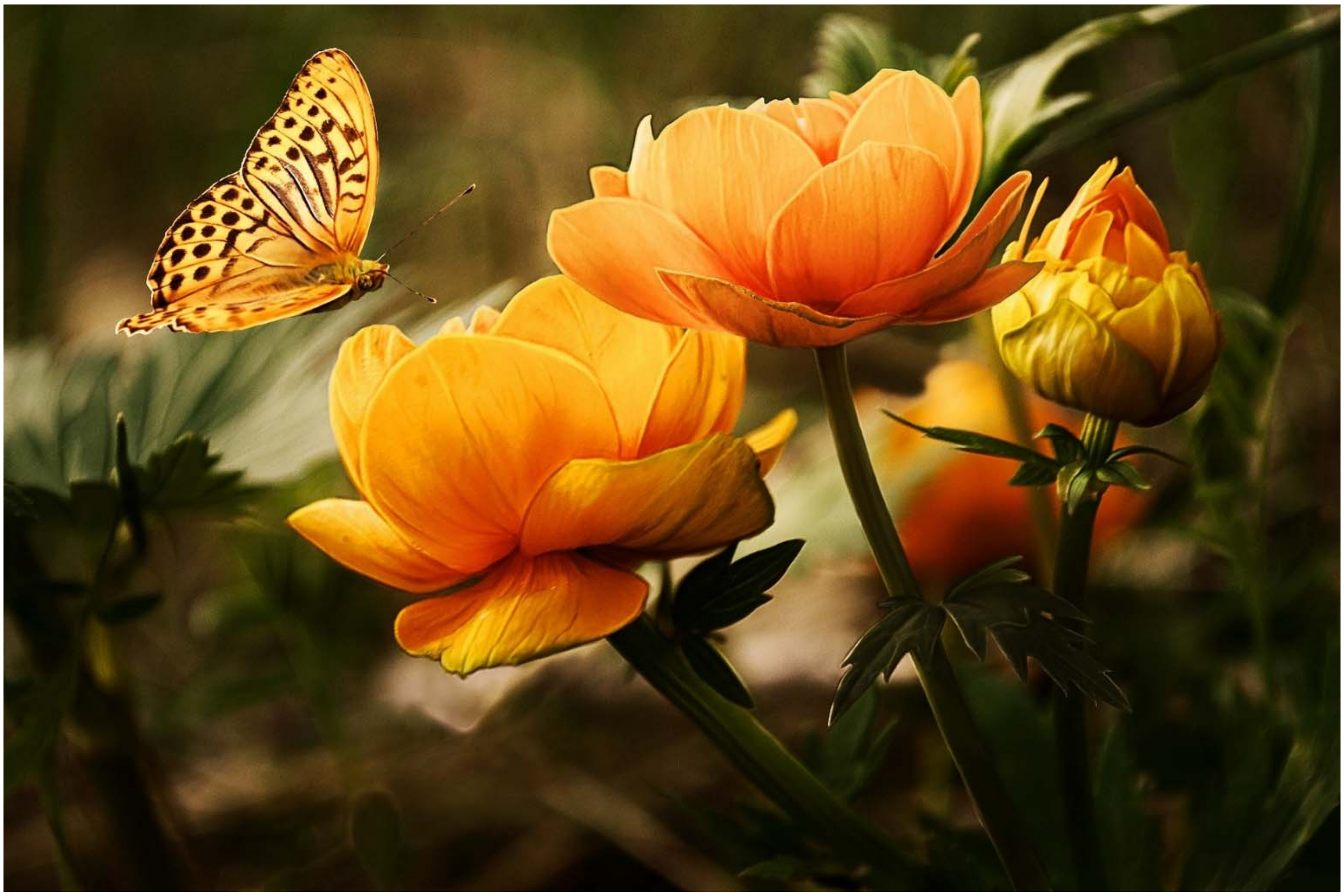
SBCERS



Comprehensive Annual Financial Report

FOR FISCAL YEAR ENDED JUNE 30, 2018

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, 2018

ISSUED BY:

Gregory E. Levin, Chief Executive Officer

SBCERS

3916 State Street, Suite 100   Santa Barbara, CA 93105   877-568-2940

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 26, 2018

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, 2018.* SBCERS is a pension fund for the employees of Santa Barbara County and other local agencies. This report is intended to provide readers with complete and reliable information about SBCERS' financial status, compliance with the law and administrative policy.

SBCERS QUICK FACTS	
Net Position:	$3 billion
Pension Net Investment Return:	7.8%
OPEB Net Investment Return:	8.07%
Number of Members:	10,279

The pension fund experienced a market rate of return of 7.8% (net of fees), for the year ended June 30, 2018. As of June 30, 2018, the SBCERS Net Position Restricted for Benefits was $3 billion. SBCERS Net position grew by $206 million during the fiscal year mostly due to the growth of SBCERS' investments.

SBCERS also administers an Other Postemployment Benefit Trust (OPEB) or 401(h) Retiree Health Medical Trust Fund that 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 a separate column in the basic financial statements. The retiree health fund experienced a market rate of return of 8.07% for the year ended June 30, 2018.

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

SBCERS' management is responsible for the accuracy, completeness, and fairness of the presentation of the Comprehensive Annual Financial Report. 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. The OPEB plan is created under section 401(h) of the Internal Revenue Code (IRC).

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

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 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.

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 4,171 active, 1,589 deferred members, and 4,519 benefit recipients into the future.

SELECTED SERVICE EFFORTS AND ACCOMPLISHMENTS

Member Services

During the fiscal year, the Member Services team processed over 251 retirements and continuances, provided Pre-Retirement Workshops in Santa Barbara and Santa Maria to nearly 200 employees, reviewed and certified earnings codes for the County, Courts, and Santa Barbara County Air Pollution Control District (APCD). The Information Technology division completed the second and third phases of a significant pension administration system upgrade; once completed this will improve overall internal control and enable SBCERS to provide online services to our members. A monthly email newsletter is sent to members, providing members with additional information on the activities of the System and the Board of Retirement.

Investments

During the fiscal year ending June 30, 2018 the Board completed several asset class reviews and hired new asset managers in consultation with its General Investment Consultant, RVK, Inc. These reviews optimized the investments in Real Return, Non-US Equity, and Core Fixed Income. The financial statements reflect these asset categories. The Board also considered and adopted revisions to its

Investment Policy including new procedures for monitoring asset manager performance and consolidating multiple polices into one integrated policy. The Board also adopted a new sub-asset class, Direct Lending, which will become part of the Non-Core Fixed Income allocation. Investments to the new sub-asset class are expected in the coming fiscal year.

Accounting and Finance

The SBCERS finance team received the Government Finance Officers Association (GFOA) award for CAFR reporting for its work on the fiscal year ended June 30, 2017 CAFR. The finance team processes monthly benefit payments to members as well as twice monthly processing of survivor benefits and refunds. The team verifies contributions, monitors cash flows, reviews internal controls over cash management, and in the current fiscal year improved contribution validation process for the Special Districts. Finance solicited requests for proposals for audit services for the upcoming fiscal years.

Legal and Compliance

During the fiscal year the Board recertified pay codes and identified the determination of inclusion or exclusion as compensation earnable and/or pensionable compensation. Additionally, the Board considered adopted revisions to 10 Board policies. The changes made to policies included improvements to the System's efforts at transparency and access to information by the public. Other policy changes included the voluntary adoption of anti-harassment training requirements for Board members. The Board also made revisions to its Bylaws and its Travel and Elections policies.

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. SBCERS recognizes that even sound internal controls have inherent limitations. SBCERS believes that the internal controls adequately safeguard assets. 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 auditor, has audited the financial statements and expressed its 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.

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 using a long-term investment horizon. The Investment Policy Statement establishes investment program goals, asset allocation, and discretionary authority for consultants along with 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, 2018, is 6.49% and 6.92%, 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.

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

The funding policy for amortizing the Unfunded Actuarial Accrued Liability (UAAL) is a layered 19-year closed amortization period using direct rate smoothing. On June 30, 2018, SBCERS' funded ratio was 77.6% using a roll-forward calculation based on the actuarial valuation conducted as of June 30, 2017, with the actuarial value of assets totaling $3 billion and the actuarial accrued liability totaling $3.9 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 greatly appreciate the dedication and effort of the staff members who contributed to the preparation of this CAFR and to the rest of the SBCERS staff members who do an excellent job executing our service commitment to our membership. To the Board of Retirement, your commitment, fiduciary leadership, and guidance make us better and stronger as a team. Together through this commitment and hard work we protect and grow our members' assets, enable smart retirement planning decisions, and deliver on the promised benefit.

Respectfully submitted,

Gregory E. Levin, CPA ● Chief Executive Office

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Santa Barbara County
Employees' Retirement System
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

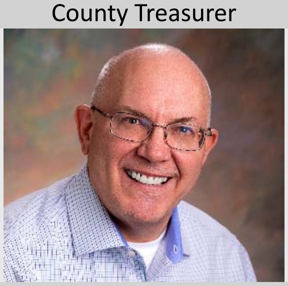
Executive Director/CEO

BOARD OF RETIREMENT

Harry Hagen
Chair
Ex-Offico Member
County Treasurer

Janet Wolf
Vice Chair
Appointed Member
Term Expires: Dec 2019

Fred Tan
Secretary
Safety Member
Term Expires: Dec 2019



Trent Benedetti
Appointed
Term Expires: Dec 2020

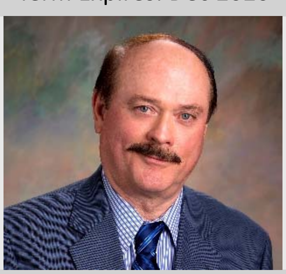
Zandra Cholomondeley
Retired Member
Term Expires: Dec 2020

Pancho Occiano II
General Member
Term Expires: Dec 2019

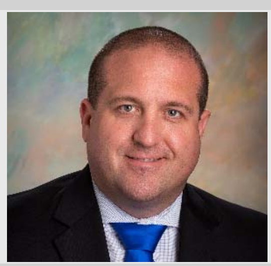
Laura Robinson
General Member
Term Expires: Dec 2020

Ted Sten
Appointed
Term Expires: Dec 2020

Michael Vidal
Appointed
Term Expires: Dec 2019

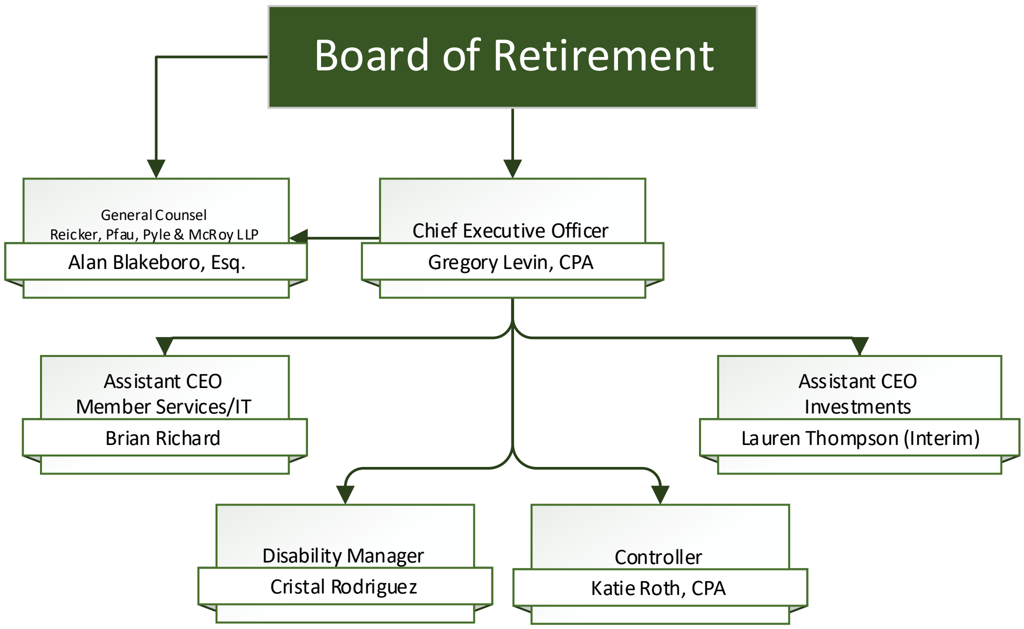


Gary Blair
Retired Alternate
Term Expires: Dec 2020



Ryan Sullivan
Safety Alternate
Term Expires: 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	Reed Smith, LLP

A List of Investment Managers in located on page 71 in the Investment Section.

