SBCERS

Comprehensive Annual Financial Report

FOR FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

SANTA BARBARA COUNTY EMPLOYEES' RETIREMENT SYSTEM

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

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Santa Barbara County Employees' Retirement System

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR FISCAL YEARS ENDED JUNE 30, 2016 AND 2015

ISSUED BY:

Gregory E. Levin, Chief Executive Officer

Ellen Hung, Assistant Chief Executive Officer

Brian Richard, Assistant Chief Executive Officer

SBCERS

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

www.sbcers.org

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OUR MISSION

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

INTRODUCTION

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

January 23, 2017

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

Dear Board Members:

I am pleased to submit this *Comprehensive Annual Financial Report (CAFR) of the Santa Barbara County Employees' Retirement System (SBCERS or the System) for Fiscal Years Ended June 30, 2016 and June 30, 2015.* This report is intended to provide readers with complete and reliable information about the SBCERS' financial status, compliance with the law, and administrative consistency with policy.

SBCERS QUICK FACTS	
Net Position:	$ 2.56 billion
Net Investment Return:	1.38%
Number of Members:	9,910

As of June 30, 2016, the SBCERS Net Position Restricted for Benefits was $ 2.56 billion. Net position grew by $ 25.1 million during the fiscal year. The increase reflects the moderate performance of SBCERS' investments combined with additions exceeding deductions for the current period. The retirement fund experienced a market rate of return of 1.38% (net of fees), underperforming its policy benchmark (2.33%) by approximately -0.95% (net of fees) for the year ended June 30, 2016.

The 401(h) Retiree Health Medical Trust Fund was established in September 2008. The assets of this fund are invested separately from pension assets. The activity in the 401(h) Retiree Health Medical Trust Fund is separate from the pension fund activity and is recorded as such in the financial statements.

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

Responsibility for both accuracy of the data and the completeness and fairness of the presentation rests with SBCERS' management. It is our intent and belief that the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of SBCERS.

SBCERS AND ITS SERVICES

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

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

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

SBCERS PLAN SPONSORS	
County of Santa Barbara	Santa Barbara County Superior Court
Carpinteria Cemetery District	Santa Barbara County Air Pollution Control District
Carpinteria-Summerland Fire Protection District	Santa Barbara County Association of Governments
Goleta Cemetery District	Santa Maria Cemetery District
Oak Hill Cemetery District*	Summerland Sanitary District
Mosquito & Vector Management District of Santa Barbara County*	
** These districts do not participate in the Other Post Employment Benefit Plan.*	

The Board consists of nine members and two alternates. The County Board of Supervisors appoints four members of 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 4,348 active, 1,391 deferred members, and 4,171 benefit recipients into the future.

SERVICE EFFORTS AND ACCOMPLISHMENTS

Benefits Administration

Significant progress has been made in reducing member transaction backlogs and improving the overall member experience. As part of this effort, the Member Services Division completed an assessment for the procurement of a new pension administration system; once completed the new pension administration system will improve overall internal control and enable SBCERS to provide online services to our members. The Board also approved several revisions to SBCERS policies and regulations related to benefits administration including a policy on Normal Retirement Age and Bona Fide Separation and also a policy on Errors, Corrections and Collections.

During the fiscal year, SBCERS worked with the County fiscal teams to develop a revised funding policy for the County's OPEB plan. This funding policy was intended to establish compliance with future Governmental Accounting Standards Board Standards on financial reporting for OPEB plans. The Policy provides for contributions that are expected, based on actuarial projections, to be sufficient to fund the plan over approximately the next 20 years. SBCERS also created a debit card program allowing members to more efficiently utilize health savings accounts to pay for medical expenses at the point of sale, as opposed to seeking reimbursement.

Investments

The investments team completed a request for proposal process for a new General Investment Consultant. At the conclusion of this process, the Board selected RVK, Inc. as the System's new investment consultant tasked with assisting the Board to administer the portfolio and make determinations regarding asset allocation, manager selection, and secondary investment consultants beginning June 30, 2016. The investment team also completed several manager transitions during the year including the successful implementation of a low volatility equity strategy and the creation of a short-term cash facility. Another significant achievement was considerable progress was made toward the implementation of SBCERS' consultant oversight review policy, which provides for a process to document and improve on the fiduciary due diligence conducted by staff under the direction of the Board.

Finance

The SBCERS finance team received the GFOA award for CAFR reporting for its work on the fiscal year ended June 30, 2015 CAFR. In addition, the finance team significantly improved internal control over cash management by implementing a new cash flow analysis and reporting package for Quarterly review by the Board.

Legal and Compliance

The SBCERS legal team timely completed the filing of the System's IRS determination letter filing during the fiscal year ended June 30, 2016. The determination letter filing reflects the System's ongoing commitment to strong internal control and effective benefit plan management. In addition to completing the determination letter filing and approval, significant improvements were made to the Board's policy framework with several new operating policies developed during the fiscal year.

Disability

The SBCERS disability team timely completed the review and appointment of its disability referee panel during the fiscal year ended June 30, 2016. Another significant accomplishment of the disability team was the development and reporting of historical data trends as they relate to the disability process. This effort provided the Board with an enhanced understanding of the disability process and enabled discussion of policy areas for further research by the Board.

FINANCIAL INFORMATION

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

INVESTMENTS

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

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. Meketa Group Inc. served through June 30, 2016, and RVK, Inc. now 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.

SBCERS INVESTMENT CONSULTANTS	
Investment Type	**Consultant**
General Investments	RVK, Inc. *(Effective June 30, 2016)* Meketa Group, Inc. *(Through June 30, 2016)*
Private Equity, Natural Resources and Infrastructure	Hamilton Lane, LLC.
Real Estate	ORG Portfolio Investments, LLC.

All investments are made pursuant to investment policies and long-term investment strategies. The Investment Policy Statement and sub-policies for private market investments establish investment program goals, asset allocation, and discretionary authority for consultants, performance objectives, risk controls and other constraints on investing activity. Compliance with investment policies are monitored by staff and Meketa Group Inc. as well as by Hamilton Lane, LLC and ORG Portfolio Management, 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, 2016, is 5.5% and 5.3%, respectively. More detail on SBCERS' investment performance and policies can be found in the Management's Discussion and Analysis and in the Investment section.

PENSION ACTUARIAL FUNDED STATUS

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

The funding policy for amortizing the Unfunded Actuarial Accrued Liability (UAAL) is a layered 19-year closed amortization period using direct smoothing rate. On June 30, 2016, SBCERS' funded ratio was 78.4% using a roll-forward calculation based on the actuarial valuation conducted as of June 30, 2015, with the actuarial value of assets totaling $2,532.5 million and the actuarial accrued liability totaling $3,231.1 million.

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, 2013.

ACKNOWLEDGMENTS

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

Respectfully submitted,

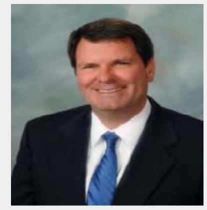
Gregory E. Levin, CPA
Chief Executive Officer

BOARD OF RETIREMENT


Jennifer Christensen
Chair
General Member


Fredrick Tan
Vice Chair
Safety Member

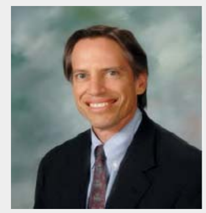

Mark Paul
Secretary
General Member


Harry Hagen
County Treasurer
Ex Officio


Zandra Cholomondeley
Retired Member


Al Rotella
Appointed Member


Janet Wolf
Appointed Member

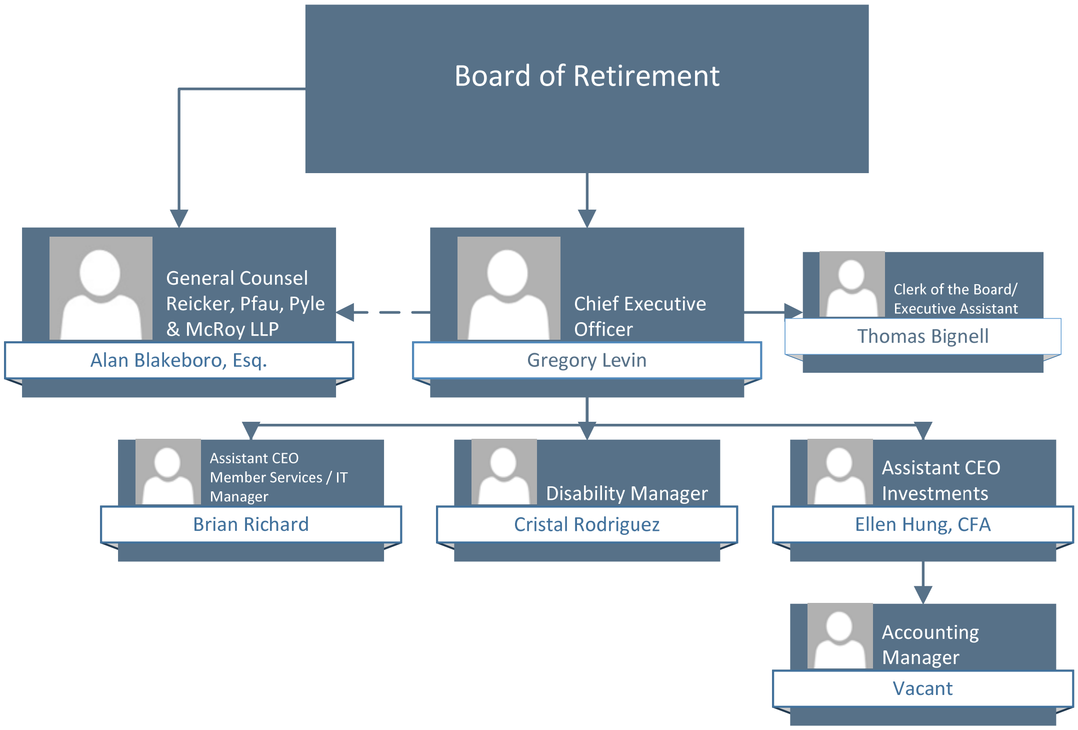

Ward Rafferty
Appointed Member


Steven Johnson
Safety Alternate


John McMillin
Retired Alternate

Vacant
Appointed Member

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	Meketa Group Inc. RVK Inc.
Real Estate Investments	ORG Portfolio Management, LLC
Private Equity, Natural Resources, and Infrastructure	Hamilton Lane, LLC
Legal Advisors:	
General Counsel	Reicker, Pfau, Pyle & McRoy, LLP
Investment and Fiduciary Counsel	Reed Smith, LLP
Tax Counsel	Steptoe & Johnson, LLP

A listing of Investment Managers is located in the Investment section.

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FINANCIAL

BROWN
ARMSTRONG

CERTIFIED
PUBLIC
ACCOUNTANTS

BAKERSFIELD OFFICE
(MAIN OFFICE)

4200 TRUXTUN AVENUE
SUITE 300

BAKERSFIELD, CA 93309

TEL 661.324.4971

FAX 661.324.4997

EMAIL info@bacpas.com

FRESNO OFFICE

7673 N. INGRAM AVENUE

SUITE 101

FRESNO, CA 93711

TEL 559.476.3592

FAX 559.476.3593

PASADENA OFFICE

260 S. LOS ROBLES AVENUE

SUITE 310

PASADENA, CA 91101

TEL 626.204.6542

STOCKTON OFFICE

5250 CLAREMONT AVENUE

SUITE 150

STOCKTON, CA 95207

TEL 209.451.4833

REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Retirement
Santa Barbara County Employees' Retirement System

Report on the Financial Statements

We have audited the accompanying Statement of Fiduciary Net Position of Santa Barbara County Employees' Retirement System (SBCERS) as of June 30, 2016 and 2015, the related Statement of Changes in Fiduciary Net Position for the years then ended, and the related notes to the financial statements, which collectively comprise SBCERS' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of SBCERS as of June 30, 2016 and 2015, and the changes in fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 9 to the basic financial statements, based on the actuarial valuation of the pension plan as of June 30, 2015, rolled forward to June 30, 2016, the total pension liability of the participating employers exceeded the pension plan's fiduciary net position by $840,713,706. The fiduciary net position as a percentage of the total pension plan liability as of June 30, 2016, was 75.2%. The actuarial valuations are very sensitive to the underlying actuarial assumptions, including a discount rate of 7.50%, which represents the long-term expected rate of return.

Additionally, as discussed in Note 4 to the basic financial statements, in 2016, SBCERS adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

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

Other Supplemental Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2017, on our consideration of SBCERS' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering SBCERS' internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
January 23, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This Management's Discussion and Analysis of the financial activities of Santa Barbara County Employees' Retirement System (SBCERS) is an overview of fiscal operations for the fiscal years ended June 30, 2016 and June 30, 2015. Please review it in conjunction with the Financial Statements.

FINANCIAL HIGHLIGHTS

Pension Trust

- Net Position Restricted for Benefits - Pension, as reported in the Statement of Fiduciary Net Position, total $ 2.55 billion, an increase of $ 22 million or 0.9% from the prior year. This is due to an increase in overall investment return.

- Net pension investment income (including securities lending) increased by $ 11.1 million from $ 20.4 million in the fiscal year ended June 30, 2015, to $ 31.4 million in the fiscal year ended June 30, 2016. The increase is related to market conditions favoring SBCERS investment allocation.

- Pension contributions (member and plan sponsor) increased by $ 0.8 million from the fiscal year ended June 30, 2015, to $ 141.1 million in fiscal year ended June 30, 2016. The change is due to a decrease in plan sponsor and certain employee contribution rates from the 2014 Actuarial Valuation offset by an increase in covered payroll.