FINANCIAL

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FRESNO, CA 93720
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LAGUNA HILLS, CA 92653
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TEL 888.565.1040

WWW.BACPAS.COM

BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Retirement of
Santa Barbara County Employees' Retirement System
Santa Barbara, California

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, 2018, 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 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, 2018, 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.

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 the required supplementary 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 the Governmental Accounting Standards Board (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 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, as listed in the table of contents, 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, 2017 financial statements, and our report dated December 27, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the fiscal year ended June 30, 2017, 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 26, 2018, 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 26, 2018

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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, 2018. 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, totaled $3 billion, an increase of $201 million or 7.2% from the prior year of $2.8 billion. This is due to an increase in overall investment return and growth from asset valuations.

- Net pension investment income (including securities lending) decreased by $41 million from $263 million in the fiscal year ended June 30, 2017, to $222 million in the fiscal year ended June 30, 2018. The decrease is related to overall market conditions.

- Pension contributions (plan sponsor/employer and member/employee) increased by $11.6 million from the fiscal year ended June 30, 2017, to $154 million ($131 million total from plan sponsors and $23 million from members) in fiscal year ended June 30, 2018. The change is due to an increase in plan sponsor and employee contribution rates as well as an increase in salaries paid to members.

- Pension benefit payments increased by $15.2 million or 9.9% from the fiscal year ended June 30, 2017 to $168 million in the fiscal year ended June 30, 2018. The increase is related to an increase of retirees and beneficiaries receiving payments as well as the maximum cost-of-living adjustment being applied.

- On June 30, 2018, SBCERS' funded ratio was 77.6%. This is an increase in the funded ratio from June 30, 2017 of 74.9%. The funded ratio reflects an asset value of $3 billion as of June 30, 2018 and a rolled-forward total pension liability totaling $3.9 billion.

Other Postemployment Benefit (OPEB) Trust

- Net Position Restricted for Benefits – Other Postemployment Benefits (OPEB), also reported in the Statement of Fiduciary Net Position, totaled $19 million, an increase of $5 million or 36.2% from prior year. This is due to the funding policy of contributions by the County of Santa Barbara (the County) as well as pre-funding by Santa Barbara County Superior Court and Air Pollution Control District (APCD).

- $13 million of OPEB contributions were received from participating plan sponsors. OPEB Benefits of $9 million were paid in the fiscal year ended June 30, 2018.

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 the 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 to or deductions from 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 Supplementary 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 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 9 and the Required Supplementary Information sections. These schedules are similar to those implemented for the Pension Plan with GASB 67 and provide financial information including a liability measurement, money-weighted investment return, and actuarial related disclosures.

FINANCIAL ANALYSIS

The following tables present 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 $3 billion.

NET POSITION RESTRICTED FOR BENEFITS *(IN THOUSANDS)*

As of	*June 30, 2018*	*June 30, 2017*	*Change*	*Percent Change*
Cash & Investments	$ 3,008,454	$ 2,817,680	$ 190,774	6.8%
Securities Lent	23,454	29,375	(5,921)	-20.2%
Prepaids & Receivables	26,129	42,728	(16,599)	-38.8%
Total Assets	**3,058,037**	**2,889,783**	**168,254**	**5.8%**
Securities Lent	23,454	29,375	(5,921)	-20.2%
Other Liabilities	13,509	45,519	(32,010)	-70.3%
Total Liabilities	**36,963**	**74,894**	**(37,931)**	**-50.6%**
Net Position Restricted For Benefits	**$ 3,021,074**	**$ 2,814,889**	**$ 206,185**	**7.3%**

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. SBCERS' has income sources of $392 million for the fiscal year ended June 30, 2018 and $422 million for the fiscal year ended June 30, 2017. Contributions increased by $10.4 million due to gradual phase in of discount rate changes. The overall year over year net increase declined due to lower investment portfolio performance in the current period than prior period.

CHANGES IN FIDUCIARY NET POSITION *(IN THOUSANDS)*

For the fiscal years ended	*June 30, 2018*	*June 30, 2017*	*Change*	*Percent Change*
Contributions	$ 167,026	$ 156,571	$ 10,455	6.7%
Net Investment Income	223,665	264,092	(40,427)	-15.3%
Net Securities Income	405	334	71	21.4%
Other	660	646	14	2.2%
Total Additions	**391,756**	**421,643**	**(29,887)**	**-7.1%**
Benefits Paid	177,417	162,170	15,247	9.4%
Member Withdrawals	1,374	1,044	330	31.6%
Administrative Expense	6,780	6,110	670	11.0%
Total Deductions	**185,571**	**169,324**	**16,247**	**9.6%**
Net Increase	**$ 206,185**	**$ 252,319**	**$ (46,134)**	**-18.3%**

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 (Pension and OPEB) for the fiscal year ended June 30, 2018, were $185.6 million, an increase of $16.2 million, or 9.6%, over the fiscal year ended June 30, 2017. This increase continues to be attributed to the increasing number of beneficiaries on payroll, demographics of plan sponsors that have a large population of near retirement age employees, and increasing salaries upon which benefits are based.

Contributions

Total contributions (Pension and OPEB) increased by $10.5 million over the contributions made in the fiscal year ended June 30, 2017. The pension contributions increased by $11.6 million and the OPEB contributions were decreased by $1.1 million.

OPEB contributions are made by participating employers on a pay-as-you-go basis with the exception of the County and the Air Pollution Control District who have adopted funding policies that prefund at different levels. The Santa Barbara County Superior Court made a one-time advance payment to the program as of June 30, 2016 but did not modify its 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, 2018, was $3.9 billion. The Total Pension Liability increased 3.3% from $3.7 billion as of June 30, 2017. SBCERS' Net Pension Liability as of June 30, 2018, was $864.1 million, representing a decrease of 8.2% from $941.2 million as of June 30, 2017. The $77 million decrease in the Net Pension Liability is primarily due to steady investment returns generating higher Fiduciary Net Position and amortization payments made by Plan Sponsors.

For the fiscal years ended June 30, 2018 and June 30, 2017, the Fiduciary Net Position as a percentage of the Total Pension Liability is reported as 77.6% and 74.9%, respectively. The change is a 2.7% increase and is due to the asset gains and impact of increased contributions.

SCHEDULE OF NET PENSION LIABILITY *(IN THOUSANDS)*

	June 30, 2018	*June 30, 2017*
Total Pension Liability	$ 3,866,168	$ 3,742,076
Less : Fiduciary Net Position	(3,002,019)	(2,800,898)
Net Pension Liability	$ 864,149	$ 941,178
Fiduciary Net Position as a Percentage of Total Pension Liability	77.6%	74.9%

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. SBCERS' total Pension portfolio gained

7.8% (net of fees) over the twelve month period ended June 30, 2018. The Pension investment income was $223 million (net of fees) and fair value of assets increased by $184 million from June 30, 2017. For further information on SBCERS' investments, please refer to the Investment Section.

PENSION RATES OF RETURN AND FUNDED RATIO *(IN THOUSANDS)*

Fiscal Year Ending	*Total Pension Investment Portfolio Fair Value*	*Total Fund Money-Weighted Return (Net of Fees)*	*Funded Ratio*
June 30, 2017	$ 2,802,042	10.49%	74.9%
June 30, 2018	$ 2,985,571	7.80%	77.6%

Pension Funded Status

The table above provides a two-year history of pension investment, 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, 2018, the annual money-weighted rate of return on plan investments was 7.8%.

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, 2018 was 77.6%, using a roll-forward calculation based on the actuarial valuation conducted as of June 30, 2017. As of the fiscal year ended June 30, 2018, Net Position Restricted for Benefits was $3 billion and the Total Pension Liability was $3.9 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, 2018.

OPEB

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, 2018, the annual money-weighted rate of return on OPEB plan investments was 8.07%.

OPEB RATES OF RETURN *(IN THOUSANDS)*

Fiscal Year Ending	*Total OPEB Investment Portfolio Fair Value*	*Total Fund Money-Weighted Return*
June 30, 2017	$ 11,098	10.61%
June 30, 2018	$ 17,307	8.07%

An actuarial valuation is performed annually for the OPEB Plan beginning in 2016. SBCERS administers the agent multiple-employer health insurance program for retirees. SBCERS collects premiums from Members and pays the insurance vendors. The employers fund the OPEB Plan to pay the benefit and each present their respective OPEB Plan liability in their financial statements. The net impact on the aggregate of participating employers' Statements of Net Position due the OPEB Plan is $137 million as of the June 30, 2017 and $133 million as of the June 30, 2018. The annual OPEB expense for all participants is $9.0 million for the June 30, 2018 as compared to $8.9 million for June 30, 2017.

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,

Greg Levin

Gregory E. Levin, CPA
Chief Executive Officer

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STATEMENT OF FIDUCIARY NET POSITION

As of June 30, 2018, with Comparative Totals
(In thousands)

	Pension Benefit Trust	OPEB Benefit Trust	June 30, 2018 Total	Pension Benefit Trust	OPEB Benefit Trust	June 30, 2017 Total
ASSETS						
Cash	$ 3,829	$ 1,747	$ 5,576	$ 1,699	$ 2,841	$ 4,540
Collateral Held for Securities Lent	23,454	-	23,454	29,375	-	29,375
Short-Term Investments	44,584	-	44,584	44,786	-	44,786
Total Cash & Cash Equivalents	71,867	1,747	73,614	75,860	2,841	78,701
Prepaids and Receivables						
Prepaid Assets	2,996	-	2,996	3,082	-	3,082
Contributions	5,279	(22)	5,257	4,556	33	4,589
Accrued Interest	3,207	23	3,230	2,541	17	2,558
Dividends	2,251	-	2,251	1,472	-	1,472
Security Sales	12,395	-	12,395	31,027	-	31,027
Total Prepaids & Receivables	26,128	1	26,129	42,678	50	42,728
Investments at Fair Value						
Private Equity	268,296	-	268,296	226,891	-	226,891
Domestic Equity	630,866	10,332	641,198	612,635	6,618	619,253
Core Fixed Income	446,463	6,975	453,438	518,340	4,480	522,820
Developed Markets Non-US Equity	318,202	-	318,202	343,200	-	343,200
Emerging Market Equity	242,425	-	242,425	238,163	-	238,163
Non-Core Fixed Income	254,746	-	254,746	300,959	-	300,959
Real Assets/Real Return	510,621	-	510,621	270,571	-	270,571
Real Estate	269,368	-	269,368	246,497	-	246,497
Total Investments	2,940,987	17,307	2,958,294	2,757,256	- 11,098	2,768,354
TOTAL ASSETS	**$ 3,038,982**	**$ 19,055**	**$ 3,058,037**	**$ 2,875,794**	**$ 13,989**	**$ 2,889,783**
LIABILITIES						
Accounts Payable	$ 328	$ -	$ 328	$ 629	$ -	$ 629
Collateral Held for Securities Lent	23,454	-	23,454	29,375	-	29,375
Investment Manager Fees	89	-	89	1,435	-	1,435
Security Purchases	13,092	-	13,092	43,455	-	43,455
TOTAL LIABILITIES	**$ 36,963**	**$ -**	**$ 36,963**	**$ 74,894**	**$ -**	**$ 74,894**
NET POSITION RESTRICTED FOR BENEFITS	**$ 3,002,019**	**$ 19,055**	**$ 3,021,074**	**$ 2,800,900**	**$ 13,989**	**$ 2,814,889**

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Fiscal Year Ended June 30, 2018, with Comparative Totals
(In thousands)

	Pension Benefit Trust	OPEB Benefit Trust	June 30, 2018 Total	Pension Benefit Trust	OPEB Benefit Trust	June 30, 2017 Total
ADDITIONS						
Contributions						
Employers	$ 131,374	$ 13,119	$ 144,493	$ 121,991	$ 14,260	$ 136,251
Plan Members	22,533	-	22,533	20,320	-	20,320
Total Contributions	153,907	13,119	167,026	142,311	14,260	156,571
Investment Income						
Net Increase in Fair Value of Investments	191,922	896	192,818	244,103	631	244,734
Interest	16,660	92	16,752	10,420	52	10,472
Dividends	21,816	-	21,816	17,024		17,024
Total Investment Income	230,398	988	231,386	271,547	683	272,230
Less Investment Expense	(7,721)	-	(7,721)	(8,134)	(4)	(8,138)
Net Investment Income	222,677	988	223,665	263,413	679	264,092
Securities Lent Income	533	-	533	319	-	319
Securities Lent Expense						
Borrower Rebates	7	-	7	126	-	126
Management Fees	(135)	-	(135)	(111)	-	(111)
Net Securities Income	405	-	405	334	-	334
Class Action Settlements	2	-	2	63	-	63
Commission Recapture	1	-	1	13	-	13
Miscellaneous Income	229	428	657	190	380	570
Total Miscellaneous Income	232	428	660	266	380	646
TOTAL ADDITIONS	**$ 377,221**	**$ 14,535**	**$ 391,756**	**$ 406,324**	**$ 15,319**	**$ 421,643**
DEDUCTIONS						
Benefits Paid	168,377	9,040	177,417	153,185	8,985	162,170
Member Withdrawals	1,374	-	1,374	1,044	-	1,044
Administrative Expense	6,351	429	6,780	5,734	376	6,110
TOTAL DEDUCTIONS	**$ 176,102**	**$ 9,469**	**$ 185,571**	**$ 159,963**	**$ 9,361**	**$ 169,324**
Net Increase in Net Position	201,119	5,066	206,185	246,361	5,958	252,319
NET POSITION RESTRICTED FOR BENEFITS						
Beginning of Year	2,800,900	13,989	2,814,889	2,554,539	8,031	2,562,570
Net Increase in Net Position	201,119	5,066	206,185	246,361	5,958	252,319
END OF YEAR	**$ 3,002,019**	**$ 19,055**	**$ 3,021,074**	**$ 2,800,900**	**$ 13,989**	**$ 2,814,889**

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 Code (IRC). 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 IRC.

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 (SBCAG)
- 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 7, or Safety Plans 4 or 6 depending the employee's bargaining unit. Reciprocal hires of the Courts and special districts that did not adopt Plan 7 are enrolled in Plan 5.

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, 2018

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, 2018 and 2017

	2018	2017
Members Now Receiving Benefits		
Service Retirement	3,683	3,562
Disability Retirement	267	256
Beneficiaries and Survivors	569	557
Subtotal	4,519	4,375
Active Members		
Active Vested	2,936	2,986
Active Non-Vested	1,235	1,313
Subtotal	4,171	4,299
Deferred Members	1,589	1,463
Total Membership	**10,279**	**10,137**

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 Board of Retirements' 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 77.6%. The pension liability as of June 30, 2018 was determined using a roll-forward calculation based on the actuarial valuation conducted as of June 30, 2017.

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. 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 Governmental Accounting Standards Board (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, 2017, from which the summarized information was derived.

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 June 2018. 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, General Services, 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 impact the amounts and disclosures of the report. Accordingly, actual results may differ from those estimates.

Implementation of New Accounting Standard

For the fiscal year ended June 30, 2018, SBCERS implemented GASB Statement No. 85 (GASB 85), "*Omnibus 2017"*. GASB 85 amends *Accounting and Financial Reporting for Pensions,* Statement No. 72, *Fair Value Measurement and Application,* Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions.*

GASB 85 enhances consistency in the application of accounting and financial reporting requirements to improve the usefulness of information for users of state and local government financial statements. GASB 85 is effective for periods beginning after June 15, 2017, this standard did not have a material impact on SBCERS' financial statements.

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.

4. DEPOSITS AND INVESTMENTS

SBCERS operates under the "Prudent Investor 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). Short-term investments consist of cash held in money market accounts and securities readily convertible to cash. 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, 2018, 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 are comprised of funds held with SBCERS' investment custodian, BNY Mellon Global Securities Services. 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.

SBCERS' DEPOSITS AND SHORT-TERM INVESTMENTS

As of June 30, 2018 (In thousands)

		2018
Cash Held for Pension Benefits	$	3,829
Cash Held for OPEB Benefits		1,747
Short-Term Investments for Pension Benefits		44,584
Total	$	50,160

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, 2018, 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, 2018.

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.

SBCERS' SUMMARY OF PENSION AND OPEB INVESTMENTS

As of June 30, 2018 (In thousands)

		2018
Pension Plan Investments at Fair Value:		
Private Equity	$	268,296
Domestic Equity		630,866
Core Fixed Income		446,463
Developed Markets Non-US Equity		318,202
Emerging Market Equity		242,425
Non-Core Fixed Income		254,746
Real Assets/Real Return		510,621
Real Estate		269,368
Short-Term Investments		44,584
Collateral Held for Securities Lent		23,454
Total Pension Plan Investments at Fair Value		3,009,025
OPEB Plan Investments at Fair Value:		
Domestic Equity		10,332
Core Fixed Income		6,975
Total OPEB Plan Investments at Fair Value		17,307
Total All Plans	**$**	**3,026,332**

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, 2018 (In thousands)

	Fair 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	$ 275,276	$ 275,276	$ -	$ -
International Equity	291,070	290,733	-	337
Total Equity	$ 566,346	$ 566,009	$ -	$ 337
Fixed Income Securities				
Asset Backed Securities	$ 851	$ -	$ 851	$ -
Corporates and Other Credits	252,148	10,521	233,719	7,908
Government Securities	128,210	112,762	15,448	-
Other	(11)	(11)	-	-
Total Fixed Income Securities	$ 381,198	$ 123,272	$ 250,018	$ 7,908
Real Estate				
REITS	33,293	33,293	-	-
Total Real Estate	$ 33,293	$ 33,293	$ -	$ -
Short-Term Investments	$ 44,584	$ -	$ 44,584	$ -
Securities Lending	23,454	-	23,454	-
Total Investments at Fair Value	$ 1,048,875	$ 722,574	$ 318,056	$ 8,245

Investments Measured at the Net Asset Value (NAV):

Commingled Funds	$ 1,325,088
Real Estate Funds	269,368
Private Equity Funds	268,296
Real Asset Funds	97,398
Total Investments Measured at the NAV	$ 1,960,150
Total Investments Measured at Fair Value	$ 3,009,025

Investment Derivative Instruments:

	Fair Value	Level 1	Level 2	Level 3
Forward Contracts	$ 8,741	$ -	$ -	$ 8,741
Participation Certficate	1,797	-	-	1,797
Total Investment Derivative Instruments	$ 10,538	$ -	$ -	$ 10,538

OPEB Trust Investments Measured at the Net Asset Value (NAV):

Equity Commingled Funds	$ 10,332
Debt Commingled Funds	6,975
Total OPEB Trust Investments Measured at the NAV	$ 17,307

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, 2018 (In thousands)

Investments	Fair Value	Unfunded Commitments	Redemption Frequency	Notice
Commingled Funds [1]	$ 1,325,088	$ -	Daily to Monthly	Daily to 90 Days
Private Real Estate Funds [2]	269,368	68,180	Quarterly, Annually or Not Redeemable	Daily to 90 Days
Private Equity Funds [3]	268,296	234,787	Not Redeemable	
Real Asset Funds [4]	97,398	113,051	Not Redeemable	
Total Pension Investments Measured at Net Asset Value	$ 1,960,150			
Total Unfunded Commitments		$ 416,018		
OPEB Investments				
Equity Commingled Funds	$ 10,332	$ -		
Debt Commingled Funds	6,975	-		
Total OPEB Trust Investments Measured at the NAV	$ 17,307			
Total Unfunded Commitments		$ -		

(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 12 commingled funds as of June 30, 2018. The 6 commingled equity funds in this investment type include foreign, domestic, and emerging market investments. The 5 commingled debt funds contain Treasury Inflation Protected Securities (TIPS), investment grade bonds, foreign bonds and bank loans. The 1 real asset commingled fund is multi-strategy and encompasses public infrastructure, global listed natural resources, real estate, 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 values 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, 2018, this investment type consists of 29 limited partnership investments ranging in commitment sizes from $4.7 million to $20 million. The remaining commitments outstanding on these funds as of June 30, 2018 are $68.2 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 values 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, 2018, this investment type consists of 69 limited partnership investments ranging in commitment size from approximately $2 million to $30 million with $235 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 values 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, 2018, these investment type of funds consists of 17 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, 2018 are $113 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* table.

CREDIT RISK BY QUALITY ANALYSIS

As of June 30, 2018 (In thousands)

S & P Rating	Treasurer Investment Pool	Cash & Cash Equivalents	Convertibles	Domestic Equity	Domestic Fixed Income	Int'l Fixed Income	Int'l Fixed Income	Mutual Funds	Total	%
AAA	$ 483	$ -	$ -	$ -	$ -	$ 490	$ -	$ -	$ 973	0.1%
AA+	-	-	-	-	135,080	-	-	-	135,080	15.7%
AA	4,197	-	-	-	-	-	-	-	4,197	0.5%
AA-	-	-	-	-	13,756	-	-	-	13,756	1.6%
A+	-	-	-	-	25,616	1,119	-	-	26,735	3.1%
A	-	-	-	563	9,100	-	-	-	9,663	1.1%
A-	-	-	-	-	29,437	887	-	-	30,324	3.5%
BBB+	-	-	-	-	11,139	183	-	6	11,328	1.3%
BBB	-	-	825	3,487	3,526	390	-	1,300	9,528	1.1%
BBB-	-	-	911	2,134	4,874	12,722	476	1,189	22,306	2.6%
BB+	-	-	-	-	2,908	1,083	268	850	5,109	0.6%
BB	-	-	51	-	11,042	1,755	-	1,960	14,808	1.7%
BB-	-	-	-	-	19,992	3,691	-	-	23,683	2.8%
B+	-	-	-	-	15,121	2,591	-	894	18,606	2.2%
B	-	-	-	-	11,277	3,537	-	1,156	15,970	1.9%
B-	-	-	505	-	6,673	4,207	-	-	11,385	1.3%
CCC+	-	-	-	-	4,606	988	-	-	5,594	0.7%
CCC	-	-	-	-	1,688	459	-	-	2,147	0.3%
CCC-	-	-	-	-	768	-	-	-	768	0.1%
CC	-	-	-	-	106	-	-	-	106	0.0%
C	-	-	-	-	-	-	-	-	-	0.0%
Not Rated	567	48,509	5,863	1,918	150,053	275,413	1,130	13,439	496,892	57.8%
Totals	$ 5,247	$ 48,509	$ 8,155	$ 8,102	$ 456,762	$ 309,515	$ 1,874	$20,794	$858,958	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 counterparty. 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 BNY Mellon Global Securities Services EBTF are uninsured over $250,000 and uncollateralized.

Concentrations of Credit Risk

As of June 30, 2018, 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, 2018 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 year ended June 30, 2018. Due to the nature of the securities lending program and the custodian bank's collateralization of loans at amounts greater than the fair value of the loaned securities, it is deemed that there were no material credit risks to SBCERS as defined by GASB Statement No. 28 and No. 40 by its participation in the Securities Lending program. However, similar to any other investment portfolio, there is risk associated with investing in cash collateral in securities.

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, 2018, the fair value of securities on loan was $73.3 million and the value of collateral received for the securities on loan was $75.2 million, of which $51.7 million was non-cash collateral and $23.5 million was cash collateral from equity and fixed income securities. Non-cash collateral, which SBCERS does not have the ability to sell unless the borrower defaults, is not reported in the Statement of Fiduciary Net Position. SBCERS' income net of expense from securities lending was $405 thousand for the fiscal year ending June 30, 2018.