- Pension benefit payments increased by $ 8.9 million or 6.5% from the fiscal year ended June 30, 2015 to $ 145.7 million in the fiscal year ended June 30, 2016. The increase is related to rising benefit rolls as the number of retirees continue to increase. Additionally, newer retirees generally have higher monthly stipends than members who have been retired for a long period of time.

- On June 30, 2016, SBCERS' funded ratio was 75.2%. The decrease in funded ratio reflected an asset value of $ 2.56 billion as of June 30, 2016 and a rolled-forward total pension liability totaling $ 3.4 billion. This decrease is primarily due to the fact that actual investment return (on the fair value of assets net of investment expenses) was less than the assumed rate of return. The fiduciary net position as a percentage of total pension liability as of June 30, 2015, was 77.7%, based on the fair value of assets and a roll forward of the June 30, 2014 liability.

Other Post-Employment Benefit (OPEB) Trust

- Net Position Restricted for Benefits – Other Post-Employment Benefits (OPEB), also reported in the Statement of Fiduciary Net Position totaled $ 8 million, an increase of $ 3 million or 61.2% from prior year. This is primarily due to a prefunding of contributions by the County of Santa Barbara (the County).

- $ 11.7 million of OPEB contributions were received and used to provide for $ 9.2 million of OPEB benefits and administrative expenses paid in the fiscal year ended June 30, 2016.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

FINANCIAL ANALYSIS

The following table presents a condensed comparative summary of SBCERS' current and prior years' Net Position Restricted for Benefits. The current fiscal period closed with a Net Position Restricted for Benefits of $2.56 billion.

NET POSITION RESTRICTED FOR BENEFITS

For the fiscal years ended	*June 30, 2016*	*June 30, 2015*	*Change*	*Percent Change*
Cash & Investments	$ 2,577,786,604	$ 2,536,566,706	$ 41,219,898	1.6%
Securities Lent	63,804,521	37,899,441	25,905,080	68.4%
Receivables	20,994,495	32,363,125	(11,368,630)	-35.1%
Total Assets	**2,662,585,620**	**2,606,829,272**	**55,756,348**	**2.1%**
Securities Lent	63,804,521	37,899,441	25,905,080	68.4%
Other Liabilities	36,211,877	31,419,265	4,792,612	15.3%
Total Liabilities	**100,016,398**	**69,318,706**	**30,697,692**	**44.3%**
Net Position Restricted For Benefits	**$ 2,562,569,222**	**$ 2,537,510,566**	**$ 25,058,656**	**1.0%**

For the fiscal years ended	*June 30, 2015*	*June 30, 2014*	*Change*	*Percent Change*
Cash & Investments	$ 2,536,566,706	$ 2,501,375,828	$ 35,190,878	1.4%
Securities Lent	37,899,441	52,419,008	(14,519,567)	-27.7%
Receivables	32,363,125	36,400,862	(4,037,737)	-11.1%
Total Assets	**2,606,829,272**	**2,590,195,698**	**16,633,574**	**0.6%**
Securities Lent	37,899,441	52,419,008	(14,519,567)	-27.7%
Other Liabilities	31,419,265	20,076,549	11,342,716	56.5%
Total Liabilities	**69,318,706**	**72,495,557**	**(3,176,851)**	**-4.4%**
Net Position Restricted For Benefits	**$ 2,537,510,566**	**$ 2,517,700,141**	**$ 19,810,425**	**0.8%**

Additions to Fiduciary Net Position

The sources of assets to fund the benefits SBCERS provides are member and plan sponsor contributions, along with investment returns. These pension income sources for the fiscal year ended June 30, 2016, totaled $186.1 million, compared with $171.1 million on June 30, 2015. The increase in investment income is primarily due to investment portfolio performance moderately improving over the prior the period.

Total contributions (Pension and OPEB) increased by $3.1 million over the contributions made in the fiscal year ended June 30, 2015. Of this amount, increases related to the pension contributions were $0.8 million and increases related to OPEB contributions were $2.3 million.

OPEB contributions are made by participating employers on a pay-as-you-go basis with the exception of the County and the County Air Pollution Control District who have decided to prefund at different levels. Pay-as-you-go is the minimum amount of contributions made to cover existing administrative expenses as well as benefit payments.

Deductions from Fiduciary Net Position

The primary uses of SBCERS' pension assets include the payment of benefits to retired members and their beneficiaries, refunds of contributions to terminated employees, and the costs of administering SBCERS. Total deductions for the fiscal year ended June 30, 2016, were $ 161.1 million, an increase of $ 9.8 million, or 6.5%, over the fiscal year ended June 30, 2015. This increase can be attributed to the increasing population of new retirees as well as increasing salaries upon which benefits are based.

CHANGES IN FIDUCIARY NET POSITION

For the fiscal years ended	*June 30, 2016*	*June 30, 2015*	*Change*	*Percent Change*
Contributions	$ 152,757,576	$ 149,655,446	$ 3,102,130	2.1%
Net Investment Income	31,608,092	20,576,467	11,031,625	53.6%
Net Securities Income	240,038	181,039	58,999	32.6%
Other	1,527,699	689,829	837,870	121.5%
Total Additions	**186,133,405**	**171,102,781**	**15,030,624**	**8.8%**
Benefits Paid	154,527,560	145,507,792	9,019,768	6.2%
Member Withdrawals	946,405	966,902	(20,497)	-2.1%
Administrative Expense	5,600,783	4,817,662	783,121	16.3%
Total Deductions	**161,074,748**	**151,292,356**	**9,782,392**	**6.5%**
Net Increase	**$ 25,058,657**	**$ 19,810,425**	**$ 5,248,232**	**26.5%**

For the fiscal years ended	*June 30, 2015*	*June 30, 2014*	*Change*	*Percent Change*
Contributions	$ 149,655,446	$ 142,963,791	$ 6,691,655	4.7%
Net Investment Income	20,576,467	329,011,750	(308,435,283)	-93.7%
Net Securities Income	181,039	119,568	61,471	51.4%
Other	689,829	220,926	468,903	212.2%
Total Additions	**171,102,781**	**472,316,035**	**(301,213,254)**	**-63.8%**
Benefits Paid	145,507,792	138,898,965	6,608,827	4.8%
Member Withdrawals	966,902	812,467	154,435	19.0%
Administrative Expense	4,817,662	4,607,478	210,184	4.6%
Total Deductions	**151,292,356**	**144,318,910**	**6,973,446**	**4.8%**
Net Increase	**$ 19,810,425**	**$ 327,997,125**	**$ (308,186,700)**	**-94.0%**

Pension Liabilities

GASB 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, 2016, was $3.4 billion. The liability increased 4.1% from $ 3.3 billion as of June 30, 2015. SBCERS' Net Pension Liability as of June 30, 2016, was $ 840.7 million, representing an increase of 15.5% from $ 727.6 million as of June 30, 2015. The $ 113.1 million increase in the Net Pension Liability is primarily due to the increase in SBCERS' total pension liability and less than anticipated investment returns.

For the fiscal years ended June 30, 2016 and June 30, 2015, the Fiduciary Net Position as a percentage of the Total Pension Liability is reported as 75.2% and 77.7%, respectively. The change is a 2.5% decrease and is due to the growth in Total Pension Liability of $ 3.4 billion compared to the smaller increase in SBCERS' Fiduciary Net Position.

SCHEDULE OF NET PENSION LIABILITY

As of June 30, 2016 and 2015

		2016		*2015*
Total Pension Liability	$	3,395,252,229	$	3,260,156,781
Less: Fiduciary Net Pension		(2,554,538,523)		(2,532,528,975)
Net Pension Liability	$	840,713,706	$	727,627,806
Fiduciary Net Position as a Percentage of Total Pension Liability		75.2%		77.7%

Investment Analysis

SBCERS' investment performance is a function of the underlying financial markets for the period measured, asset allocation and individual investment manager performance. SBCERS follows a Board of Retirement adopted investment policy that provides structure and guidance for the management of the investment portfolio. All of SBCERS' assets are externally managed on a discretionary basis. SBCERS' total portfolio gained 1.38% (net of fees) over the twelve month period ended June 30, 2016. This represents a $31.6 million increase in value from June 30, 2015. For further information on SBCERS' investments please refer to the Investment Section.

RATES OF RETURN AND FUNDED POSITION

Fiscal Year Ending	*Portfolio Fair Value*	*Weighted Return*	*Funded Ratio*
June 30, 2014	$2,486,210,036	15.20%	76.9%
June 30, 2015	$2,523,697,129	0.42%	77.7%
June 30, 2016	$2,557,094,233	1.38%	75.2%

Funded Status

The table above provides a three-year history of investment, and actuarial returns, and the actuarial funded ratio. As required by GASB 67, 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, 2016, the annual money-weighted rate of return on total plan investments was 1.38%.

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, 2016 was 75.2%, using a roll-forward calculation based on the actuarial valuation conducted as of June 30, 2015. As of the fiscal year ended June 30, 2016, Net Position Restricted for Benefits was $ 2.56 billion and the Total Pension Liability was $ 3.4 billion. Of 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, 2016.

IMPLEMENTATION OF NEW ACCOUNTING PRONOUNCEMENTS

SBCERS adopted GASB Statement No. 72 (GASB 72), "*Fair Value Measurement and Application*," effective at the beginning of fiscal year June 30, 2016. GASB 72 addresses accounting and financial reporting issues related to fair value measurements. It provides guidance for determining a fair value measurement for financial reporting purposes. The statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. See Deposits and Investments (Note 5) in the Notes to the Financial Statements.

SBCERS adopted GASB Statement No. 73 (GASB 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,"*and GASB Statement No.76 (GASB 76), *"The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments,"* for reporting as of fiscal year June 30, 2016. GASB 73 amends certain provisions, and clarifies the application of certain provisions of GASB Statements No. 67 and No. 68 in order to improve the usefulness of information about pensions included in the financial reports of state and local governments for making decisions and assessing accountability. GASB 76 establishes the hierarchy of GAAP for state and local governments, in the context of the current governmental financial reporting environment. SBCERS' Plan fiduciary net position was not materially affected by the implementation of the Statements No. 73 and No. 76.

REQUESTS FOR INFORMATION

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

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

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

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

Respectfully submitted,

Gregory E. Levin, CPA
Chief Executive Officer

STATEMENT OF FIDUCIARY NET POSITION

As of June 30, 2016 and June 30, 2015

	Pension Benefits	401(h) Retiree Health Benefits	JUNE 30, 2016	Pension Benefits	401(h) Retiree Health Benefits	JUNE 30, 2015
ASSETS						
Cash	$ 12,736,382	$ 4,513,741	$ 17,250,123	$ 8,286,972	$ 1,263,283	$ 9,550,255
Collateral Held for Securities Lent	63,804,521	-	63,804,521	37,899,441	-	37,899,441
Short-Term Investments	72,624,655	-	72,624,655	50,317,875	-	50,317,875
Total Cash & Cash Equivalents	149,165,558	4,513,741	153,679,299	96,504,288	1,263,283	97,767,571
Receivables						
Contributions	4,345,641	65,620	4,411,261	8,942,235	394,461	9,336,696
Accrued Interest	2,062,079	9,090	2,071,169	1,878,128	4,525	1,882,653
Dividends	1,502,424	-	1,502,424	1,217,985	-	1,217,985
Security Sales	13,009,641	-	13,009,641	19,925,791	-	19,925,791
Total Receivables	20,919,785	74,710	20,994,495	31,964,139	398,986	32,363,125
Investments at Fair Value						
Private Equity	187,873,279	-	187,873,279	176,720,536	-	176,720,536
Domestic Equity	567,082,538	2,064,181	569,146,719	600,489,252	2,020,176	602,509,428
Domestic Bonds	486,328,787	1,378,067	487,706,854	439,625,455	1,299,146	440,924,601
International Equity	450,390,227	-	450,390,227	496,124,020	-	496,124,020
International Bonds	324,608,230	-	324,608,230	320,760,508	-	320,760,508
Real Estate	225,252,499	-	225,252,499	203,866,844	-	203,866,844
Real Assets	242,934,018	-	242,934,018	235,792,639	-	235,792,639
Total Investments	2,484,469,578	3,442,248	2,487,911,826	2,473,379,254	3,319,322	2,476,698,576
TOTAL ASSETS	**$ 2,654,554,921**	**$ 8,030,699**	**$ 2,662,585,620**	**$ 2,601,847,681**	**$ 4,981,591**	**$ 2,606,829,272**
LIABILITIES						
Accounts Payable	$ 10,033,035	$ -	$ 10,033,035	$ 9,560,067	$ -	$ 9,560,067
Collateral Held for Securities Lent	63,804,521	-	63,804,521	37,899,441	-	37,899,441
Investment Manager Fees	1,441,940	-	1,441,940	967,533	-	967,533
Security Purchases	24,736,902	-	24,736,902	20,891,665	-	20,891,665
TOTAL LIABILITIES	**$ 100,016,398**	**$ -**	**$ 100,016,398**	**$ 69,318,706**	**$ -**	**$ 69,318,706**
NET POSITION RESTRICTED FOR:						
Pension Benefits	**$ 2,554,538,523**	**$ -**	**$ 2,554,538,523**	**$ 2,532,528,975**	**$ -**	**$ 2,532,528,975**
401(h) Retiree Health Benefits	**-**	**8,030,699**	**8,030,699**	**-**	**4,981,591**	**4,981,591**
	$ 2,554,538,523	**$ 8,030,699**	**$ 2,562,569,222**	**$ 2,532,528,975**	**$ 4,981,591**	**$ 2,537,510,566**

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Fiscal Years Ended June 30, 2016 and June 30, 2015

	Pension Benefits	401(h) Retiree Health Benefits	JUNE 30, 2016	Pension Benefits	401(h) Retiree Health Benefits	JUNE 30, 2015
ADDITIONS						
Contributions						
Employers	$ 122,748,021	$ 11,697,909	$ 134,445,930	$ 123,612,352	$ 9,420,956	$ 133,033,308
Plan Members	18,311,646	-	18,311,646	16,622,138	-	16,622,138
Total Contributions	141,059,667	11,697,909	152,757,576	140,234,490	9,420,956	149,655,446
Investment Income						
Net Increase in Fair Value of Investments	11,762,368	141,653	11,904,021	6,119,783	178,235	6,298,018
Interest	8,842,411	25,795	8,868,206	8,179,491	15,494	8,194,985
Dividends	18,601,843	-	18,601,843	13,091,623	-	13,091,623
Total Investment Income	39,206,622	167,448	39,374,070	27,390,897	193,729	27,584,626
Less Investment Expense	(7,765,979)	-	(7,765,979)	(7,008,159)	-	(7,008,159)
Net Investment Income	31,440,643	167,448	31,608,091	20,382,738	193,729	20,576,467
Securities Lent Income	110,877	-	110,877	72,105	-	72,105
Securities Lent Expense						
Borrower Rebates	209,147	-	209,147	169,261	-	169,261
Management Fees	(79,986)	-	(79,986)	(60,327)	-	(60,327)
Net Securities Income	240,038	-	240,038	181,039	-	181,039
Class Action Settlements	519,620	-	519,620	259,573	-	259,573
Commission Recapture	143,910	-	143,910	13,150	-	13,150
Miscellaneous Income	456,192	407,977	864,169	3,787	413,319	417,106
Total Miscellaneous Income	1,119,722	407,977	1,527,699	276,510	413,319	689,829
TOTAL ADDITIONS	**$ 173,860,070**	**$ 12,273,334**	**$ 186,133,404**	**$ 161,074,777**	**$ 10,028,004**	**$ 171,102,781**
DEDUCTIONS						
Benefits Paid	145,711,311	8,816,249	154,527,560	136,804,317	8,703,475	145,507,792
Member Withdrawals	946,405	-	946,405	966,902	-	966,902
Administrative Expense	5,192,806	407,977	5,600,783	4,404,342	413,320	4,817,662
TOTAL DEDUCTIONS	**$ 151,850,522**	**$ 9,224,226**	**$ 161,074,748**	**$ 142,175,561**	**$ 9,116,795**	**$ 151,292,356**
Net Increase in Net Position	22,009,548	3,049,108	25,058,656	18,899,216	911,209	19,810,425
NET POSITION RESTRICTED FOR BENEFITS						
Beginning of Year	2,532,528,975	4,981,591	2,537,510,566	2,513,629,759	4,070,382	2,517,700,141
Net Increase in Net Pension	22,009,548	3,049,108	25,058,656	18,899,216	911,209	19,810,425
END OF YEAR	**$ 2,554,538,523**	**$ 8,030,699**	**$ 2,562,569,222**	**$ 2,532,528,975**	**$ 4,981,591**	**$ 2,537,510,566**

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 Post Employment Benefit (OPEB) plan; both plans are fiduciary funds defined as pension and other employee benefit trust funds, respectively, and are accounted for separately. SBCERS' annual financial statements are referenced in the *Notes to the Basic Financial Statements* in the County's *Comprehensive Annual Financial Report* available at www.countyofsb.org.

General

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

Governance

The Board is composed of 9 voting members and two alternates. Four members are appointed by the County Board of Supervisors, two are elected by general members, a member and alternate are elected by safety members, a member and alternate are elected by retired members and one, the County Treasurer-Tax Collector is ex officio. The County Board of Supervisors may adopt resolutions, as permitted by the CERL, which may affect the benefits of SBCERS members.

2. PENSION PLAN DESCRIPTION

Plan Sponsors

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

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

Plan Membership

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

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

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

SBCERS' RETIREMENT PLANS

As of June 30, 2016 and 2015

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, 2016 and 2015

	2016	**2015**
Members Now Receiving Benefits		
Service Retirement	3,398	3,275
Disability Retirement	243	244
Beneficiaries and Survivors	530	511
Subtotal	4,171	4,030
Active Members		
Active Vested	3,105	3,244
Active Non-Vested	1,243	1,034
Subtotal	4,348	4,278
Deferred Members	1,391	1,284
Total Membership	**9,910**	**9,592**

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

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

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

Vesting

All Plans (Except General Plan 2)

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

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

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

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

General Plan 2

Upon completing ten years of creditable service, Plan 2 members have irrevocable rights to receive benefits. Plan 2 members are eligible to retire at age fifty-five with retirement credit of ten or more years of service. Once vested, Plan 2 members have a one-time election to defer the accrued 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 75.2%. The pension liability was determined using a roll-forward calculation based on the actuarial valuation conducted as of June 30, 2015.

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

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

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

Plan Termination

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

3. OTHER POST EMPLOYMENT BENEFITS (OPEB) PLAN

Plan Description

SBCERS administers an agent multiple-employer OPEB plan that provides health care benefits for retired members and their eligible dependents. The OPEB plan is funded by the County and other plan sponsors, and is administered in accordance with §401(h) of the IRC. 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. 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 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. 100% of eligible SBCERS' retirees participated in this program during the fiscal years ended June 30, 2016 and June 30, 2015.

OPEB Benefit Provisions

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 surviving spouse 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 benefit of $4 per month per year of service. This benefit, known as a Healthcare Reimbursement Arrangement, reimburses qualified health care expenses through a health savings account.

Funding Policy

All OPEB Plan Sponsors Other than the County and APCD

Through the fiscal year ended June 30, 2016, the OPEB plan was funded on a "pay-as-you-go" basis by all plan sponsors with the exception of the County and the Santa Barbara County Air Pollution Control District.

County of Santa Barbara

The County began increasing funding contributions beyond "Pay-as-you-go" during the fiscal year ended June 30, 2014, when the County adopted a budget policy of increasing the contributions to the plan by .25% of covered payroll per fiscal year. On March 1, 2016, the County adopted a resolution approving an OPEB (401(h) Account) Funding Policy. This policy provides for funding the plan at 4% of Covered Payroll for the 401(a) Pension Plan (as opposed to the smaller covered payroll of the OPEB plan). This funding policy is applicable to the fiscal year beginning July 1, 2016. As of June 30, 2014, the last actuarial valuation of the plan, the County plan was funded at 1.77%.

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 greatly exceeded the actuarially developed cost of the plan for several years. As of June 30, 2014, the last actuarial valuation of the OPEB plan, the APCD plan was funded at 65.9%.

OPEB Actuarial Valuation

SBCERS' OPEB Program's actuarial valuation was conducted by Cheiron, Inc. as of June 30, 2014**.** The valuation was performed in accordance with Governmental Accounting Standards Board (GASB) Statements No. 43 and No. 45 requirements to satisfy financial statement reporting guidelines that apply to organizations that administer the benefits program. The valuation must be conducted at least every two years.

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 RSI section immediately following the Notes to the Financial Statements includes a Schedule of Funding Progress and a Schedule of Employer Contributions.

SBCERS' HEALTH CARE BENEFITS

	June 30, 2016		June 30, 2015	
	Benefits	**Enrollees**	**Benefits**	**Enrollees**
$15 per year of service health premium subsidy	$ 7,591,359	1,773	$ 7,607,160	1,807
$4 health reimbursement subsidy	1,224,890	2,097	1,096,315	1,931
Total Health Care Benefit	$ 8,816,249	3,870	$ 8,703,475	3,738

FUNDING PROGRESS – OTHER POST-EMPLOYMENT BENEFITS

(Dollars in Thousands)

Actuarial Valuation Date*	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Covered Payroll	([b-a]/c) UAAL as a % of Covered Payroll
6/30/2014	$ 4,070	$ 193,205	$ 189,135	2.1%	$ 282,963	66.8%

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

Additional Information

OPEB actuarial valuation dated June 30, 2014 additional information:

OPEB Valuation Date	June 30, 2014
Actuarial Cost Method	Entry age normal
Amortization Method	For Santa Barbara County a 15-year closed amortization period is used. As of June 30,2014, the period remaining was 7.5 years. For other employers this period is 30 years "open/rolling."
Actuarial Assumptions:	
Expected Return on Trust Assets	7.50%
Expected Return Assets for Benefits	4.00%
Discount rate	4.33% Santa Barbara County 7.50% Air Pollution Control District 4.00% All others
Projected salary increases	Future salary increases do not have an impact on OPEB benefit levels, but do have an impact on the annual required OPEB contribution (ARC), i.e. funding of the benefit.
Valuation of Subsidy	The monthly Health Insurance Subsidy will be equal to the maximum subsidy of $15 per year of service.
Valuation of Assets	The 401(h) account will be used to pay for the retiree health benefits.
Post-Retirement Benefit Increases	Assumptions of no future increases granted in any of the following: • Monthly Health Insurance Subsidy of $15 per year of service. • Monthly Health Reimbursement of $4 per year of service for those electing to forego the health subsidy. • Monthly Subsidy of $187 for members receiving disability retirement benefits.
Health Plan Description	Future Retirees are assumed to receive the following: • 65% will receive the monthly health subsidy of $15 per year of service. • 35% will receive the monthly cash benefit of $4 per year of service.
Healthcare Cost Trend Rate	The Healthcare Cost Trend Rate is not applicable because the total cost of health benefits is not valued. Only the monthly health insurance subsidy of $15 per year of service is valued using the assumption that no future increase will be granted to the amount.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting, Revenue and Expense Recognition

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

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

The financial statements include certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the System's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

New Pension Accounting and Financial Reporting Standard

For the fiscal year ended June 30, 2016, SBCERS implemented GASB Statement No. 72 (GASB 72), "*Fair Value Measurement and Application.*" This statement is effective for periods beginning after June 15, 2015.

GASB 72 addresses accounting and financial reporting issues related to fair value measurements. It provides guidance for determining a fair value measurement for financial reporting purposes, and for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB 72 requires the use of valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach, or income approach. It establishes a hierarchy of inputs used to measure fair value consisting of three levels:

- Level 1 inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2 inputs are inputs, other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs, and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

GASB 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that are used for the fair value measurements. There was no material impact on the System's financial statements as a result of the implementation of GASB 72.

Additionally for June 30, 2016, SBCERS applied the GASB Statement No. 73 (GASB 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*," and GASB Statement No.76 (GASB 76), "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.*" GASB 73 amends specific provisions, and clarifies the application of certain provisions of GASB Statements No. 67 and No. 68, in order to improve the usefulness of information about pensions included in the financial reports of state and local governments for making decisions and assessing accountability. GASB 76 establishes the hierarchy of GAAP for state and local governments, in the context of the current governmental financial reporting environment. SBCERS' Plan fiduciary net position was not materially affected by the implementation of the GASB 73 and GASB 76.

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 not changed during the period reported herein. The policy statement is available on the SBCERS website www.sbcers.org.

Investments are reported at fair value. Investment income is recognized as revenue when earned. Net appreciation in fair value of investments held by the System is recorded as an increase to investment income based on valuation of investments at year-end. Realized gains and losses are recognized upon the maturity or disposition of the security.

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

Related Party Transactions

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

Estimates

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

Reclassification

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

5. DEPOSITS AND INVESTMENTS

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

Deposits and Short-Term Investments

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

Cash Account (FICA) program. All cash, deposits, and short-term investments are carried at cost, which approximates fair value.

Santa Barbara County Treasurer's Investment Pool

The funds in the County Treasury are intended to provide for liquidity needed to meet benefit payroll and operating needs of the System. The balances in the County Treasury are funded by the plan sponsor and employee contributions and if necessary, transfers from the investment pool. All participants in the County pool share earnings and losses. The County Treasury Oversight Committee has regulatory oversight for all monies deposited into the County investment pool. Such amounts are invested in accordance with investment policy guidelines in compliance with California Government Code requirements, established by the County Treasurer and approved by the County Board of Supervisors. Interest earned on pooled investments is apportioned quarterly to participating funds based upon each fund's average daily deposit balance. The County has not provided nor obtained any legally binding guarantees during the fiscal years ending June 30, 2016 and June 30, 2015, to support the value of shares in the pool. More information on the risk of the County Treasurer's Investment pool and the Treasurer's policies can be found on the County's website available at www.countyofsb.org.

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

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

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

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

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

SBCERS' DEPOSITS AND SHORT-TERM INVESTMENTS

As of June 30, 2016 and 2015

		2016		2015
Cash Held for Pension Benefits	$	12,736,382	$	8,286,972
Cash Held for OPEB Benefits		4,513,741		1,263,283
Short-Term Investments for Pension Benefits		72,624,655		50,317,875
Total	**$**	89,874,778	**$**	59,868,130

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, 2016, 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, 2016 and June 30, 2015.