SBCERS' SECUITIES LENDING PROGRAM

As of June 30, 2018 (In thousands)

Securities on Loan	Fair Value of Securities on Loan	Collateral Received	Collateral Percent
Domestic Equities	$ 10,218	$ 10,447	
International Equities	5,971	6,192	
Domestic Corporate Fixed Income	6,637	6,815	
Total Cash	22,826	23,454	
Total Non-Cash	50,475	51,697	
Total Securities on Loan	**$ 73,301**	**$ 75,151**	**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, 2018 (In thousands)

Currency	Cash	Equity	Fixed Income	Fair Value
Australian Dollar	7	8,045	-	8,052
Brazil Real	-	2,106	-	2,106
Canadian Dollar	(2)	2,354	-	2,352
Danish Krone	46	4,647	-	4,693
Euro	(2,690)	118,072	-	115,382
Hong Kong Dollar	18	11,506	-	11,524
Indian Rupee	-	1,793	-	1,793
Indonesian Rupiah	(12)	538	88	614
Israeli Shekel	4	599	-	603
Japanese Yen	(4,386)	45,141	-	40,755
Malaysian Ringgit	-	-	32	32
Mexican Peso	-	297	656	953
New Zealand Dollar	1	578	-	579
Norwegian Krone	8	2,120	-	2,128
Polish Zloty	-	-	231	231
Pound Sterling	(660)	36,349	-	35,689
Singapore Dollar	16	2,311	392	2,719
South African Rand	-	-	-	-
South Korean Won	(3)	2,571	-	2,568
Swedish Krona	-	4,133	-	4,133
Swiss Franc	339	13,815	-	14,154
Thailand Baht	-	803	-	803
Turkish Lira	-	169	-	169
Total Securities Held in Foreign Currency	(7,314)	257,947	1,399	252,032

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, 2018, SBCERS' derivatives investments were in Forward Contracts and Participation Certificates. Investments in commingled funds may provide added exposure to derivatives.

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.

Participation Certificates

Participation certificates are equity-linked securities that provide economic exposure to a security of a non-U.S. company without a direct investment in that security.

HOLDINGS OF DERIVATIVE SECURITIES

As of June 30, 2018 (In thousands)

Derivative Type	Notional Amount	Fair Value
Forward Contracts	$ 12,652	$ 8,741
Participation Certficate	1,349	1,797
Total	**$ 14,001**	**$ 10,538**

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, 2018. 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, 2018, SBCERS' has a net exposure to derivative credit risk of $8.75 million.

DERIVATIVE CREDIT RISK SCHEDULE

As of June 30, 2018 (In thousands)

	Derivative Type		
S&P Investment Rating	**Forward Contracts**	**Participation Certificates**	**Total Fair Value**
Investment Grade			
AA	$ (11)	$ -	$ (11)
A	5,862	1,797	7,659
BBB	2,890	-	2,890
Total Investment Grade	$ 8,741	$ 1,797	$ 10,538
Total Fair Value	$ 8,741	$ 1,797	$ 10,538

Note: Ratings are not applicable to all derivative instruments held. Those presented above are based on the counterparty's S&P rating.

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, 2018, 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, 2018 (In thousands)

Currency	**Forwards**
Euro Currency Unit	3,240
Pound Sterling	718
Japanese Yen	4,794
Total	8,752

5. LEASE COMMITMENTS

SBCERS leases property under lease agreements that expire in 2019 and 2020. SBCERS renewed its Santa Maria lease agreement for an additional year extending the term through August 14, 2019.

The Santa Barbara office lease was renewed for an additional two years, extending to June 30, 2020. SBCERS acquired additional space on the lower level of its existing Santa Barbara building for a two-year lease also expiring June 30, 2020. The monthly rent due under the new lease is $3,416 along with common area expenses of $1,970, and a $5,387 deposit was provided. The 2nd floor leases and subleases expired June 30, 2018 and were not renewed.

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 2018 was $191,358. Minimum non-cancelable lease commitments as of June 30, 2018, are shown in the adjacent table.

MINIMUM LEASE COMMITMENTS

Fiscal Year		Amount
2018 - 2019	$	216,017
2019 - 2020		159,080
Total	$	375,097

6. 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 Deposit Reserve and Plan Sponsor Advance 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 from 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, 2018
Member Deposit Reserve	$	203,168
Retired Member Reserve		2,446,879
Plan Sponsor Advance Reserve		1,160,419
Contra Tracking Account		(808,447)
Net Position Restricted for Pension Benefits	**$**	**3,002,019**

7. 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, 2018, the annual money-weighted rate of return on Plan investments, net of Plan investment expense was 7.8%. 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, are summarized in the following table on the next page.

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

As of June 30, 2018

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Broad US Equity	19%	4.30%
Dev'd Market Non-US Equity	11%	5.50%
Emerging Markets Equity	7%	7.75%
Core Fixed Income	17%	1.00%
Custom Non-Core Fixed Income	11%	2.92%
Custom Real Return	15%	3.57%
Custom Real Estate	10%	4.71%
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, 2018. The 7.00% is comprised of an assumed real rate of return of 4.0% and an inflation assumption of 3%.

Discount Rate

GASB 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, 2018, were developed using the June 30, 2016 actuarial valuation. For the June 30, 2016 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, 2018. 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, 2018, were in accordance with actuarially determined contributions for the year. Actuarially determined net employer contribution rates were 38.71% of payroll while actuarially determined employee contributions were 5.77%. For the year ended June 30, 2018, covered payroll was $345 million.

MEMBER CONTRIBUTION RATES

For the fiscal year ended June 30, 2018 (In thousands)

Member Classification	Plan Sponsor Rates	Member Rates
General Members	22.46% - 35.02%	2.36% - 12.15%
Safety Members	43.01% - 62.66%	5.23% - 19.15%
APCD Members	35.48% - 44.35%	3.44% - 12.77%

SBCERS' PENSION CONTRIBUTIONS MADE TO PLAN

For the fiscal year ended June 30, 2018 (In thousands)

			2018
General Plan 2	Employer contributions	$	134
General Plan 5, 7 & 8	Employer contributions		79,258
	Member contributions		14,636
Safety Plans 4, 6 & 8	Employer contributions		50,713
	Member contributions		7,694
APCD Plans 1, 2 & 8	Employer contributions		1,269
	Member contributions		203
Total		**$**	**153,907**

SBCERS' PENSION CONTRIBUTOR COMPARISON

For the fiscal year ended June 30, 2018 (In thousands)

		2018	
Employer Contributions			
Santa Barbara County	$	122,369	93.1%
Santa Barbara Superior Court		4,741	3.6%
APCD		1,269	1.0%
Special Districts		2,995	2.3%
Total Employer Contributions	$	131,374	100.0%
Member Contributions			
Santa Barbara County	$	20,683	91.8%
Santa Barbara Superior Court		1,119	5.0%
APCD		203	0.9%
Special Districts		528	2.3%
Total Member Contributions	$	22,533	100.0%
Total Contributions	**$**	**153,907**	

8. 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, 2018, were as follows:

SCHEDULE OF NET PENSION LIABILITY

(In thousands)

		June 30, 2018
Total Pension Liability	$	3,866,168
Less : Fiduciary Net Position		(3,002,019)
Net Pension Liability	$	864,149
Fiduciary Net Position as a Percentage of Total Pension Liability		77.6%

Actuarial Assumptions

SUMMARY OF ACTUARIAL INFORMATION	
Valuation Date	June 30, 2017
Measurement Date	June 30, 2018
Actuarial Cost Method	Individual entry-age
Amortization Method	Level percent of pay
Amortization Period	Seventeen years (closed)
Asset Valuation Method	Market Value of Assets

Summary Of Valuation Assumptions	
Investment Rate of Return (As of June 30, 2017)	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% for General Plan 5, Safety Plans 4, 6 and 8, APCD Plans 1 and 2, and General Plan 8 (if employer did not implement General Plan 7 prior to January 1, 2013)
	1.90% for General Plan 7, APCD Plan 8, and General Plan 8 (if employer implemented General Plan 7 prior to January 1, 2013)
	0.0% for General Plan 2
Mortality Rates	Mortality rates for retirees, beneficiaries, terminated vested, and reciprocals are based on the sex distinct 2014 California Public Employees Retirement System (CalPERS) Healthy Annuitant Mortality 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.

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, 2018 (In thousands)

		1% Decrease 6.00%		Discount Rate 7.00%		1% Increase 8.00%
Total Pension Liability	$	4,420,032	$	3,866,168	$	3,414,365
Less: Fiduciary Net Position		(3,002,019)		(3,002,019)		(3,002,019)
Net Pension Liability	$	1,418,013	$	864,149	$	412,346
Fiduciary Net Position as a Percentage of Total Pension Liability		67.9%		77.6%		87.9%

9. OTHER POST-EMPLOYMENT 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 Santa Barbara County and other plan sponsors (see box to right), 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.

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 Management District do not participate in the OPEB plan.

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. The OPEB plan has been closed to all new entrants with membership dates in SBCERS on or after December 31, 2018. At June 30, 2018, 100% of eligible SBCERS' retirees participated in the OPEB program. The membership consisted of the following as of the June 30, 2017 valuation report.

Inactive plan members or beneficiaries currently receiving benefit payments	4,161
Inactive plan members entitled to but not yet receiving benefit payments	923
Active plan members/active employees	3,112
Total	8,196

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 qualified health reimbursement account.

The table below is a summary of the actual benefits awarded and actual enrollees participating in the OPEB plan as of June 30, 2018.

SBCERS' ACTUAL OPEB HEALTH CARE BENEFITS

(Benefits in thousands)	June 30, 2018	
	Benefits	Enrollees
$15 per year of service health premium subsidy	$ 7,595	1,723
$4 health reimbursement subsidy	1,445	2,445
Total Health Care Benefit/Enrollees	$ 9,040	4,168

OPEB Funding Policy – Contributions

All OPEB Plan Sponsors Other than the County and APCD

Through the fiscal year ended June 30, 2018, 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.

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.

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%
Core Fixed Income	40%
Total	100%

Money-Weighted Rate of Return

For the year ended June 30, 2018, the annual money-weighted rate of return on investments was 8.07%. 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 that expresses investment performance is only adjusted for the changing amounts actually invested and not the fees paid.

Employers' Net OPEB Liability

The net OPEB liability is measured at the Total OPEB Liability (TOL) less the amount of the OPEB Plan's fiduciary net position. This net OPEB liability is an accounting measurement for financial statement reporting purposes as a result of Governmental Accounting Standards Board (GASB) Statement No. 74. The measurements are based on the fair value of assets as of June 30, 2018 and the TOL as of the valuation date, June 30, 2017, updated to June 30, 2018. 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, 2018, are as follows:

SCHEDULE OF NET OPEB LIABILITY

(In thousands)

		June 30, 2018
Total OPEB Liability (TOL)	$	145,741
Less: Fiduciary Net Position		(19,055)
Net OPEB Liability	$	126,686
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability		13.1%

OPEB Actuarial Valuation and GASB 74 Reporting

SBCERS' OPEB Program's actuarial valuation was conducted by Cheiron, Inc. as of June 30, 2017 performed in accordance with Governmental Accounting Standards Board (GASB) Statements No. 74 and No. 75. Additionally, Cheiron Inc. issued a GASB 74/75 report as of June 30, 2018 for the OPEB program in accordance with GASB Statements 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 OPEB valuation is generated annually, prior to 2016 it was performed bi-annually.

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, 2018 were adjusted for discount rates and assumptions listed on the following pages.

SUMMARY OF OPEB ACTUARIAL ASSUMPTIONS

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

OPEB Valuation Date	June 30, 2017
OPEB Measurement Date	June 30, 2018
Actuarial Cost Method	Entry age normal
Asset Valuation Method	Fair value
Amortization Cost	Beginning with the June 30, 2017 valuation report, the UAL is no longer being amortized. Instead, we use a computed value – the Tread Water Amount – to illustrate the level of contributions needed to prevent the unfunded liability from increasing form one valuation date to the next. This is equal to the sum of benefits earned during the year (the normal cost) and one year of interest on the unfunded liability.

Actuarial Assumptions used for Valuation:

Valuation Discount Rates	7.00% Santa Barbara County and APCD
	3.61% Courts
	3.58% All others
Ultimate Rate of Medical Inflation	N/A
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.
- Minimum 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.