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

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

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

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

Investments

SBCERS' SUMMARY OF PENSION INVESTMENTS

As of June 30, 2016 and 2015

	2016	2015
Pension Plan Investments at Fair Value:		
Private Equity	$ 187,873,279	$ 176,720,536
Domestic Equity	567,082,538	600,489,252
Domestic Bonds	486,328,787	439,625,455
International Equity	450,390,227	496,124,020
International Bonds	324,608,230	320,760,508
Real Estate	225,252,499	203,866,844
Real Assets	242,934,018	235,792,639
Total Plan Investments at Fair Value	2,484,469,578	2,473,379,254
Short-Term Investments	72,624,655	50,317,875
Collateral Held for Securities Lent	63,804,521	37,899,441
Sub-total Pension Plan	2,620,898,754	2,561,596,570
OPEB Plan Investments at Fair Value:		
Domestic Equity	2,064,181	2,020,176
Domestic Bonds	1,378,067	1,299,146
Sub-total OPEB Plan	3,442,248	3,319,322
Total All Plans	**$ 2,624,341,002**	**$ 2,564,915,892**

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

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.

SCHEDULE OF INVESTMENTS BY FAIR VALUE HIERARCHY

	June 30, 2016	*Quoted Prices in Active Markets for Identical Assets: Level 1*	*Significant Other Observable Inputs: Level 2*	*Significant Unobservable Inputs: Level 3*
Investments by Fair Value Level:				
Equity				
Consumer Discretionary	$ 50,020,515	$ 50,020,515	$ -	$ -
Consumer Staples	77,265,959	77,265,959	-	-
Financials	57,360,631	57,360,631	-	-
Health Care	51,139,929	51,139,929	-	-
Industrials	39,443,228	39,443,228	-	-
Information Technology	57,007,925	57,007,925	-	-
Other	56,240,646	55,246,170	994,476	-
International Equity	158,367,069	157,744,442	-	622,627
Total Equity	$ 546,845,902	$ 545,228,799	$ 994,476	$ 622,627
Fixed Income Securities				
Asset Backed Securities	$ 14,932,909	$ -	$ 14,932,909	$ -
Corporates and Other Credits	94,263,165	-	93,624,074	639,091
Government Securities	77,114,398	71,504,034	5,610,364	-
Other	32,013,334	232,025	25,902,220	5,879,089
Private Placements	33,865,184	-	33,865,184	-
Total Fixed Income Securities	$ 252,188,990	$ 71,736,059	$ 173,934,751	$ 6,518,180
Real Estate				
REITS	30,163,273	30,163,273	-	-
Total Real Estate	$ 30,163,273	$ 30,163,273	$ -	$ -
Total Investments at Fair Value Level	$ 829,198,165	$ 647,128,131	$ 174,929,227	$ 7,140,807
Investments Measured at the Net Asset Value (NAV):				
Commingled Funds	$ 1,242,420,495			
Private Real Estate Funds	195,089,226			
Private Equity Funds	187,873,279			
Real Asset Funds	29,888,413			
Total Investments Measured at the NAV	$ 1,655,271,413			
Total Investments Measured at Fair Value	$ 2,484,469,578			
Investment Derivative Instruments:				
Options	$ (411,410)	$ -	$ -	$ (411,410)
Swap Agreements	115,520	-	-	115,520
Futures Contracts	25,244,300	-	-	25,244,300
Forward Contracts	(2,236,850)	-	-	(2,236,850)
Total Investment Derivative Instruments	$ 22,711,560	$ -	$ -	$ 22,711,560
OPEB Trust Investments Measured at the Net Asset Value (NAV):				
Equity Commingled Funds	$ 2,064,181			
Debt Commingled Funds	1,378,067			
Total OPEB Trust Investments Measured at the NAV	$ 3,442,248			

SCHEDULE OF INVESTMENTS BY FAIR VALUE HIERARCHY

	June 30, 2015	*Quoted Prices in Active Markets for Identical Assets: Level 1*	*Significant Other Observable Inputs: Level 2*	*Significant Unobservable Inputs: Level 3*
Investments by Fair Value Level:				
Equity				
Consumer Discretionary	$ 42,052,337	$ 42,052,337	$ -	$ -
Consumer Staples	51,871,635	51,871,635	-	-
Financials	57,200,317	57,200,317	-	-
Healthcare	46,377,803	46,377,803	-	-
Information Technology	45,587,654	45,587,654	-	-
S&P 500 BuyWrite Index	48,168,901	48,168,901	-	-
Other	84,915,398	84,915,398	-	-
International Equity	171,747,334	171,145,631	2,035	599,668
Total Equity	$ 547,921,379	$ 547,319,676	$ 2,035	$ 599,668
Fixed Income Securities				
Corporates and Other Credit	$ 92,172,622	$ -	$ 91,246,816	$ 925,806
Government	65,885,239	60,454,547	5,430,692	-
Other	46,850,661	284,803	40,942,771	5,623,087
Private Placements	24,005,997	-	24,005,997	-
Total Fixed Income Securities	$ 228,914,519	$ 60,739,350	$ 161,626,276	$ 6,548,893
Real Estate				
REITS	$ 19,196,811	$ 19,196,811	$ -	$ -
Total Real Estate	$ 19,196,811	$ 19,196,811	$ -	$ -
Total Investments at Fair Value	$ 796,032,709	$ 627,255,837	$ 161,628,311	$ 7,148,561
Investments Measured at the Net Asset Value (NAV):				
Commingled Funds	$ 1,304,297,216			
Private Real Estate Funds	184,670,033			
Private Equity Funds	176,720,536			
Real Asset Funds	11,658,760			
Total Investments Measured at the NAV	$ 1,677,346,545			
Total Investments Measured at Fair Value	$ 2,473,379,254			
Investment Derivative Instruments:				
Options	$ (103,000)	$ -	$ -	$ (103,000)
Swap Agreements	66,000	-	-	66,000
Futures Contracts	40,555,000	-	-	40,555,000
Forward Contracts	46,884,000	-	-	46,884,000
Total Investment Derivative Instruments	$ 87,402,000	$ -	$ -	$ 87,402,000
OPEB Trust Investments Measured at the Net Asset Value (NAV):				
Equity Commingled Funds	$ 2,020,176			
Debt Commingled Funds	1,299,146			
Total OPEB Trust Investments Measured at the NAV	$ 3,319,322			

Valuation information on Investments measured at the Net Asset Value is contained in the table on the following page.

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 TRUST INVESTMENTS MEASURED AT THE NET ASSET VALUE (NAV)

	June 30, 2016		June 30, 2015			
Investments	Fair Value	Unfunded Commitments	Fair Value	Unfunded Commitments	Redemption Frequency	Notice Period
Commingled Funds [1]	$ 1,242,420,495	$ -	$ 1,304,297,216	$ -	Daily to Monthly	Daily to 90 Days
Private Real Estate Funds [2]	195,089,226	50,400,000	184,670,033	55,800,000	Quarterly Annually or Not Redeemable	Daily to 90 Days
Private Equity Funds [3]	187,873,279	202,000,000	176,720,536	161,200,000	Not Redeemable	
Real Asset Funds [4]	29,888,413	50,400,000	11,658,760	47,200,000	Not Redeemable	
Total Assets Measured at Net Asset Value	$ 1,655,271,413		$ 1,677,346,545			

OPEB TRUST INVESTMENTS MEASURED AT THE NET ASSET VALUE (NAV)

Investments	June 30, 2016	June 30, 2015	Redemption Frequency	Notice Period
Equity Commingled Funds [1]	$ 2,064,181	$ 2,020,176	Daily	2 Days
Debt Commingled Funds [1]	1,378,067	1,299,146	Daily	2 Days
Total Assets Measured at Net Asset Value	$ 3,442,248	$ 3,319,322		

(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 18 commingled funds as of June 30, 2016, and 19 commingled funds as of June 30, 2015 with difference being the termination of an emerging market fund. The commingled equity funds in this investment type include foreign, domestic, and emerging market investments. There were 8 commingled equity funds as of June 30, 2016 and 9 commingled equity funds as of June 30, 2015. The 7 commingled debt funds contain Treasury Inflation Protected Securities (TIPS), investment grade bonds, foreign bonds, emerging market debt, high yield bonds and bank loans. The real estate commingled funds consist of 3 commingled funds encompassing public infrastructure, global listed natural resources, and commodities businesses. The debt funds and real estate funds were the same for fiscal year ending June 30, 2016, and June 30, 2016. Each investment fund is benchmarked to an appropriate index and investments can be redeemed daily or monthly with daily to 90 day advance notice. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the investments.

(2) Private Real Estate Funds

This investment type is comprised of investments that are allocated to value added, core and opportunistic real estate strategies. Investments in this type are geographically diversified across the United States and Europe. The fair value of these investments have been determined by the investment custodian bank by using the last capital account statement from the respective general partner and adjusting for capital calls, mgmt. fees inside the commitment, return of capital, gain or loss, and income.

For June 30, 2016, this investment type consists of 24 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, 2016 are $ 50.4 million. For June 30, 2015, this investment type consists of 22 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, 2015 are $ 55.8 million.

(3) Private Equity Funds

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

For June 30, 2016, this investment type consists of 55 limited partnership investments ranging in commitment size from approximately $ 2 million to $ 30 million with $ 202 million remaining commitments outstanding. For June 30, 2015, the investment type consisted of 48 limited partnerships investments ranging in commitment size from approximately $ 2 to $ 30 million with $ 161.2 million remaining in commitments outstanding.

(4) Real Asset Funds

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

For June 30, 2016, these investment type of funds consists of 8 limited partnership investments ranging in commitment sizes from approximately $6 million to $15 million. The remaining commitments outstanding on these funds as of June 30, 2016 are $50.4 million. For June 30, 2015, these investment type of funds consists of 6 limited partnership investments ranging in commitment sizes from approximately $6 million to $15 million. Investments are allocated to infrastructure and natural resources oriented partnerships and are globally diversified. The remaining commitments outstanding on these funds as of June 30, 2015 were $ 47.2 million

Investment Risk

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

Concentration Risk

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

Credit Risk

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

CREDIT RISK BY QUALITY ANALYSIS

As of June 30, 2016 (Dollars in Thousands)

Moody's, S&P,Fitch Investment Rating	Asset Backed Securities	CMO Government Agencies	Corporates & Other Credit	Govern-ment	Int'l Fixed Income	Municipal Bonds	Non-Governement Mortgages	US Fixed Income Funds	US Govt Mortgages	US Private Placements	FICA	Treasurer Investment Pool	Total
Aaa/AAA	$ 14,648	$ -	$ -	$ 76	$ 486	$ -	$ 2,420	$ -	$ -	$ 967		$ 3,337	$ 21,934
Aa1/AA+	-	3,001	1,302	84,386	-	-	-	-	7,009	453			96,151
Aa2/AA	-	-	517	108	-	-	-	-	-	-		7,553	8,178
Aa3/AA-	-	-	-	-	-	1,105	-	-	-	-			1,105
A1/A+	-	-	2,649	-	-	-	106	-	-	733			3,488
A2/A	-	-	7,087	-	-	-	-	-	-	1,234			8,321
A3/A-	-	-	8,798	-	391	-	-	-	-	1,772			10,961
Baa1/BBB	-	-	26,623	-	-	-	-	-	-	3,047			29,670
Baa2/BBB	-	-	9,569	-	-	-	-	-	-	4,561			14,130
Baa3/BBB	29	-	14,679	-	45	-	1,208	-	-	5,187			21,147
Ba1/BB+	-	-	3,146	-	-	-	-	-	-	527			3,673
Ba2/BB	-	-	520	-	-	-	-	-	-	750			1,270
Ba3/BB-	-	-	1,901	-	-	-	-	-	-	1,998			3,899
B1/B+	-	-	5,512	-	-	-	-	-	-	6,617			12,129
B2/B	-	-	3,593	-	-	-	-	-	-	3,626			7,219
B3/B-	-	-	3,582	-	-	-	-	-	-	5,298			8,879
Below B3	534	-	5,656	-	-	-	-	-	-	5,023			11,213
Not Rated	-	-	156	-	96,717	-	-	374,600	-	464	6,030	1,847	479,814
Total	$ 15,210	$ 3,001	$ 95,289	$ 84,570	$ 97,639	$ 1,105	$ 3,734	$ 374,600	$ 7,009	$ 42,258	$ 6,030	$ 12,737	$ 743,181

As of June 30, 2015 (Dollars in Thousands)

Moody's, S&P,Fitch Investment Rating	Asset Backed Securities	CMO Government Agencies	Corporates & Other Credit	Govern-ment	Int'l Fixed Income	Municipal Bonds	Non-Governement Mortgages	US Fixed Income Funds	US Govt Mortgages	US Private Placements	Dom. Corp. Fixed Income	Treasurer Investment Pool	Total
Aaa/AAA	$ 15,829	$ -	$ 1,075	$ -	$ 404	$ -	$ 2,424	$ -	$ -	$ 1,473	$ -	$ 716	$ 21,921
Aa1/AA+	-	11,077	-	328,652	-	-	-	-	2,224	615	-	-	342,568
Aa2/AA	-	-	919	-	-	-	-	-	-	-	-	6,294	7,213
Aa3/AA-	-	-	-	-	151	722	-	-	-	246	-	-	1,119
A1/A+	-	-	4,761	-	-	-	-	-	-	-	-	-	4,761
A2/A	-	-	9,167	-	-	-	172	-	-	1,482	-	-	10,821
A3/A-	-	-	12,271	-	-	-	-	-	-	1,883	-	-	14,154
Baa1/BBB	240	-	31,597	-	-	-	733	-	-	6,760	-	-	39,330
Baa2/BBB	-	-	4,078	-	-	-	-	-	-	586	-	-	4,664
Baa3/BBB	45	-	12,734	-	-	-	1,289	281	-	3,449	-	-	17,798
Ba1/BB+	-	-	2,361	-	-	-	-	-	-	155	-	-	2,516
Ba2/BB	-	-	1,061	-	-	-	-	816	-	377	-	-	2,254
Ba3/BB-	-	-	1,203	-	-	-	-	-	-	1,750	-	-	2,953
B1/B+	-	-	2,387	-	-	-	-	364	-	2,154	-	-	4,905
B2/B	65	-	1,953	-	-	-	-	130	-	3,404	-	-	5,552
B3/B-	-	-	3,265	-	-	-	-	-	-	4,067	-	-	7,332
Below B3	726	-	3,344	-	-	-	314	324	-	3,448	-	-	8,156
Not Rated	-	-	-	-	119,095	-	-	79,588	-	155	46,597	2,540	247,975
Total	$ 16,905	$ 11,077	$ 92,176	$ 328,652	$ 119,650	$ 722	$ 4,932	$ 81,503	$ 2,224	$ 32,004	$ 46,597	$ 9,550	$ 745,992

Custodial Credit Risk for Investments

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

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

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

Concentrations of Credit Risk

As of June 30, 2016, and June 30, 2015, 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, 2016, and June 30, 2015, there were no violations of legal or contractual provisions. SBCERS had no losses on securities lending transactions resulting from the default of a borrower for the years ended June 30, 2016, and June 30, 2015.

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, 2016, the fair value of securities on loan was $63.3 million and the value of collateral received for the securities on loan was $63.8 million of which $35.8 million was non-cash collateral and $28.0 million was cash collateral from equity and fixed income securities. As of June 30, 2015, the fair value of securities on loan was $36.8 million and the value of collateral received for the securities on loan was $37.9 million of which $18.6 million was non-cash collateral and $19.3 million was cash collateral from equity and fixed income securities. SBCERS' income net of expense from securities lending was $240,038 and $181,039 for the years ended June 30, 2016 and June 30, 2015, respectively.

SBCERS' SECURITIES LENDING PROGRAM

Securities on Loan	June 30, 2016 Fair Value of Securities on Loan	June 30, 2016 Collateral Received	June 30, 2015 Fair Value of Securities on Loan	June 30, 2015 Collateral Received
Domestic Equities	$ 15,041,631	$ 15,162,421	$ 7,437,950	$ 7,580,068
International Equities	5,762,184	6,238,248	6,628,582	6,950,845
Domestic Corporate Fixed Income	13,489,953	13,773,736	4,626,363	4,770,203
Real Estate	659,924	665,773	-	-
Total Cash	34,953,692	35,840,178	18,692,895	19,301,116
Total Non-Cash	28,395,985	27,964,343	18,103,109	18,598,325
Total Securities on Loan	**$ 63,349,677**	**$ 63,804,521**	**$ 36,796,004**	**$ 37,899,441**

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

As of June 30, 2016

Currency	Non U.S. Cash	Equity	Fixed Income	Total
Australian Dollar	$ 2,262	$ 5,067,782	$ -	$ 5,070,044
Brazilian Real	1	31,707	-	31,708
Canadian Dollar	737	1,321,834	75,661	1,398,232
Danish Krone	-	2,739,369	-	2,739,369
Euro Currency Unit	(593,215)	61,118,293	-	60,525,078
Hong Kong Dollar	3	4,488,657	-	4,488,660
Indian Rupee	59	-	-	59
Indonesian Rupiah	(160)	-	45,242	45,082
Israeli Shekel	12,770	460,572	-	473,342
Japanese Yen	(1,571,362)	31,776,589	-	30,205,227
Mexican Peso	-	243,405	391,081	634,486
New Taiwan Dollar	-	772,781	-	772,781
New Zealand Dollar	2,140	-	-	2,140
Norwegian Krone	10,309	731,524	-	741,833
British Pound Sterling	(152,075)	20,836,645	108,275	20,792,845
Singapore Dollar	(310)	1,155,648	485,830	1,641,168
South African Rand	1	-	-	1
South Korean Won	26	1,324,044	-	1,324,070
Swedish Krona	9,402	3,028,771	-	3,038,173
Swiss Franc	157,146	12,358,010	-	12,515,156
Thai Baht	-	359,048	-	359,048
Turkish Lira	2	96,322	-	96,324
Total Securities Held in Foreign Currency	**$(2,122,264)**	**$147,911,001**	**$ 1,106,089**	**$146,894,826**

FOREIGN CURRENCY RISK - Continued

As of June 30, 2015

Currency	Non U.S. Cash	Equity	Fixed Income	Total
Australian Dollar	$ 12,559	$ 6,013,619	$ -	$ 6,026,178
Canadian Dollar	1,799	1,108,311	-	1,110,110
Danish Krone	2	2,916,169	-	2,916,171
Euro Currency Unit	(281,851)	63,639,800	-	63,357,949
Hong Kong Dollar	7,785	9,373,444	-	9,381,229
Hungarian Forint	1	-	-	1
Indian Rupee	-	742,777	-	742,777
Indonesian Rupiah	1,873	63,421	-	65,294
Israeli Shekel	7,514	534,690	-	542,204
Japanese Yen	(447,989)	32,734,461	-	32,286,472
Mexican Peso	1,027,044	148,001	150,246	1,325,291
New Taiwan Dollar	-	112,394	-	112,394
New Zealand Dollar	-	237,852	-	237,852
Norwegian Krone	-	616,976	-	616,976
British Pound Sterling	(209,421)	24,333,130	-	24,123,709
Singapore Dollar	15,922	1,488,163	405,679	1,909,764
South African Rand	861	254,211	-	255,072
South Korean Won	-	1,292,734	-	1,292,734
Swedish Krona	-	3,599,263	-	3,599,263
Swiss Franc	138,175	16,591,502	-	16,729,677
Thai Baht	(5,793)	380,501	-	374,708
Total Securities Held in Foreign Currency	**$ 268,481**	**$ 166,181,419**	**$ 555,925**	**$167,005,825**

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, 2016, and June 30, 2015, SBCERS' derivatives investments were in Swap Agreements, Futures Contracts, Forward Contracts, and Options.

Swap Agreements

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

Futures Contracts

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

Forward Contracts

A forward contract represents an agreement to buy or sell an underlying asset at a specified date in the future at a specified price. Payment for the transaction is delayed until the settlement or expiration date.

Currency forward contracts are used to control currency exposure and facilitate the settlement of international security purchase and sale transactions.

Options

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

HOLDINGS OF DERIVATIVE SECURITIES

(Dollars in Thousands)

	June 30, 2016		June 30, 2015		
Derivative Type	Notional Amount	Fair Value	Notional Amount	Fair Value	Change in Fair Value
Options	$ (4,330)	$ (411)	$ (531)	$ (103)	$ (308)
Swap Agreements	7,530	116	5,538	66	50
Futures Contracts	171,942	25,244	41,116	40,555	(15,311)
Forward Contracts	255,915	(2,237)	212,066	46,884	(49,121)
Totals	**$ 431,057**	**$ 22,712**	**$ 258,189**	**$ 87,402**	**$ (64,690)**

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, 2015, and June 30, 2016. 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, 2016, SBCERS' has a net exposure to derivative credit risk of ($2.1 million).

DERIVATIVE CREDIT RISK

As of June 30, 2016 (Dollars in Thousands)

Moody's, S&P,Fitch Investment Rating	Derivative Type: Option Contracts	Forward Contracts	Futures Contracts	Swap Agreements	Total Fair Value
Aaa/AAA	$ -	$ (229)	$ -	$ -	$ (229)
Aa2/AA	-	-	3,376	-	3,376
A2/A	-	(2,762)	-	76	(2,686)
Baa2/BBB	-	(566)	-	(29)	(595)
Total Investment Grade	-	(3,557)	3,376	47	(134)
Speculative Grade					-
B2/B	-	-	-	69	69
Not Rated	(88)	(2,199)	-	212	(2,075)
Total Speculative Grade	(88)	(2,199)	-	281	(2,006)
Total Fair Value	$ (88)	$ (5,756)	$ 3,376	$ 328	$ (2,140)

As of June 30, 2015 (Dollars in Thousands)

Moody's, S&P,Fitch Investment Rating	Derivative Type: Forward Contracts	Futures Contracts	Swap Agreements	Total Fair Value
Aaa/AAA	$ (15)	$ -	$ -	$ (15)
Aa2/AA	18	157	-	175
A2/A	(3)	-	-	(3)
Baa2/BBB	-	-	2,836	2,836
al Investment Grade	-	157	2,836	2,993
Speculative Grade				
Ba2/BB	-	-	9	9
B2/B	-	-	557	557
Not Rated	45,789	-	1	45,790
al Speculative Grade	45,789	-	567	46,356
Total Fair Value	$ 45,789	$ 157	$ 3,403	$ 49,349

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, 2015, and June 30, 2016, 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

As of June 30, 2016 (Dollars in Thousands)

Currency	Options	Swaps	Futures	Forwards
Brazilian Real	$ -	$ -	$ -	$ (1,226)
British Pound Sterling	-	-	-	(246)
Canadian Dollar	-	-	574	-
Chilean Peso	-	-	-	22,294
Colombian Peso	-	-	-	(41)
Euro Currency Unit	289	-	-	50,870
Hungarian Forint	-	-	-	308
Indonesian Rupiah	-	-	-	(320)
Japanese Yen	-	135	-	(4,746)
Malaysian Ringgit	-	-	-	499
Mexican Peso	-	-	-	(12)
Norwegian Krone	-	-	-	19,300
Peruvian Nuevo Sol	-	-	-	592
Polish Zloty	-	-	-	5,242
Romanian Leu	-	-	-	771
Russian Ruble	-	-	-	(395)
South African Rand	-	-	-	(872)
Swedish Krona	-	-	-	26,786
Thai Baht	-	-	-	252
Turkish Lira	-	-	-	(649)
US Dollars	6	372	-	2,568
	$ 295	$ 507	$ 574	$ 120,975

DERIVATIVE FOREIGN CURRENCY RISK- Continued

As of June 30, 2015 (Dollars in Thousands)

Currency	Sawps	Futures	Forward Contracts
Brazilian Real	$ -	$ -	$ 40
British Pound Sterling	-	-	(6,911)
Canadian Dollar	-	1,381	1
Chilean Peso	-	-	23,717
Colombian Peso	584	-	(1)
Euro Currency Unit	-	-	58,065
Indian Rupee	-	-	(14)
Indonesian Rupiah	2,252	-	(1)
Japanese Yen	155	-	(554)
Mexican Peso	-	-	1,128
New Zealand Dollar	-	-	(13,317)
Norwegian Krone	-	-	21,364
Philippine Peso	-	-	(3)
Polish Zloty	-	-	6,086
Romanian Leu	-	-	(2)
Russian Ruble	-	-	48
South African Rand	-	-	5
Swedish Krona	-	-	22,462
Swiss Franc	-	-	(1)
Turkish Lira	-	-	(13)
US Dollars	(171)	-	-
	$ 2,820	$ 1,381	$ 112,099

6. LEASE COMMITMENTS

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

The Santa Barbara office lease was also renewed for an additional three years, extending to June 30, 2018. As part of this agreement, SBCERS acquired new space on the first floor of its existing Santa Barbara building and sub-leased the space it previously occupied. The sub-lease began January 1, 2015, and expires June 30, 2018. The monthly rent due under the sub-lease was $4,882 along with common area expenses of $3,542, and a $5,000 deposit was provided.

The Santa Barbara office lease requires that SBCERS pay a portion of the building's operating expenses based on square footage occupied. Lease expense, exclusive of common area maintenance fees, in fiscal years 2016 and 2015 was $183,184 and $184,099, respectively. Minimum non-cancelable lease commitments net of sublease income as of June 30, 2016, are shown in the adjacent table.

MINIMUM LEASE COMMITMENTS

Fiscal Year		Amount
2016 - 2017	$	164,756
2017 - 2018		192,593
2018 - 2019		5,513
Total	$	362,862

7. PENSION PLAN RESERVES

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

Member Contribution Reserve

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

Retired Member Reserve

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

Plan Sponsor Advance Reserve

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

Contra Tracking Account

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

Contingency Reserve

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

SBCERS' VALUATION RESERVES - PENSION PLAN

As of June 30, 2016 and 2015

	2016	2015
Member Deposit Reserve	$ 183,953,800	$ 178,232,690
Retired Member Reserve	2,167,810,353	2,013,137,379
Plan Sponsor Advance Reserve	1,018,138,144	954,928,472
Contra Tracking Account	(815,363,774)	(613,769,566)
Total Value of Fiduciary Net Position	**$ 2,554,538,523**	**$ 2,532,528,975**

8. PENSION PLAN CONTRIBUTIONS

Funding Objective

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

Money-Weighted Rate of Return

For the fiscal year ending June 30, 2016, the annual money-weighted rate of return on Plan investments, net of Plan investment expense was 1.38%. 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 7.5% 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.

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

As of June 30, 2016

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	23%	5.3%
Investment Grade Bonds	10%	1.1%
Emerging Market non-U.S. Equity	10%	8.0%
Developing Market non-U.S. Equity	9%	5.6%
Private Equity	7%	6.9%
TIPS	7%	0.8%
Private Real Estate	6%	3.4%
High Yield Bonds	4%	4.3%
Foreign Bonds	4%	0.1%
Emerging Market Bonds	3%	3.6%
Natural Resources (Private)	3%	5.9%
Commodities	3%	1.6%
Bank Loans	2%	3.2%
Infrastructure (Private)	2%	4.2%
Infrastructure (Public)	2%	5.3%
Natural Resources (Public)	2%	5.3%
Real Estate Investment Trusts (REIT)	2%	4.1%
Frontier Market Equity	1%	7.0%
Cash	0%	-0.2%
Total	**100%**	

The investment rate of return assumption used for actuarial funding was 7.5% for the fiscal year ending June 30, 2016 and June 30, 2015. The 7.5% was comprised of an assumed real rate of return of 4.5% and an inflation assumption of 3%.