Payment Form Election

Future retirees are assumed to select a 60% Joint and Survivor annuity upon retirement.

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.

The following assumptions do not differ from the actuarial valuation as of June 30, 2017 and are included in the Actuarial section of this report:

- Retirement rates for active employees
- Retirement ages for terminated vested participants
- Rates of Termination
- Rates of Mortality
- Rates of Disability
- Family Composition

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, 2018. 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 effect 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, 2018 (In thousands)

	1% Decrease	Discount Rate	1% Increase
Total OPEB Liability	$ 162,003	$ 145,741	$ 132,043
Less: Plan Fiduciary Net Position	(19,055)	(19,055)	(19,055)
Net OPEB Liability	$ 142,948	$ 126,686	$ 112,988
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	11.8%	13.1%	14.4%

10. ADMINISTRATIVE EXPENSE

The Board adopted an annual budget for the year ended June 30, 2018, 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. Using the actuarial accrued liability to calculate the statutory budget amount, the calculated limit for the year ended June 30, 2018 was $7.5 million.

SBCERS has been in compliance with the rules governing administrative expense in prior years. Total administrative expense for the year ended June 30, 2018 was $6.4 million of which $6.1 million was subject to the limitation. 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.

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, 2018 (In thousands)

		2018
Expense Subject to Statutory Limitation		
Employee Salaries and Benefits	$	3,188
Operating Expenses		620
Professional Services		1,597
Actuarial Costs		156
Legal Costs		513
Total Expense Subject to Statutory Limitation	$	**6,074**
Expense Not Subject to Statutory Limitation		
Computer Software Services and Support	$	155
Computer Equipment and Supplies		122
Total Expense Not Subject to Statutory Limitation		**277**
Total Pension Administrative Expense	$	**6,351**

11. COMMITMENTS AND CONTINGENCIES

As of June 30, 2018, SBCERS was committed to future purchases of private real estate, private equity, and real asset funds at an aggregate cost of approximately $416 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 Statement No. 74. The actuary will include the impact of the excise tax that the Patient Protection and Affordable Care Act established on employer-provided health insurance benefits in excess of a defined threshold beginning in calendar year 2018, assuming that the Affordable Care Act (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, up to the date of the Independent Auditor's Report of December 26, 2018, and has no subsequent events to report.

REQUIRED SUPPLEMENTARY INFORMATION – PENSION

CHANGES IN NET PENSION LIABILITY*

(In thousands)

	Fiscal Year Ended				
	2018	**2017**	**2016**	**2015**	**2014**
Total pension liability					
Service Cost (MOY)	$ 77,631	$ 77,134	$ 71,218	$ 70,057	$ 66,696
Interest (includes interest on service cost)	256,694	250,124	241,734	231,804	220,239
Diff. btw expected & actual experience	(10,744)	(42,043)	(31,199)	(27,901)	-
Changes of assumptions [1]	(29,739)	215,838	-	-	-
Benefit payments, including refunds of member contributions	(169,751)	(154,229)	(146,658)	(137,771)	(131,101)
Net change in total pension liability	124,091	346,824	135,095	136,189	155,834
Total pension liability - beginning	3,742,076	3,395,252	$ 3,260,157	3,123,968	2,968,134
Total pension liability - ending	$ 3,866,167	$ 3,742,076	$ 3,395,252	$ 3,260,157	$ 3,123,968
Plan fiduciary net position					
Contributions - employer	$ 131,374	$ 121,991	$ 122,748	$ 123,612	$ 119,228
Contributions - member	22,533	20,320	18,312	16,622	14,514
Net investment income	223,315	264,011	32,800	20,840	328,852
Benefit payments, including refunds of member contributions	(169,751)	(154,229)	(146,658)	(137,771)	(131,101)
Administrative expense	(6,351)	(5,734)	(5,193)	(4,404)	(4,289)
Net change in plan fiduciary net position	$ 201,120	$ 246,359	$ 22,010	$ 18,899	$ 327,204
Plan fiduciary net position - beginning [2]	$ 2,800,898	$ 2,554,539	$ 2,532,529	$ 2,513,630	$ 2,186,425
Plan fiduciary net position - ending	$ 3,002,018	$ 2,800,898	$ 2,554,539	$ 2,532,529	$ 2,513,630
Net pension liability - ending	**$ 864,149**	**$ 941,179**	**$ 840,714**	**$ 727,628**	**$ 610,339**
Plan fiduciary net position as a percentage of the total pension liability	77.6%	74.8%	75.2%	77.7%	80.5%
Covered payroll	$ 344,512	$ 341,098	$ 328,935	$ 319,547	$ 307,422
Net pension liability as a percentage of covered payroll	250.8%	275.9%	255.6%	227.7%	198.5%

** Schedules intended to show information for ten years. Fiscal year 2014 was the first year of implementation. Additional years' information will be displayed as it becomes available.*

[1] *In 2018, amounts reported as changes in assumptions resulted from a change in the assumed benefit payment timing. In 2017, amounts reported as changes in assumptions resulted primarily from changes to the assumed earnings rate from 7.5% to 7.0%, and from various adjustments to the demographic assumptions.*

[2] *June 30, 2017 assets have been restated for consistency with the June 30, 2018 CAFR, which were $409k less than reported in the June 30, 2017 GASB 67/68 report.*

EMPLOYER PENSION CONTRIBUTION HISTORY

Last Ten Fiscal Years (In thousands)

	2018	2017	2016	2015	2014
Actuarially Determined Contributions	$ 131,374	$ 121,991	$ 122,748	$ 123,612	$ 119,228
Contributions in Relation to the Actuarially Determined Contribution	131,374	121,991	122,748	123,612	119,228
Contribution Deficiency/(Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll*	344,512	341,098	328,935	319,547	307,422
Contributions as a Percentage of Covered Payroll	38.1%	35.8%	37.3%	38.7%	38.8%

	2013	2012	2011	2010	2009
Actuarially Determined Contributions	$ 110,583	$ 108,764	$ 94,437	$ 84,647	$ 75,902
Contributions in Relation to the Actuarially Determined Contribution	110,583	108,764	94,437	84,647	75,902
Contribution Deficiency/(Excess)	$ -	$ -	$ -	$ -	$ -
Covered Payroll*	302,708	305,758	306,963	306,524	307,264
Contributions as a Percentage of Covered Payroll	36.5%	35.6%	30.8%	27.6%	24.7%

** Covered 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,

	2018	2017	2016	2015	2014
Annual Money-Weighted Rate of Return, Net of Investment Expenses	7.80%	10.49%	1.38%	0.42%	15.20%

*Schedule is intended to show information for ten years. Fiscal year 2014 was the first year of implementation. Additional years' information will be displayed as it becomes available.

Notes to Required Supplementary Information – Pension Schedules

Date of Valuation used for Contributions:	June 30, 2016
Timing:	Actuarially determined contribution rates are calculated based on the actuarial valuation one year prior to the beginning of the plan year
Actuarial cost method:	Entry Age
Asset valuation method:	Fair Value
Amortization method:	As of the June 30, 2013 actuarial valuation, the unfunded actuarial liability was amortized over a closed 17-year period as a level percentage of payroll, except for the Safety Plan 6 liability, which is amortized over a separate closed period (currently 12 years). Effective with the June 30, 2014 valuation, any additional sources of UAL due to actuarial gains and losses, assumptions changes, or method changes are amortized over a closed 19-year period, with a 5-year ramp up period at the beginning of the period, a 4-year ramp down at the end of the period, and 10 years of level payments as a percentage of payroll.
Discount rate:	7.00%, net of investment expenses
Amortization growth rate:	3.00%
Price inflation:	3.00%
Salary increases:	3.00% plus merit component based on employee classification and years of service
Mortality:	Sex distinct CalPERS Healthy Annuitant, adjusted by 0.95 for males and 0.90 for females, with Generational improvement using Projection Scale MP-2016 from a base year of 2009.

REQUIRED SUPPLEMENTARY INFORMATION – OPEB

Other Postemployment Benefits (OPEB)

OPEB MONEY-WEIGHTED RATE OF RETURN*

For the fiscal year ending June 30,

	2018	**2017**
Annual Money-Weighted Rate of Return, Net of Investment Expenses	8.07%	10.61%

*Schedule is intended to show information for ten years. Fiscal year 2017 was the first year of implementation. Additional years' information will be displayed as it becomes available.

Notes to Required Supplementary Information – OPEB Schedules

The information presented in the required supplementary schedules was determined as part of the actuarial valuation dated June 30, 2017. Additional information as of the latest actuarial valuation follows. The OPEB actuarial valuation is produced on an annual basis beginning in 2016.

Valuation Date	June 30, 2017
Actuarial Cost Method	Entry age normal
Asset Valuation Method	Fair value
Actuarial Assumptions:	
Discount Rate	7.00% for SB County, Courts, and APCD, 3.87% for all others
Ultimate Rate of Medical Inflation	N/A
Funding	
SB County	4.00% of total pension plan payroll
APCD	Pre-fund 401(h) up to IRS 25% limit
All others	Pay-as-you-go
Mortality	Mortality rates for retirees, beneficiaries, terminated vested, and reciprocals are based on the sex distinct CalPERS Healthy Annuitant Mortality Tables adjusted by 0.95 for males and 0.90 for females, with Generational improvement using Projection Scale MP-2016 from a base year of 2009.

OTHER SUPPLEMENTARY INFORMATION

SCHEDULE OF PENSION ADMINISTRATION EXPENSE

For the Fiscal Year Ended June 30, 2018 (In thousands)

		2018
Personnel Services		
Salaries and Employee Benefits	$	3,188
Total Personnel Services		3,188
Professional Services		
Actuarial Costs		156
Legal Costs		513
Computer Software Services and Support		155
County Cost Allocation		61
Disability Hearing Officer Fees		59
Disability Medical Fees		179
Disability Transcription Fees		15
External Audit Fees		115
Other Professional Services		1,166
Total Professional Services		2,419
Communication		
Postage		48
Telecommunication		42
Training		69
Transportation and Travel		63
Total Communication		222
Rents / Leases / Structures		
Rents/Leases/Structure		267
Furniture & Fixtures		9
Building Maintenance		6
Total Rents / Leases / Structures		282
Miscellaneous		
Computer Equipment and Supplies		122
Other Office Expenses		58
Insurance		60
Total Miscellaneous		240
Total Administrative Expenses	**$**	6,351

SCHEDULE OF PENSION INVESTMENT EXPENSE

For the Fiscal Year Ended June 30, 2018 (In thousands)

		2018
Investment Activity		
Stock Managers		
Domestic	$	(188)
International		1,778
Bond Managers		
Domestic		1,229
International		11
Private Equity		436
Real Assets		1,043
Real Estate		95
Total From Investment Activity		4,404
Other Investment Expense		
Investment Consultants		1,155
Custodian		2,162
Total Other Investment Expense		3,317
Total Fees and Other Investment Expense	**$**	**7,721**

SCHEDULE OF CONSULTANT PAYMENTS- PENSION

For the Fiscal Year Ended June 30, 2018 (In thousands)

		2018
Actuarial Services	$	156
Audit Services		115
Legal Services		513
Total Payments to Consultants	**$**	**784**

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

INVESTMENT

RVK

Memorandum

To	Retirement Board
From	RVK, Inc.
Subject	2018 Comprehensive Annual Financial Report ("CAFR")
Date	November 9, 2018

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, 2018.

The 2018 fiscal year (July 1, 2017 to June 30, 2018) was characterized by a continued equity rally. Overall, global equity markets were driven by expectations of ongoing economic growth and generally accommodative central bank policies, with equity markets trading at record levels. While markets remained stable for most of the fiscal year, a spike in market volatility was experienced in early 2018 as investors reacted to the prospect of higher future inflation, rising interest rates, and potential global trade conflicts. The U.S. equity markets, as measured by the S&P 500 Index, returned 14.4% amid favorable U.S. economic news including continued increase in housing demands, a 17-year low unemployment rate of 3.8%, improved gross domestic product (GDP), and rising interest rates. Developed non-U.S. equity markets, as measured by the MSCI EAFE Index, trailed U.S. equities, returning 6.8%, while emerging markets, as measured by the MSCI EM Index, gained 8.2%.

The continued improvement in U.S. economic fundamentals resulted in the Federal Reserve Open Market Committee ("FOMC") raising the federal funds rates by a total of 75 basis points over the fiscal year, from 1.00%-1.25% to 1.75%-2.00%. Jay Powell assumed the role of Chairman of the FOMC in February 2018, sharing a favorable assessment of the economy with the prior Chairman, as the FOMC maintained guidance for an additional rate increase in 2018.

The European Central Bank ("ECB") projected slowing economic growth from 2.5% in 2017 to 1.7% by 2020. Despite signs of slowing growth in Europe, the ECB maintained guidance that it would continue to reduce the pace of asset purchases and likely end its quantitative easing program by 2019. Collectively, global central banks continue to pivot away from the use of extraordinary measures to stimulate economic activity.

Interest rate hikes negatively affected U.S. bond market returns during the fiscal year as the Bloomberg U.S. Aggregate Bond Index lost 0.40%. Internationally, the strengthening of the U.S. dollar, turmoil in Turkey and Argentina, and escalating trade wars in the final months of the fiscal year tempered gains as the Bloomberg Global Aggregate Index returned 1.4%. Performance for inflation-sensitive assets were positive as the Bloomberg Commodity Index returned 7.3% and the Wilshire U.S. REIT Index returned 3.9%.

The market value of the System's investments increased from $2.78 billion to $2.97 billion in the year ended June 30, 2018. The System's current actuarial assumed rate of return is 7.0%, which represents the System's long-term return goal. The System's overall investment return over the past year was 7.8% and the System's three-year annualized return was 6.5%. The five-year annualized return for the System was 6.9% and the System's ten-year annualized return was 5.7%.

At the end of the fiscal year 2018, all asset classes were within their target ranges.

During the fiscal year, Staff, the Board, and RVK, Inc. ("RVK") reviewed studies seeking to optimize the System's non-U.S. equity, core fixed income, non-core fixed income, and real return portfolios. The Board and RVK will continue to monitor the portfolio, recommending any enhancements that can improve potential return and/or diversification.

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. These evaluations include analysis of the investment management firms and the custodial bank that serve the System.

The System's publicly traded assets managed through separate accounts are held in custody at BNY Mellon Global Securities Services (BNY Mellon). Market values and returns referenced above are based upon statements prepared by BNY Mellon. Their statements are, to the best of our knowledge, reliable and accurate. Investment performance is calculated using a time-weighted rate of return methodology (net of fees) based upon market values and cash flows.

We look forward to continuing to work with Staff and the Board to monitor, review, and best position the System's portfolio to meet its long-term goals and objective.

Sincerely,

Rebecca Gratsinger
Chief Executive Officer
RVK, Inc.

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INVESTMENT POLICIES

External investment management firms manage Santa Barbara County Employees' Retirement System (SBCERS or the System) 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 an investment policy which covers various investment types. This document reflects 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 policy.

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.

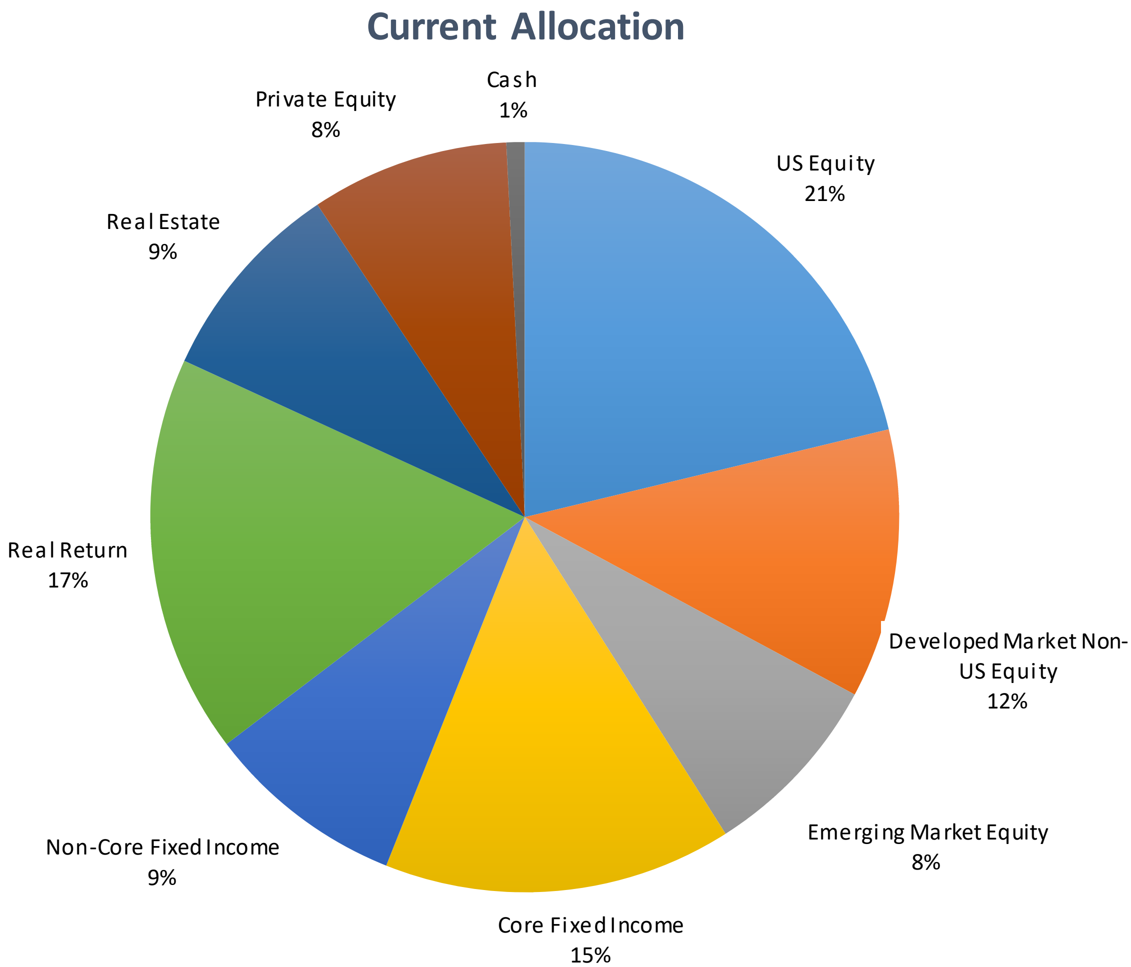
The Board's investment strategy is designed to ensure the prudent and diversified investment of assets in such a manner as to provide real growth of assets over time while protecting the value of such assets from undue risk of loss, at the minimum possible cost, and without sacrificing return.

INVESTMENT SUMMARY – PENSION PLAN

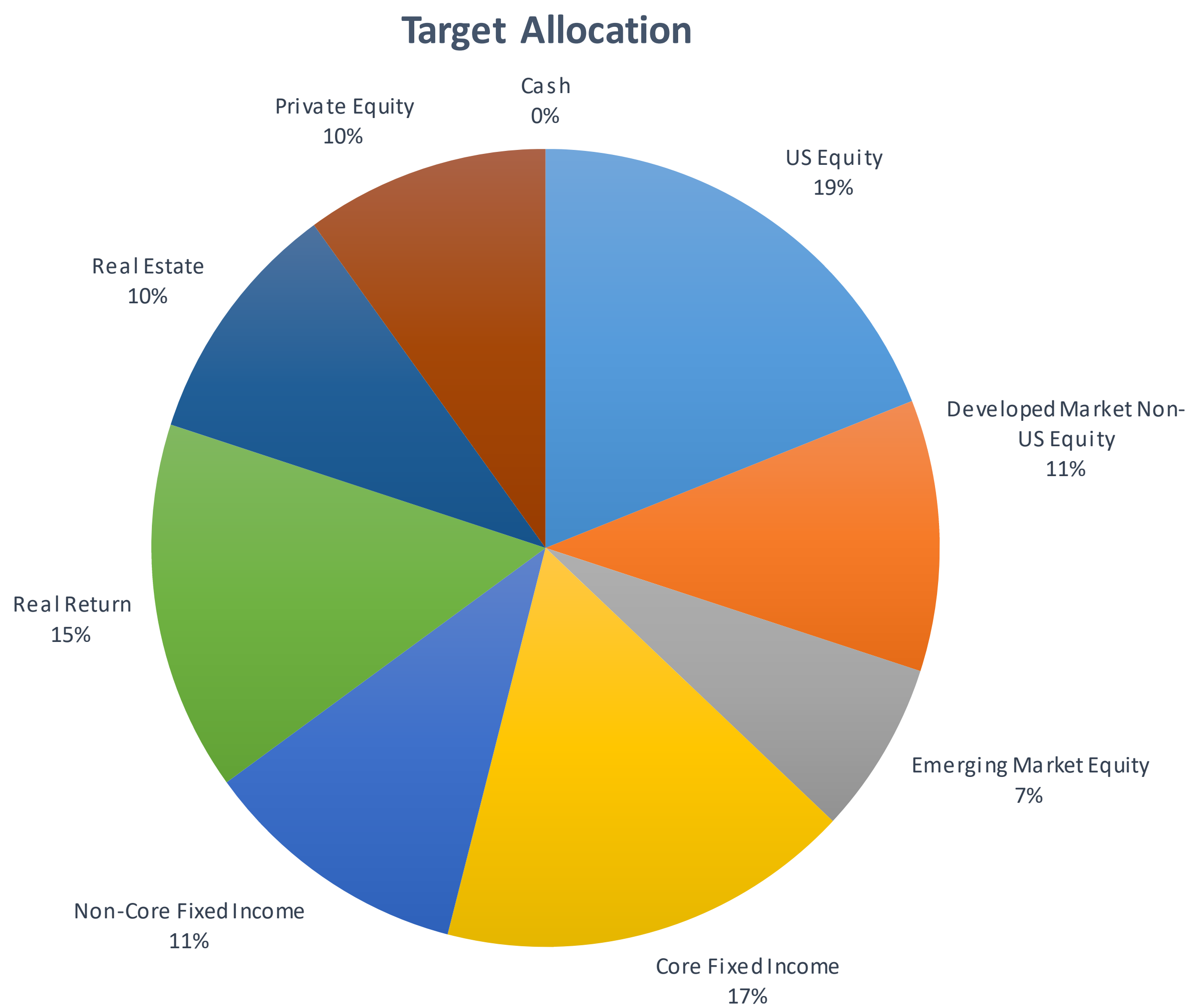
As of June 30, 2018 (In thousands)

		Fair Value	Percent of Total Fair Value
Cash			
Treasurer's Cash	$	3,500	0.12%
Short-Term Investments		44,584	1.48%
Total Cash		48,084	1.60%
Fixed Income			
Core Fixed Income		446,463	14.82%
Non-Core Fixed Income		254,746	8.46%
Total Fixed Income		701,209	23.28%
Equity			
US Equity		630,866	20.94%
Developed Market Non-US Equity		318,202	10.56%
Emerging Markets Equity		242,425	8.05%
Total Equity		1,191,493	39.55%
Alternatives			
Private Equity		268,296	8.91%
Private Real Estate		269,368	8.94%
Real Return		510,621	16.95%
Total Alternatives		1,048,285	34.80%
Total Pension Cash & Investments		**2,989,071**	**99.22%**
Collateral Held for Securities Lent		23,454	0.78%
Grand Total	**$**	**3,012,525**	**100%**