Discount Rate

Statement No. 67 (GASB 67) requires a determination that the Plan's fiduciary net position is projected to be sufficient to make projected benefit payments. The discount rate used to measure the total pension liability was 7.5%. 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 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, 2016, were developed using the June 30, 2014 actuarial valuation. For the June 30, 2014 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, 2016. 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.

MEMBER CONTRIBUTION RATES

For the fiscal year ended June 30, 2016

Member Classification	Member Rates	Plan Sponsor Rates
General Members	2.22% - 11.44%	20.40% - 33.23%
Safety Members	4.93% - 18.09%	40.67% - 58.41%
APCD Members	3.27% - 12.07%	29.90% - 38.08%

Contributions made for the years ended June 30, 2016 and June 30, 2015, were in accordance with actuarially determined contributions for the year. Actuarially determined net employer contribution rates were 37.94% and 38.94%, respectively, of payroll while actuarially determined employee contributions were 4.95% and 4.79%, respectively. For the years ended June 30, 2016 and June 30, 2015, covered payroll was $328.9 million and $319.5 million, respectively, an increase of 2.9%.

SBCERS' PENSION CONTRIBUTIONS MADE TO PLAN

For the fiscal years ended June 30, 2016 and 2015

		2016	2015
General Plan 2	Employer contributions	$ 123,524	$ 141,096
General Plan 5, 7 & 8	Employer contributions	74,421,917	73,589,305
	Member contributions	12,730,458	11,557,972
Safety Plans 4, 6 & 8	Employer contributions	47,010,119	48,642,695
	Member contributions	5,354,994	4,794,968
APCD 1, 2 & 8	Employer contributions	1,192,461	1,239,256
	Member contributions	226,194	269,198
Total		**$ 141,059,667**	**$ 140,234,490**

SBCERS' PENSION CONTRIBUTOR COMPARISON

As of June 30, 2016 and 2015

	2016		2015	
EMPLOYER CONTRIBUTIONS				
Santa Barbara County	$ 114,197,425	93.0%	$ 114,945,556	93.0%
Santa Barbara Superior Court	4,577,279	3.7%	4,587,885	3.7%
Special Districts	3,973,317	3.2%	4,078,911	3.3%
	122,748,021	100.0%	123,612,352	100.0%
MEMBER CONTRIBUTIONS				
Santa Barbara County	16,800,327	91.7%	15,061,991	90.6%
Santa Barbara Superior Court	880,620	4.8%	859,747	5.2%
Special Districts	630,699	3.4%	700,400	4.2%
	18,311,646	100.0%	16,622,138	100.0%
	$ 141,059,667		**$ 140,234,490**	

9. NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS

Employers' Net Pension Liability

The net pension liability is measured as the total pension liability less the amount of the Plan's fiduciary net position. The net pension liability is an accounting measurement for financial statement reporting purposes. The components of the Plan's net pension liability on June 30, 2016 and June 30, 2015, were as follows:

SCHEDULE OF NET PENSION LIABILITY

As of June 30, 2016 and 2015

	2016	*2015*
Total Pension Liability	$ 3,395,252,229	$ 3,260,156,781
Less: Fiduciary Net Pension	(2,554,538,523)	(2,532,528,975)
Net Pension Liability	$ 840,713,706	$ 727,627,806
Fiduciary Net Position as a Percentage of Total Pension Liability	75.2%	77.7%

Actuarial Assumptions

SUMMARY ACTUARIAL INFORMATION	
Valuation Date	June 30, 2015
Actuarial Cost Method	Individual entry-age
Amortization Method	Level percent of pay
Amortization Period	Nineteen years (closed)
Asset Valuation Method	Direct rate smoothing

SUMMARY OF VALUATION ASSUMPTIONS	
Investment Rate of Return (As of June 30, 2016)	7.5%, net of investment expenses (3.0% for CPI and 4.5% for real increases above inflation)
Projected Salary Increase	Variable percentage based on service
Wage Inflation	3.50%
Cost-of-Living Adjustments for Retirees	2.75% (all plans except APCD Plan 8 and General Plan 7 & 8)
	2.00% (APCD Plan 8 and General Plan 7 & 8)
Mortality Rates	Mortality rates for actives, retirees, beneficiaries, terminated vested, and reciprocals are based on the sex distinct retired pension (RP) 2000 Combined Healthy Tables published by the Society of Actuaries, with Generational Improvement using Projection Scale BB

Sensitivity Analysis

The net pension liability is calculated using the discount rate. The following table presents the net pension liability change when a modification (increase and decrease) of .01 is applied to the current discount rate of 0.075. 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, 2016

	1% Decrease 6.50%	Discount Rate 7.50%	1% Increase 8.50%
Total Pension Liability	$ 3,867,075,921	$ 3,395,252,229	$ 3,008,572,999
Less: Fiduciary Net Pension	(2,554,538,523)	(2,554,538,523)	(2,554,538,523)
Net Pension Liability	$ 1,312,537,398	$ 840,713,706	$ 454,034,476
Fiduciary Net Position as a Percentage of Total Pension Liability	66.1%	75.2%	84.9%

10. ADMINISTRATIVE EXPENSE

The Board adopted an annual budget for the year ended June 30, 2016, that covers the administration expense of the System with the earnings of the retirement fund. Such expenditures are subject to limitations imposed by statute, California Government Code §31580.2. Expenditures for computer software, computer hardware, and computer technology consulting services in support of these computer products shall not be considered a cost of administration of the retirement system for purposes of this code section.

SBCERS has been in compliance with the rules governing administrative expense in prior years. The actuarial accrued liability was used to calculate the statutory budget amount. Total administrative expense subject to the limit for the years ended June 30, 2016, and June 30, 2015, were $ 5.2 million and $ 4.4 million. In accordance with government code section §31580.2, the limit for each year was $ 6.5 million and $ 6.2 million, calculated using the actuarial liability for respective periods.

SBCERS' ADMINISTRATIVE EXPENSE

As of June 30, 2016 and 2015

	2016	**2015**
Expense Subject to Statutory Limitation		
Employee Salaries and Benefits	$ 2,741,350	$ 2,551,188
Operating Expenses	1,044,900	717,311
Professional Services	576,564	268,917
Actuarial Costs	122,609	178,596
Legal Costs	441,284	446,363
Total Expense Subject to Statutory Limitation	**4,926,707**	**4,162,375**
Expense Not Subject to Statutory Limitation		
Computer Software Services and Support	174,071	168,696
Computer Equipment and Supplies	92,028	73,271
Total Expense Not Subject to Statutory Limitation	**266,099**	**241,967**
Total Pension Administrative Expense	**$ 5,192,806**	**$ 4,404,342**

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.

11. CONTINGENCIES

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

12. SUBSEQUENT EVENTS

Management has reviewed and identified, up to the date of the Independent Auditor's Report of January 23, 2017, and the subsequent events described below.

On October 26, 2016 the Board of Retirement took action and on December 14, 2016, adopted a discount rate of 7.0% for use in determining contributions. This discount rate was developed using the building block method. The inflation assumption was reduced 25 bps to 2.75% and real return assumption was reduced 25 bps to 4.25%. The Board reduced its estimated wage growth assumption from 50 bps above inflation to 25 bps above inflation. The adjustment in discount or assumption rate will be reflected in the financial statements for the fiscal year ended June 30, 2017.

SBCERS completed the hiring of a Controller to fill the Accounting Manager position dedicated to accounting and financial operations and financial reporting.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION – PENSION

CHANGES IN NET PENSION LIABILITY

	Fiscal Year Ended 2016	2015	2014
Total pension liability			
Service Cost (MOY)	$ 71,218,683	$ 70,056,133	$ 66,696,324
Interest (includes interest on service cost)	241,733,937	231,804,221	220,238,560
Differences between expected & actual experience	(31,199,454)	(27,900,755)	-
Benefit payments, including refunds of member contributions	(146,657,716)	(137,771,219)	(131,100,585)
Net change in total pension liability	135,095,450	136,188,380	155,834,299
Total pension liability - beginning	3,260,156,781	3,123,968,401	2,968,134,102
Total pension liability - ending	3,395,252,231	3,260,156,781	3,123,968,401
Plan fiduciary net position			
Contributions - employer	122,748,021	123,612,352	119,227,652
Contributions - member	18,311,646	16,622,138	14,514,010
Net investment income	32,800,406	20,840,286	328,852,388
Benefit payments, including refunds of member contributions	(146,657,718)	(137,771,219)	(131,100,585)
Administrative expense	(5,192,806)	(4,404,342)	(4,288,603)
Net change in plan fiduciary net position	22,009,549	18,899,215	327,204,862
Plan fiduciary net position - beginning	2,532,528,974	2,513,629,759	2,186,424,897
Plan fiduciary net position - ending	2,554,538,523	2,532,528,974	2,513,629,759
Net pension liability - ending	**$ 840,713,706**	**$ 727,627,807**	**$ 610,338,642**
Plan fiduciary net position as a percentage of the total pension liability	75.2%	77.7%	80.5%
Covered employee payroll	$ 328,934,766	$ 319,547,370	$ 307,421,818
Net pension liability as a percentage of covered payroll	255.6%	227.7%	198.5%

EMPLOYER CONTRIBUTION HISTORY

Last Ten Fiscal Years (Dollars in Thousands)

	2016	2015	2014	2013	2012
Actuarially Determined Contributions	$ 122,748	$ 123,612	$ 119,228	$ 110,583	$ 108,764
Contributions in Relation to the Actuarially Determined Contribution	122,748	123,612	119,228	110,583	108,764
Contribution Deficiency/(Excess)	$ -	$ -	$ -	$ -	$ -
Covered Employee Payroll*	328,935	319,547	307,422	302,708	305,758
Contributions as a Percentage of Covered Employee Payroll	37.3%	38.7%	38.8%	36.5%	35.6%

	2011	2010	2009	2008	2007
Actuarially Determined Contributions	$ 94,437	$ 84,647	$ 75,902	$ 69,461	$ 63,395
Contributions in Relation to the Actuarially Determined Contribution	94,437	84,647	75,902	69,461	63,395
Contribution Deficiency/(Excess)	$ -	$ -	$ -	$ -	$ -
Covered Employee Payroll*	306,963	306,524	307,264	294,163	287,382
Contributions as a Percentage of Covered Employee Payroll	30.8%	27.6%	24.7%	23.6%	22.1%

** Covered Employee Payroll starting 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

For the fiscal year ending June 30,

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

Notes to Required Supplementary Information – Pension Schedules

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

Additional Information

Date of Valuation used for Contributions:	June 30, 2014
Timing:	Actuarially determined contribution rates are calculated based on the actuarial valuation two years prior to the date of the financial statements.
Actuarial cost method:	Entry Age
Asset valuation method:	Fair Value
Amortization method:	As of the June 30, 2014 actuarial valuation, any new sources of unfunded actuarial liability are amortized over a closed 19-year period with a five year ramp up and down of the amortization payment at the beginning and end of the amortization period and nine years of level payments as percentage of payroll between ramping periods. Unfunded Liabilities realized as of the June 30, 2013 valuation, exclusive of liabilities related to Safety Plan 6, are amortized over a closed 17 year period, of which 14 years remained as of June 30, 2016. Unfunded liabilities realized as part of the creation of Safety Plan 6 are amortized over a separate closed period of 15 years of which 12 years remained as of June 30, 2016.
Discount rate:	7.50%, net of investment expenses

REQUIRED SUPPLEMENTARY INFORMATION – (OPEB)

Other Post Employment Benefits (OPEB)

SCHEDULE OF FUNDING PROGRESS

(Dollars in Thousands)

	(a)	(b)	(b-a)	(a/b)	(c)	([b-a]/c)
*Actuarial Valuation Date	Actuarial Value of Assets	Entry Age Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
6/30/2009	$ 1,169	$ 174,532	$ 173,363	0.7%	$ 306,524	56.6%
6/30/2010	$ 2,153	$ 187,220	$ 185,067	1.1%	$ 306,357	60.4%
6/30/2012	$ 3,035	$ 190,179	$ 187,144	1.6%	$ 302,379	61.9%
6/30/2014	$ 4,070	$ 193,205	$ 189,135	2.1%	$ 282,963	66.8%

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS

(Dollars in Thousands)

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

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

*SBCERS conducts biennial valuations, ARC amount is projected based off of June 30, 2014 Valuation

Notes to Required Supplementary Information – OPEB Schedules

SBCERS performs Actuarial Valuations of the OPEB plan on a biennial basis. The information presented in the required supplementary schedules was determined as part of the actuarial valuation dated June 30, 2014, is included in the Notes to the Financial Statements. Key assumptions used in the development of the valuation are listed below.