ACTUAL ASSET ALLOCATION



TARGET ASSET ALLOCATION



INVESTMENT RESULTS BASED ON FAIR VALUE

As of June 30, 2018

Investments	Current Year	Annualized 3- year	Annualized 5-year
U.S. Equity	15.53%	11.04%	12.72%
Russell 3000 Benchmark	*14.78%*	*11.58%*	*13.29%*
Developed Market Non-U.S. Equity	6.23%	5.05%	7.25%
MSCI EAFE	*6.84%*	*4.90%*	*6.44%*
Emerging Markets Equity	5.86%	5.31%	4.24%
MSCI Emerging Markets	*8.20%*	*5.60%*	*5.01%*
Core Fixed Income Composite	1.34%	N/A	N/A
Bloomberg US Agg Bond Index	*-0.40%*	*1.72%*	*2.27%*
Non-Core Fixed Income Composite	0.37%	N/A	N/A
Custom Non-Core Fixed Income Benchmark	*1.85%*	*4.44%*	*3.91%*
Real Return Composite	3.90%	N/A	N/A
Consumer Price Index+4%	*3.90%*	*5.90%*	*5.60%*
Real Estate Composite	12.27%	11.72%	11.55%
NCREIF ODCE - Index (AWA) (Net) (1-Quarter Lagged)	*7.11%*	*9.00%*	*10.41%*
Private Equity Composite	15.69%	12.95%	14.00%
Russel 3000 Index+3% (1 Qtr Lag)	*17.23%*	*13.53%*	*16.42%*
Cash	1.46%	0.82%	0.50%
FTSE T-Bill - 3 Month	*1.33%*	*0.64%*	*0.39%*
Total Fund	7.80%	6.49%	6.92%
SBCERS Policy Benchmark	*7.77%*	*7.11%*	*7.50%*

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, 2018

Shares	Security Name	Description	Fair Value
38,924	APPLE INC	*COMPUTERS*	$ 7,205,222
64,556	MICROSOFT CORP	*SOFTWARE*	6,365,867
25,022	LINDE AG	*CHEMICALS*	5,971,431
77,104	NESTLE SA	*FOOD PROCESSING*	5,971,396
29,781	BERKSHIRE HATHAWAY INC	*INSURANCE*	5,558,624
40,429	DEUTSCHE BOERSE AG	*DIVERSIFIED FINANCIAL SERVICES*	5,388,209
32,620	WIRECARD AG	*COMMERCIAL SERVICES*	5,253,892
3,064	AMAZON.COM INC	*INTERNET*	5,208,187
33,817	MORNINGSTAR INC	*COMMERCIAL SERVICES*	4,337,030
78,825	ROLLINS INC	*COMMERCIAL SERVICES*	4,144,619

SCHEDULE OF TOP TEN BOND HOLDINGS

As of June 30, 2018

Par	Security Name	Fair Value
23,995,000	U S TREASURY NOTE2.000% 10/31/2022 DD 10/31/17	$ 23,151,336
24,085,000	U S TREASURY NOTE1.625% 02/15/2026 DD 02/15/16	21,851,598
23,390,000	U S TREASURY BOND2.875% 08/15/2045 DD 08/15/15	21,393,664
16,250,000	U S TREASURY NOTE2.375% 05/15/2027 DD 05/15/17	15,382,250
7,985,000	U S TREASURY BOND6.250% 05/15/2030 DD 11/15/99	10,362,693
10,970,000	U S TREASURY BOND2.500% 05/15/2046 DD 05/15/16	9,276,561
7,950,000	APPLE INCVAR RT 08/02/2019 DD 08/04/16	7,954,293
7,155,000	CISCO SYSTEMS INCVAR RT 03/01/2019 DD 03/03/14	7,163,729
6,900,000	AMERICAN EXPRESS CREDIT CORPVAR RT 03/03/2022 DD 03/03/17	6,939,606
6,885,000	US BANK NA/CINCINNATI OHVAR RT 10/28/2019 DD 10/28/14	6,904,071

INVESTMENT HOLDINGS PENSION PLAN

As of June 30, 2018 (In thousands)

Type Of Investment		Fair Value	% Of Portfolio
PRIVATE EQUITY	$	268,296	8.98%
Private Equity Total	$	268,296	8.98%
EQUITY			
Commingled Funds-US/Int'l		657,204	21.99%
Consumer Discretionary		67,856	2.27%
Consumer Staples		48,436	1.62%
Energy		26,290	0.88%
Financial Services		133,175	4.46%
Health Care		52,856	1.77%
Materials and Processing		42,352	1.42%
Producer Durables		90,000	3.01%
Technology		65,671	2.20%
Utilities		33,374	1.12%
Unclassified		6,335	0.21%
Equity Total	$	1,223,549	40.93%
BONDS			
Asset Backed Securities	$	851	0.03%
Commingled Funds Debt		405,526	13.57%
Corporates and Other Credits		252,138	8.44%
Government Bonds		128,210	4.29%
Bonds Total	$	786,725	26.32%
REAL ESTATE/REAL ASSETS			
Private Real Estate		269,368	9.01%
Real Assets		393,049	13.15%
Real Estate/Real Assets Total	$	662,417	22.16%
CASH AND SHORT-TERM INVESTMENTS		48,084	1.61%
Grand Total	**$**	**2,989,071**	**100%**

**Real Return Multi-Asset managers contain holdings that are classified as Equity and Bonds at the individual asset level reported in this report and classified entirely as Real Return in the Investment Summary.*

LIST OF INVESTMENT MANAGERS

Equity

US Equity

- Dimensional Fund Advisors
- Rhumbline
- Rice Hall James
- State Street Global Advisors

Developed Markets Non-US Equity

- Artisan Partners
- First Eagle
- Panagora
- Copper Rock

Emerging Market Equity

- Dimensional Fund Advisors
- RBC Global Asset Management

Fixed Income

Core Fixed Income

- BlackRock
- Garcia Hamilton
- PGIM

Non-Core Fixed Income

- Stone Harbor
- Hotchkis & Wiley
- Beachpoint

Alternatives

Public Real Return

- BlackRock
- Cohen and Steers
- Nuveen

Private Real Return

- Hamilton Lane

Private Equity

- Hamilton Lane

Private Real Estate

- ORG

SCHEDULE OF PROFESSIONAL FEES AND SERVICES – PENSION

As of June 30, 2018 (In thousands)

	Assets Under Management	Fees *	Basis Points
Investment Managers:			
Bond Managers	$ 701,209	$ 1,240	4.15
Equity Managers	1,191,493	1,590	5.32
Real Assets	510,621	1,043	3.49
Real Estate	269,368	95	0.32
Short Term Investments	44,584	-	-
Private Equity	268,296	436	1.46
Total Investment Managers	2,985,571	4,404	14.74
Other:			
Cash	3,500	-	-
Custodian Fees	-	2,162	7.23
Investment Consultant Fees	-	1,155	3.86
Total Other	3,500	3,317	11.09
Total	**$ 2,989,071**	**$ 7,721**	**25.83**

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

ACTUARIAL

Via Electronic Mail

December 10, 2018

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, 2018. This letter includes references to four documents produced by Cheiron for the Plan: the Actuarial Valuation Report as of June 30, 2017 (transmitted December 6, 2017), the Governmental Accounting Standards Board (GASB) 67/68 Report as of June 30, 2018 (transmitted November 27, 2018), the Other Post-Employment Benefits (OPEB) Actuarial Valuation Report as of June 30, 2017 (transmitted February 21, 2018), and the Governmental Accounting Standards Board (GASB) 74/75 Report as of June 30, 2018 (transmitted November 28, 2018).

Actuarial Valuation Report as of June 30, 2017

The purpose of the annual Actuarial Valuation Report as of June 30, 2017 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 2018-2019. The prior review was conducted as of June 30, 2016, and included recommended contribution rates for the Fiscal Year 2017-2018.

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, 2017 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, 2018 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, 2018

The purpose of GASB 67/68 Report as of June 30, 2018 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, 2017 actuarial valuation updated to the measurement date of June 30, 2018. 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 Plan Fiduciary Net Position as of June 30, 2017 has been restated in the GASB 67/68 disclosures from $2,801,306,795 to $2,800,897,884. As of June 30, 2017, the restatement resulted in a slight increase in the collective Net Pension Liability from $940,769,690 to $941,178,601 and a slight increase in the collective Pension expenses from $172,042,353 to $172,124,137. The deferred outflows increased from $231,806,003 to $232,133,131 as a result of the Plan Fiduciary Net Position restatement.

The June 30, 2018 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, 2017. Please refer to our GASB 67 report as of June 30, 2018 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, 2018, 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 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, 2017

The purpose of the annual OPEB Actuarial Valuation Report as of June 30, 2017 is to present the actuarial valuation of the Santa Barbara County Employees' Retirement System's Other Post-Employment Benefits.

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 (UAAL). Previously, an Annual Required Cost was determined for each employer based on the amortization of the UAAL, plus the Normal Cost. Beginning with the June 30, 2017 valuation an Annual Required Cost is no longer computed; instead we have calculated a "tread water" amount for each employer, which represents the level of contributions need to prevent the unfunded liability from increasing from one valuation date to the next if all assumptions are met. This metric is the sum of the Normal Cost plus one year of interest on the unfunded liability.

We prepared the following schedules, which we understand will be used in the Actuarial Section of the CAFR, based on the June 30, 2017 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, 2018

The purpose of GASB 74/75 Report as of June 30, 2018 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, 2017 actuarial valuation updated to the measurement date of June 30, 2018. 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, 2018 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, 2017. Please refer to our GASB 74 report as of June 30, 2018 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, 2018, was determined by completing a roll-forward calculation based on an actuarial valuation conducted as of June 30, 2017, 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, Cost-of-Living Adjustments (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

Santa Barbara County Employees Retirement System (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. Level percentage of projected salaries was chosen over level dollar as the amortization base because the former more appropriately reflects the revenue stream for participating plan sponsors. 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 12 remaining amortization years as of the June 30, 2017 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 10 years remaining for the June 30, 2017 actuarial valuation. The annual UAAL amortization amount is determined by an amortization factor multiplied by employed member payroll, or amortization base, for that year. The amortization factors for each layer will increase each year during the phase-in period, remain constant during the level period, and decrease during the phase-out period. Because SBCERS has chosen to amortize the UAAL as a percentage of pay, the amortization base will also change when the discount rate or salary assumptions are changed. Because the salary scale did change from the prior valuation due, the amortization base has 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 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, 2017 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 $5.3 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 implement 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).

MORTALITY RATE ASSUMPTIONS

Mortality rates for retirees, beneficiaries, terminated vested, and reciprocals are based on the sex distinct 2014 California Public Employees Retirement System (CalPERS) Healthy Annuitant Mortality 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 BENEFIT PAYMENTS

Assumptions effective June 30, 2017

PLAN	AGE
General Plan 2	65
General Plans 5,7 & 8	58
Safety Plans 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%	0.010%	**5**	6.00%
30	0.0%	0.0%	0.0%	0.0%	0.004%	0.010%	**10**	4.50%
40	0.0%	0.0%	0.0%	0.0%	0.008%	0.020%	**15**	2.50%
50	3.0%	4.0%	0.0%	0.0%	0.028%	0.070%	**20**	1.50%
60	7.0%	15.0%	9.0%	9.0%	0.060%	0.150%	**25**	1.50%
70	26.0%	40.0%	25.0%	25.0%	0.060%	0.150%	**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 of 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 - 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
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	5.0%	$ 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
2018	270	$ 10,896,350	-126	$ 3,280,607	4,519	$ 174,765,068	7.5%	$ 38,673

** Annual allowance added during the year does not include cost-of-living adjustments (COLAs) granted in year to continuing retirees and beneficiaries.*

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

Pension Plan

Pension schedules in the required supplementary information are intended to show information for ten years. Additional years' information will be displayed as it becomes available.