Actuarial Cost Method:	Entry age normal
Amortization Method:	For Santa Barbara County a 15-year closed amortization period is used. As of June 30, 2014, the period remaining was 7.5 years. For other employers this period is 30 years "open/rolling."
Expected Return on Trust Assets:	7.50%
Expected Return Assets for Benefits:	4.00%
Discount rate:	4.33% Air Pollution Control District 7.50% Santa Barbara County 4.00% All others

OTHER SUPPLEMENTARY INFORMATION

SCHEDULE OF PENSION ADMINSTRATION EXPENSE

For the Years Ended June 30, 2016 and 2015

	2016	2015
Personnel Services		
Salaries and Employee Benefits	$ 2,741,350	$ 2,551,188
Total Personnel Services	**2,741,350**	**2,551,188**
Professional Services		
Actuarial Costs	122,609	178,596
Legal Costs	441,284	446,363
Computer Software Services and Support	174,071	168,696
County Cost Allocation	25,173	4,445
Disability Hearing Officer Fees	6,619	45,808
Disability Medical Fees	119,889	53,371
Disability Transcription Fees	11,580	8,749
External Audit Fees	59,475	55,078
Other Professional Services	353,828	101,466
Total Professional Services	**1,314,529**	**1,062,572**
Communication		
Postage	44,028	46,271
Telecommunication	39,594	42,462
Training	94,370	89,775
Transportation and Travel	37,604	39,268
Total Communication	**215,596**	**217,776**
Rents / Leases / Structures		
Rents/Leases/Structure	251,599	292,082
Furniture & Fixtures	12,012	45,436
Building Maintenance	3,694	46,516
Equipment	-	250
Total Rents / Leases / Structures	**267,305**	**384,284**
Miscellaneous		
Fund Transfers	452,287	-
Computer Equipment and Supplies	92,028	73,271
Other Office Expenses	59,225	67,070
Insurance	50,486	48,181
Total Miscellaneous	**654,026**	**188,522**
Total Administrative Expense	**$ 5,192,806**	**$ 4,404,342**

SCHEDULE OF INVESTMENT EXPENSE

For the Years Ended June 30, 2016 and 2015

		2016		2015
Investment Activity				
Stock Managers				
Domestic	$	2,134,021	$	1,520,890
International		1,897,099		2,236,918
Bond Managers				
Domestic		881,045		690,484
International		340,663		507,573
Real Assets		474,841		70,660
Real Estate		43,819		265,880
Total From Investment Activity		5,771,488		5,292,405
Other Investment Expense				
Investment Consultants		1,508,063		1,451,598
Custodian		486,428		264,156
Total Other Investment Expense		1,994,491		1,715,754
Total Fees and Other Investment Expense	**$**	**7,765,979**	**$**	**7,008,159**

SCHEDULE OF CONSULTANT PAYMENTS

For the Years Ended June 30, 2016 and 2015

		2016		2015
Actuarial Services	$	122,609	$	178,596
Audit Services		59,475		55,078
Legal Services		441,284		446,363
Total Payments to Consultants	**$**	**623,368**	**$**	**680,037**

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

INVESTMENT

BOSTON MA
CHICAGO IL
MIAMI FL
PORTLAND OR
SAN DIEGO CA
LONDON UK

August 26, 2016

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

Dear Board Members:

This letter reviews the investment performance of the Santa Barbara County Employees' Retirement System ("System") for the fiscal year ended June 30, 2016. The total portfolio was valued at $2.546 billion as of June 30, 2016, slightly higher than the asset level reported on June 30, 2015. The portfolio is well diversified across a broad range of asset classes that are generally categorized as equity, fixed income, real assets, private equity, and real estate.

Through June 30, 2016, the System employed Meketa Investment Group to serve as SBCERS' independent investment consultant. However, the System hired RVK to provide investment consultant services beginning in May 2016. BNY Mellon Global Securities Services (BNY Mellon), the System's custodian, independently calculates performance for the fund.

Fiscal Year Economic and Market Review

After a relatively quiet period, the month of June proved to be a volatile one to end the fiscal year. The Brexit vote near the end of June caused equity markets around the world to pull back, along with significant currency market ramifications. Many asset classes that struggled in the second half of 2015, performed quite well in the first half of 2016 (Emerging Market Equities, Emerging Market Bonds, Commodities) Over the full fiscal year, U.S. Equities posted modest returns (+2.1%), while international markets were down 10.2% in the developed space, and down 12.1% in emerging markets. In the real assets space, the Bloomberg Commodity Index fell 13.3% for the fiscal year, thought it was up 12.8% in the second quarter of 2016, highlighting the volatility of the energy markets, with the National Council of Real Estate Investment Fiduciaries Property Index returning 11.8% for the fiscal year. Returns for private market indexes are typically lagged by one quarter due to the availability of data.

Asset Allocation

There were no changes to asset allocation targets during the fiscal year. An asset allocation review was completed during the summer of 2015, and the current asset allocation was reaffirmed by the Board.

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

At the end of the fiscal year 2016, all asset classes were within their target ranges.

Performance vs. Policy Benchmark

As of June 30, 2016, the SBCERS portfolio underperformed its policy benchmark over the 1-year, 3-year and 5-year periods, while outperforming over the trailing 7-year and 10-year periods. Relative to similar sized public fund peers, SBCERS was ranked in the 14th percentile for fiscal year 2016.

Underperformance (1.4% vs. 2.3%) versus the policy benchmark over the most recent year was due largely to relative underperformance, on a time weighted return basis, of the Fund's allocations to Private Real Estate, foreign bonds, investment grade bonds, PNRI, and High Yield, compared to their respective public market benchmarks, as calculated by BNY Mellon.

Performance vs. Long-Term Target Return

Over the past three and five years, the Fund has returned 5.5%, and 5.2%, respectively, underperforming the Fund's long term return target of 7.5%. The underperformance relative to the long term actuarial target in fiscal year 2016 (1.4% vs. 7.5%) was the result of most asset classes returning less than 7.5%. Over the trailing 7 year period and since inception in 1987, the Fund has returned 8.8% and 8.2% per year, respectively, well ahead of the assumed rate of return.

Summary

The current SBCERS asset allocation policy was designed with the primary objective of maximizing the probability of achieving a 7.5% return over long periods of time (20 years and greater), while minimizing a wide variety of risks. For fiscal year 2016, SBCERS did not achieve the return objective. It should be noted that, outside of foreign bonds and real estate, none of the aggregate asset classes invested in by SBCERS produced a return above 7.5%, so the fiscal year was a difficult period for all diversified investors. Because the Fund's asset allocation policy differs from that of other public pension funds, it will naturally underperform or outperform other public pension funds over any short term period. The Retirement Board has consistently reaffirmed its commitment to its long-term asset allocation policy through asset allocation reviews, and asset liability studies.

Sincerely,

Mika Malone

Mika Malone, CAIA
Managing Principal

INVESTMENT POLICIES

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

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

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

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

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

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

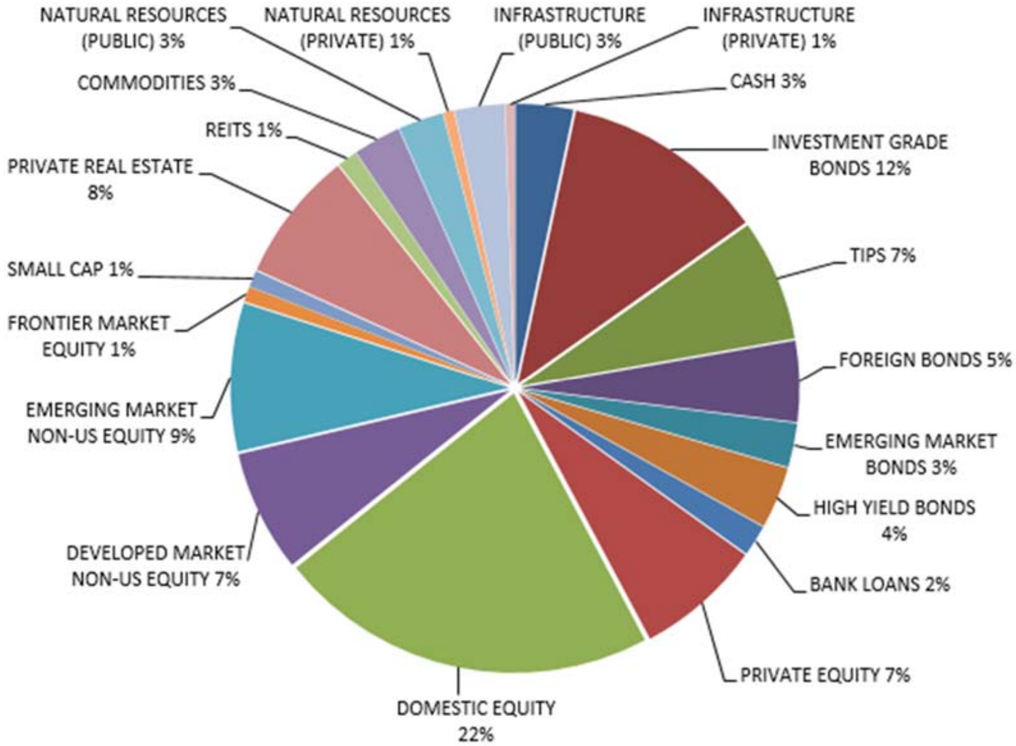
The Board's investment strategy is designed to ensure the prudent and diversified investment of assets in such a manner as to provide real growth of assets over time while protecting the value of such assets from undue risk of loss, at the minimum possible cost, and without sacrificing return.

INVESTMENT SUMMARY - PENSION PLAN

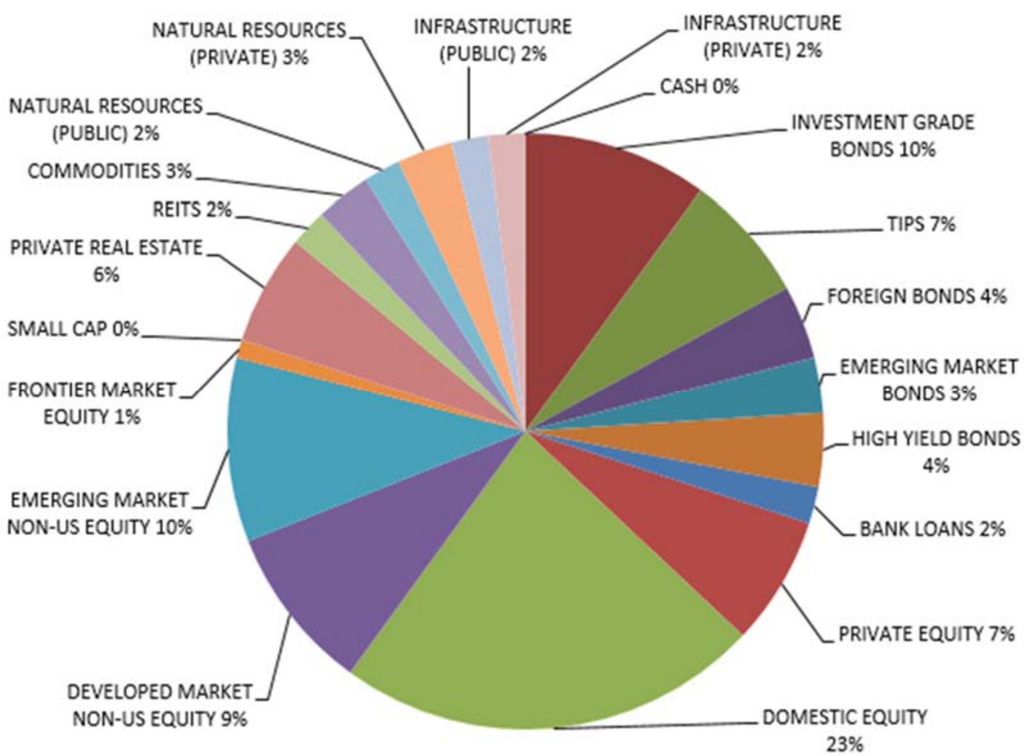
As of June 30, 2016

		Fair Value	Percent of Total Fair Value
Cash			
Treasurer's Cash	$	12,736,382	0.50%
Short-Term Investments		72,624,655	2.83%
Total Cash		85,361,037	3.33%
Domestic Bonds			
Investment Grade Bonds		304,923,725	11.87%
TIPS		181,405,062	7.06%
Total Domestic Bonds		486,328,787	18.93%
International Bonds			
Foreign Bonds		120,857,631	4.70%
Emerging Market Bonds		65,485,704	2.55%
High Yield Bonds		92,227,201	3.59%
Bank Loans		46,037,694	1.79%
Total International Bonds		324,608,230	12.63%
Private Equity		187,873,279	7.31%
U.S. Equity		567,082,538	22.07%
International Equity			
Developed Market Non-U.S. Equity		182,048,268	7.06%
Emerging Markets Non-U.S. Equity		220,937,112	8.60%
Frontier Market Equity		22,847,329	0.89%
Small Cap		24,557,518	0.96%
Total International Equity		450,390,227	17.51%
Real Estate			
Private Real Estate		195,089,226	7.59%
REITS		30,163,273	1.17%
Total Real Estate		225,252,499	8.76%
Real Assets			
Commodities		71,078,682	2.77%
Natural Resources (Public)		67,347,213	2.62%
Natural Resources (Private)		15,808,419	0.62%
Infrastructure (Public)		74,619,710	2.90%
Infrastructure (Private)		14,079,994	0.55%
Total Real Assets		242,934,018	9.46%
Total Pension Cash & Investments		**2,569,830,615**	**100.00%**
Collateral Held for Securities Lent		63,804,521	-
Grand Total	**$**	**2,633,635,136**	**100.00%**