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)
6/30/2008	$1,891,456	$ 177,770	$ 1,124,748	$ 833,437	$ 2,135,955	100%	100%	71%
6/30/2009	$1,705,733	$ 174,951	$ 1,237,215	$ 851,696	$ 2,263,862	100%	100%	34%
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%
6/30/2017	$2,801,307	$ 187,084	$ 2,295,926	$ 1,219,287	$ 3,702,297	100%	100%	26%

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

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE-PENSION

(Dollars in millions)

As of June 30	2017	2016	2015	2014
Prior Valuation				
Unfunded Actuarial Accrued Liability	**$ 1,017.3**	**$ 698.6**	**$ 584.4**	**$ 818.1**
Expected Change from Prior Year	(2.9)	(15.0)	(23.2)	(6.4)
Actuarial (Gains) or Losses During the Year				
Asset Return (Greater) or Less than Expected	(86.2)	156.7	167.7	(71.7)
New Entrants	3.3	3.1	2.8	2.5
Salary Increases Greater or (Less) than Expected	(7.5)	(19.1)	(14.0)	(16.4)
Changes in Assumptions and Methodology	(29.7)	215.8	-	(132.3)
All Other (Including Demographic Experience)	6.7	(22.8)	(19.1)	(9.4)
Total Changes	(116.3)	318.7	114.2	(233.7)
Values as of Valuation Date	**$ 900.9**	**$ 1,017.3**	**$ 698.6**	**$ 584.4**

As of June 30	2013	2012	2011	2010
Prior Valuation				
Unfunded Actuarial Accrued Liability	**$ 827.7**	**$ 742.0**	**$ 688.9**	**$ 558.1**
Expected Change from Prior Year	(7.1)	(0.8)	(10.1)	30.7
Actuarial (Gains) or Losses During the Year				
Asset Return (Greater) or Less than Expected	62.7	125.8	90.3	(85.3)
New Entrants	7.8	0.6	1.0	1.1
Salary Increases Greater or (Less) than Expected	(45.0)	(29.9)	(18.0)	(7.6)
Changes in Assumptions and Methodology	(26.0)	-	-	170.7
All Other (Including Demographic Experience)	(2.0)	(10.0)	(10.1)	21.2
Total Changes	(9.6)	85.7	53.1	130.8
Values as of Valuation Date	**$ 818.1**	**$ 827.7**	**$ 742.0**	**$ 688.9**

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

Other Postemployment Benefits – OPEB

ACTUARIAL SOLVENCY TEST- OPEB

(Dollars in thousands)

Valuation Date	Active Member Contribution (A)	Retirees and Beneficiaries (B)	Remaining Members' Liabilities (C)	Reported Assets	Portion of Accrued Liabilities Covered by 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	8%	0.0%
6/30/2017	N/A	$ 100,893	$ 45,959	$ 13,988	N/A	14%	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	2017
Prior Valuation			
Unfunded Actuarial Accrued Liability	**$ 187.1**	**$ 189.1**	**$ 134.3**
Expected Change from Prior Year	(25.7)	(39.6)	(3.2)
Actuarial (Gains) or Losses During the Year			
Asset Return (Greater) or Less than Expected	0.6	0.5	0.1
Shortfall in Contribution vs. Annual Required Contribution (ARC)	34.8	44.9	0.3
Changes in Assumptions and Methodology	(10.7)	(39.2)	4.9
All Other (Including Demographic Experience)	3.0	(8.2)	(3.4)
Total Changes	2.0	(41.6)	(1.4)
Values as of Valuation Date	**$ 189.1**	**$ 147.5**	**$ 132.9**

2017 beginnning of year UAL does not match the end of year UAL from 2016. At the June 30, 2017 valuation, the June 30, 2016 results were recalculated using a 7.00% discount rate because the blended discount rate used during the June 30, 2016 valuation is not valid under GASB 74/75.

ACTIVE MEMBER DATA – OPEB

(Dollars in thousands)	July 1, 2012	June 30, 2014	June 30, 2016	June 30, 2017	2016 to 2017 % Change
Active Employees*					
Member Count	4,063	3,707	3,346	3,112	-6.99%
Average Age	45.8	46.8	47.4	47.6	0.42%
Average Service	12.0	13.8	14.9	15.3	2.68%
Total Payroll	$ 302,379	$ 282,963	$ 269,245	$ 257,918	-4.21%
Participant Data:					
Terminated Vested					
Count	878	890	926	923	-0.32%
Average Age	48.1	48.5	48.9	48.8	-0.20%
Inactive					
Retired Count	2,767	3,246	3,247	3,399	4.68%
Average Age	69.1	69.2	69.9	69.9	0.00%
Disabled Count	238	240	240	250	4.17%
Average Age	65.3	65.5	66.8	66.5	-0.45%
Surviving Spouses Count	358	408	489	512	4.70%
Average Age	74.8	74.6	72.5	72.8	0.41%
Total Count of Inactive	3,363	3,894	3,976	4,161	4.65%

** 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 and 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* APCD adopted Plan 7 immediately before adopting Plan 8; no APCD members active in this plan
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 Plans 5C and 7, Safety Plans 4C and 6B, 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 Plans (§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, 5 years of service, and 10 years elapsed since membership for General Plan 5 and 7, APCD Plans, and Safety Plans
- Age 55, 10 years of service, and 10 years elapsed since membership for General Plan 2
- Age 52 and 5 years of service for General and APCD Plan 8 (PEPRA)
- Age 50 and 5 years of service for Safety Plan 8 (PEPRA)

OR:

- 30 years of service for General Plans 5 and 7 and APCD Plans (other than Plan 8)
- 20 years of service for Safety Plans (other than Plan 8)
- Age 70 regardless of service for General Plans 5 and 7, and APCD Plans

Benefit at Normal Retirement Age

- 2% of final average salary per year of service times age factor for General Plan 5, and APCD Plans (§31676.12 and §31676.15, respectively).
- 1/60 of final average salary per year of service times age factor for General Plan 7 (§31676.1).
- 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 (§31486.4).
- 3% of final average salary per year of service times age factor for Safety Plans (§31664.2, §31664.1), excluding Plan 8.
- 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 Plans)
- 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 Plans)

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, APCD Plans, and General Plan 7), with maximum of 33⅓% if projected service is used (age 62 for General Plans 5 and 7, 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).
  - APCD members receive a monthly supplemental allowance of $300.

- 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).
  - APCD members receive a monthly supplemental allowance of $300.

- 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 Plans 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, 5C and 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 and 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 3% cost-of-living adjustment for General Plan 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.

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's (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 from 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*** reflects 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 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 PLANS BY SOURCE

(In thousands)

Fiscal Year		Member Contributions		Employer Contributions		Gross Return on Investments		Investment Expenses		Other Income		Total
2009	$	11,083	$	83,119	$	(328,435)	$	(5,321)	$	64	$	(239,490)
2010		11,649		93,429		198,921		(4,307)		229		299,921
2011		10,843		103,102		350,862		(5,141)		23,725		483,391
2012		14,525		117,126		44,320		(5,936)		223		170,258
2013		19,024		118,940		174,388		(6,175)		395		306,571
2014		14,514		128,127		335,038		(5,906)		544		472,316
2015		16,622		133,033		27,657		(6,899)		690		171,103
2016		18,312		134,446		39,485		(7,639)		1,528		186,132
2017		20,320		136,251		272,549		(8,123)		646		421,643
2018		22,533		144,493		231,919		(7,849)		660		391,756

SCHEDULE OF DEDUCTIONS FROM PENSION AND OPEB PLANS BY TYPE

(In thousands)

Fiscal Year		Benefits Paid		Member Withdrawals		Administrative Expenses		Total
2008	$	84,409	$	1,820	$	3,604	$	89,833
2009		95,260		1,610		3,901		100,771
2010		105,642		1,319		4,046		111,008
2011		114,698		1,477		4,112		120,286
2012		121,685		1,072		4,023		126,780
2013		130,222		591		4,240		135,053
2014		138,899		812		4,607		144,319
2015		145,508		967		4,818		151,292
2016		154,528		946		5,599		161,073
2017		162,170		1,044		6,110		169,324
2018		177,417		1,374		6,780		185,571

SCHEDULE OF BENEFIT EXPENSES OF PENSION PLAN BY TYPE

(In thousands)

Fiscal Year	Benefits Paid General	Benefits Paid Safety	Benefits Paid APCD	Death Benefits	OPEB Benefits	Total
2009	$ 50,500	$ 37,496	$ 710	$ 476	$ 6,079	$ 95,260
2010	55,348	41,390	793	283	7,829	105,642
2011	59,909	45,401	980	372	8,036	114,698
2012	66,496	45,227	1,113	690	8,159	121,685
2013	64,629	55,375	1,520	330	8,367	130,222
2014	73,087	55,050	1,739	413	8,611	138,899
2015	76,809	57,520	2,052	423	8,703	145,508
2016	81,832	61,167	2,324	388	8,817	154,528
2017	84,061	66,382	2,397	344	8,985	162,170
2018	94,694	70,792	2,401	490	9,040	177,417

SCHEDULE OF PARTICIPATING EMPLOYERS- PENSION

For the years ended June 30, 2018, 2017, 2016, and 2015

	2018	2017	2016	2015
County of Santa Barbara:				
General Members	2,916	3,023	3,150	3,036
Safety Members	902	920	850	895
Total	3,818	3,943	4,000	3,931
Santa Barbara Courts:				
General Members	245	238	232	228
Total	245	238	232	228
Participating Special Districts:				
Santa Barbara County Air Pollution Control District	34	40	39	41
Carpinteria Cemetery District	2	2	2	2
Carpinteria-Summerland Fire Protection District	35	32	32	33
Goleta Cemetery District	4	4	4	4
Oak Hill Cemetery District	3	3	3	3
Santa Barbara County Association of Governments	16	19	19	19
Mosquito & Vector Management District of Santa Barbara County	6	7	7	7
Santa Maria Cemetery District	7	7	6	6
Summerland Sanitary District	5	4	4	4
Total	112	118	116	119
Total Active Membership	4,175	4,299	4,348	4,278

Data is for Pension Plan only.

SCHEDULE OF EMPLOYER CONTRIBUTION RATES- PENSION

Effective July 2017

Plan		APCD	SB County & SB Courts	Special Districts
General	APCD 1	44.35%		
	APCD 2	42.96%		
	APCD 7	33.39%		
	APCD 8	35.48%		
General	Plan 2		22.46%	
	Plan 5A		33.32%	33.32%
	Plan 5B		33.74%	
	Plan 5C		35.02%	
	Plan 7 *		33.39%	33.39%
	Plan 8		26.46%	26.46%
Safety	Plan 4A		55.22%	55.22%
	Plan 4B		54.35%	54.35%
	Plan 4C		54.11%	
	Plan 6A		62.66%	
	Plan 6B		62.01%	
	Plan 8		43.01%	43.01%

** General Plan 7 was not adopted by Santa Barbara Courts and the following Special Districts: Carpinteria Cemetery District, Oak Hill Cemetery District, Summerland Sanitary District, Santa Maria Cemetery, and SBCAG.*

SCHEDULE OF AVERAGE BENEFIT PAYMENTS- PENSION

	Years of Retirement					
	0-9	10-14	15-19	20-24	25-29	30+
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
June 30, 2018						
Average Monthly Benefit	$ 3,461	$ 3,265	$ 3,154	$ 2,549	$ 2,697	$ 2,106
Average Annual Benefit	$ 41,532	$ 39,180	$ 37,848	$ 30,588	$ 32,364	$ 25,272
Number of Active Retirees	2,313	871	619	299	205	212

CHANGES IN FIDUCIARY NET POSITION – OPEB

OPEB schedules in the required supplementary information are intended to show information for ten years. Additional years' information will be displayed as it becomes available.

(In thousands)

	2018	2017	2016	2015	2014	2013	2012
Additions							
Employer Contributions	$ 13,119	$ 14,260	$11,698	$9,421	$8,899	$8,358	$8,362
Net Investment Income	988	679	167	194	500	257	28
Misc. Income	428	380	408	413	323	-	-
Total Additions	14,535	15,319	12,273	10,028	9,722	8,615	8,390
Deductions							
Benefits Paid	9,040	8,985	8,816	8,704	8,611	8,367	8,159
Administrative Expense	429	376	408	413	319	4	-
Total Deductions	9,469	9,361	9,224	9,117	8,930	8,371	8,159
Net Increase in Fiduciary Net Position	$ 5,066	$ 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 "lift-able" 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.

MEASUREMENT DATE: The date as of which an asset or liability has been rolled forward to, based on that asset or liability's calculated value as of a valuation date.

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 do 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.

TREAD WATER INDICATOR (TWI): Measures the minimum annual contribution required in order to prevent the net Pension liability (NPL) or net OPEB liability (NOL) from growing under reported assumptions.

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.

VALUATION DATE: Date as of which the actuarial valuation is performed.