ACTUAL ASSET ALLOCATION



TARGET ASSET ALLOCATION



INVESTMENT RESULTS BASED ON FAIR VALUE

As of June 30, 2016

Investments	Current Year	Annualized 3- year	Annualized 5-year
Domestic Equity	3.23%	11.11%	10.62%
Russell 3000 Benchmark	2.14%	11.12%	11.60%
Developed Market Non-U.S. Equity	-6.62%	4.55%	N/A%
MSCI EAFE	-10.16%	2.06%	1.68%
Emerging Markets Equity	-9.97%	-1.74%	N/A%
MSCI Emerging Markets	-12.05%	-1.56%	-3.78%
Frontier Market Equity	-13.33%	-3.25%	N/A%
MSCI Frontier Markets	-12.09%	1.00%	1.45%
Investment Grade Bonds	5.49%	4.05%	4.59%
Investment Grade Bonds Blended Index	6.00%	4.06%	3.70%
Foreign Bonds	6.81%	4.36%	N/A%
JPMorgan Global Bond (ex. U.S. Index)	14.84%	2.77%	0.48%
Emerging Market Bonds	4.95%	0.14%	N/A%
JPM GBI-EM Global Diversified	1.99%	3.57%	-2.23%
TIPS	4.32%	2.29%	N/A%
Barclays U.S. TIPS	4.35%	2.31%	2.63%
High Yield Bonds	-1.58%	2.58%	N/A%
Barclays High Yield	1.62%	4.18%	5.84%
Bank Loans	2.92%	3.96%	N/A%
CSFB Leveraged Loan	0.93%	3.04%	4.00%
Commodities	-5.68%	-5.31%	N/A%
Bbrg Cmdty Index (TR)	-13.34%	-10.56%	-10.83%
Natural Resources Public	-9.32%	-4.25%	N/A%
S&P Global LargeMid Cap Commodities & Resources	-9.16%	-4.01%	-6.93%
Natural Resources Private	1.44%	N/A%	N/A%
CPI + 4% (1-Quarter Lagged)	4.89%	4.79%	5.33%
Infrastructure Public	-0.07%	5.59%	N/A%
DJ Brookfield Global Infrastructure Index	3.22%	8.46%	9.61%
Infrastructure Private	-18.21%	N/A%	N/A%
CPI + 4% (1-Quarter Lagged)	5.05%	5.11%	5.37%
Private Equity	4.69%	11.85%	11.40%
Russell 3000 + 3% (1-Quarter Lagged)	2.65%	14.48%	14.34%
Private Real Estate	11.94%	12.07%	N/A%
NCREIF ODCE - Index (AWA) (Net) (1-Quarter Lagged)	12.62%	12.59%	12.20%
REITS	25.37%	11.54%	N/A%
FTSE NAREIT All Eq REITs TR Index	23.62%	13.31%	12.52%
Cash	0.4%	0.2%	0.2%
T-Bills (90 day lagged)	0.1%	0.1%	0.1%
Total Fund	1.38%	5.47%	5.28%
SBCERS Policy Benchmark	2.33%	6.14%	5.70%

Calculations were prepared using a time-weighted rate of return based on the market rate of return in accordance with Global Investment Performance Standards (BIPs).

Returns shown here for SBCERS are net of fees.

SCHEDULE OF TOP TEN EQUITY SECURITIES

As of June 30, 2016

Shares	Security Name	Fair Value
127,561	Altria Group Inc.	$ 8,796,607
115,520	General Mills Inc.	8,238,887
109,327	Verizon Comminications Inc.	6,104,820
41,391	Johnson & Johnson	5,020,728
59,396	Nestle SA	4,581,820
100,646	AT&T Inc.	4,348,914
40,623	PepsiCo Inc.	4,303,601
93,753	Coca-Cola Co.	4,249,823
119,280	Pfizer Inc.	4,199,849
40,199	Phillip Morris International	4,089,042

SCHEDULE OF TOP TEN BOND HOLDINGS

As of June 30, 2016

Par	Security Name	Fair Value
20,205,000	U.S. Treasury Note 1.375% maturity date 09/30/2020	$ 20,571,923
12,841,000	U.S. Treasury Note 1.625% maturity date 05/15/2026	12,998,045
7,030,000	U.S. Treasury Note 1.750% maturity date 09/30/2022	7,252,710
7,000,000	U.S. Treasury Bill 0.000% maturity date 08/11/2016	6,996,289
5,465,000	U.S. Treasury Bond 2.500% maturity date 02/15/2046	5,690,650
4,871,000	U.S. Treasury Note 1.625% maturity date 07/31/2020	5,008,947
4,259,000	U.S. Treasury Bond 3.000% maturity date 05/15/2045	4,895,337
4,750,000	U.S. Treasury Note 0.875% maturity date 07/31/2020	4,772,657
3,940,000	U.S. Treasury Note 0.875% maturity date 03/31/2018	3,959,227
2,900,000	U.S. Treasury Note 0.625% maturity date 07/31/2017	2,902,842

A complete list of portfolio holdings is available upon request.

INVESTMENT HOLDINGS - PENSION

As of June 30, 2016

Type Of Investment		Fair Value	% Of Portfolio
PRIVATE EQUITY	$	187,873,279	7.30%
Private Equity Total	$	187,873,279	7.30%
EQUITY			
Aerospace	$	10,582,577	0.42%
Basic Industries		29,710,432	1.16%
Business Services		30,915,473	1.20%
Capital Goods		2,682,427	0.10%
Chemicals		10,053,317	0.39%
Commercial Services		22,555,438	0.88%
Commingled Funds-US/Int'l		448,652,573	17.46%
Consumer Durables		23,341,169	0.91%
Consumer Non-Durables		13,953,269	0.54%
Energy		8,460,357	0.33%
Financial Services		32,224,913	1.25%
Health Care		23,008,593	0.90%
Industrial		24,693,361	0.96%
Insurance		42,608,781	1.66%
Media		8,097,768	0.32%
Other		98,537,563	3.83%
Pharmaceuticals		41,376,104	1.61%
Real Estate		12,416,017	0.48%
Technology		108,455,763	4.22%
Transportation		24,324,250	0.95%
Utilities		822,620	0.03%
Equity Total	$	1,017,472,765	39.60%
BONDS			
Asset Backed Securities	$	15,172,960	0.59%
Banking & Finance		32,961,000	1.28%
Collateralized Mortgage Obligations		61,567,910	2.40%
Commingled Funds US Debt		467,909,822	18.21%
Government Bonds - US		72,595,587	2.82%
Government Bonds - Int'l		32,149,388	1.25%
Health Care		5,856,589	0.23%
Housing		15,930,070	0.62%
Industrial		10,837,614	0.42%
Insurance		4,303,459	0.17%
Other Corporate Bonds		25,988,953	1.01%
Private Placements		41,303,537	1.61%
Utilities		24,360,128	0.95%
Bonds Total	$	810,937,017	31.56%
REAL ESTATE/REAL ASSETS			
Private Real Estate		225,252,499	8.77%
Real Assets		242,934,018	9.45%
Real Estate/Real Assets Total	$	468,186,517	18.22%
CASH AND SHORT-TERM INVESTMENTS		85,361,037	3.32%
Grand Total	**$**	**2,569,830,615**	**100.00%**

LIST OF INVESTMENT MANAGERS

Domestic Equity

US Equity

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

International Bonds

Foreign Bonds

- Aberdeen
- BlackRock
- Brandywine

Emerging Market Debt

- Stone Harbor

High Yield Bonds

- Aberdeen
- Hotchkis & Wiley

Bank Loans

- Beach Point

International Equity

Developed Markets

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

Emerging Markets

- BlackRock
- Dimensional Fund Advisors
- Vontobel

Frontier Markets

- Aberdeen

Small Cap

- Copper Rock

Natural Resources (Public)

- State Street Global Advisors

Natural Resources (Private)

- Hamilton Lane

Infrastructure (Public)

- Rare Infrastructure

Infrastructure (Private)

- Hamilton Lane

Real Estate

Private Real Estate

- ORG Real Estate

REITS

- Harrison Street

Real Assets

Commodities

- BlackRock
- Mount Lucas

Domestic Bonds

Investment Grade Bonds

- Aberdeen
- BlackRock
- Reams
- Schroders

TIPS

- BlackRock

Private Equity

- Hamilton Lane

SCHEDULE OF PROFESSIONAL FEES AND SERVICES

As of June 30, 2016

	Assets Under Management	Fees*	Basis Points
Investment Managers:			
Bond Managers	$ 812,315,084	$ 1,221,707	4.74
Equity Managers	1,019,536,946	4,031,121	15.64
Real Assets	242,934,018	474,841	1.84
Real Estate	225,252,499	43,819	0.17
Short-Term Investments	72,624,655	-	-
Alternative Equity	187,873,279	-	-
Total Investment Managers	2,560,536,481	5,771,488	22.39
Other:			
Cash	17,250,123	-	-
Custodian Fees	-	486,428	1.89
Investment Consultants Fees	-	1,508,063	5.85
Total Other	17,250,123	1,994,491	7.74
Total	**$ 2,577,786,604**	**$ 7,765,979**	**30.13**

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

Via Electronic Mail

December 5, 2016

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, 2016. This letter includes references to two documents produced by Cheiron for the Plan: the Actuarial Valuation Report as of June 30, 2015 (transmitted December 8, 2015) and the Governmental Accounting Standards Board (GASB) 67/68 Report as of June 30, 2016 (transmitted October 20, 2016).

Actuarial Valuation Report as of June 30, 2015

The purpose of the annual Actuarial Valuation Report as of June 30, 2015 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 2016-2017. The prior review was conducted as of June 30, 2014, and included recommended contribution rates for the Fiscal Year 2015-2016.

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, 2015 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, 2016 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, 2010 through June 30, 2013, and adopted by the Board on November 20, 2013. 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 2016.

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, 2016

The purpose of GASB 67/68 Report as of June 30, 2016 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, 2015 actuarial valuation updated to the measurement date of June 30, 2016. 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, 2015 updated to the measurement date of June 30, 2016. The June 30, 2016 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, 2015.

Please refer to our GASB 67 report as of June 30, 2016 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, 2016, 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.

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,

Graham A. Schmidt, ASA, EA, FCA, MAAA
Consulting Actuary
703-893-1456 x1137
gschmidt@cheiron.us

Anne D. Harper, FSA, EA, MAAA
Consulting Actuary
703-893-1456 x1107
aharper@cheiron.us

Via Electronic Mail

February 18, 2015

Board of Retirement
Santa Barbara County Employees' Retirement System
3916 State Street, Suite 210
Santa Barbara, CA 93105

Re: Santa Barbara County Employees' Retirement System - Other Post-Employment Benefits Valuation

Dear Members of the Board:

At your request, we have conducted an actuarial valuation for the Santa Barbara County Employees' Retirement System (SBCERS, the System, the Fund, the Plan) to complete its Other Post-Employment Benefits (OPEB) actuarial valuation as of June 30, 2014. The following report contains our findings and disclosures required by the Governmental Accounting Standards Board (GASB) standards, as well as commentary about GASB standards.

The purpose of this report is to present the actuarial valuation of the Santa Barbara County Employees' Retirement System's Other Post-Employment Benefits. This report is for the use of the County and its auditors in preparing financial reports in accordance with applicable law and accounting requirements.

Appendix A describes the member data, assumptions, and methods used in calculating the figures throughout the report. In preparing our report, we relied on information (some oral and some written) supplied by SBCERS. 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.

Appendix B contains a summary of the substantive plan provisions based on documentation provided by and discussions with the SBCERS staff.

The results of this report are based on future experience conforming to the actuarial assumptions used. The results will change to the extent that future experience differs from the assumptions. Actuarial computations are calculated based on our understanding of GASB 43 and 45 and are for purposes of fulfilling employer financial accounting requirements. Determinations for purposes other than meeting employer financial accounting requirements may be significantly different from the results in this report. This valuation report does not reflect future changes in benefits, penalties, taxes, or administrative costs that may be required as a result of the Patient Protection and Affordable Care Act of 2010, related legislation, or regulations.

1970 Broadway, Suite 1220, Oakland, CA 94612 Tel: 877-CHEIRON (243-4766) Fax: 703.893.2006 www.cheiron.us

Board of Retirement
Santa Barbara County Employees' Retirement System
February 18, 2015

The results of this valuation reflect only the financial condition of the Plan as of the valuation date. We recommend reviewing forecasts of the Plan's financial condition under alternative scenarios. Such forecasts, however, are beyond the scope of this assignment.

To the best of our knowledge, this report and its contents have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

This valuation report was prepared exclusively for SBCERS for the purposes described herein and for the use by the plan auditor in completing an audit related to the matters herein. This valuation report is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

Sincerely,
Cheiron

Graham Schmidt, ASA, FCA, MAAA
Consulting Actuary

Michael W. Schionning, FSA, MAAA
Principal Consulting Actuary

Andrew Gustely, ASA
Associate Actuary

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, 2013 Experience Study. The Board adopted the new assumptions on November 20, 2013. The total pension liability at June 30, 2016, was determined by completing a roll-forward calculation based on an actuarial valuation conducted as of June 30, 2015, 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). All actuarial methods and assumptions used for this GASB analysis were the same as those used for the June 30, 2015 funding valuation. The actuarial methods and assumptions for Other Post Employment Benefits (OPEB) can be found in the Notes to the Financial Statements.

ACTUARIAL COST METHOD

SBCERS uses the entry age normal actuarial cost method, with the total normal cost based on the sum of the normal costs for each individual active member (adopted November 20, 2013). The Unfunded Actuarial Accrued Liability (UAAL), if any, is amortized as a level of percentage of the projected salaries of present and future members of Santa Barbara County Employees Retirement System (SBCERS) over specified fixed periods of time. The Board of Retirement adopted a layered 19 year amortization with direct rate smoothing during its June 30, 2014 valuation which remains in effect for June 30, 2015, and June 30, 2016. The UAAL for periods prior to June 30, 2014 is being amortized as a single layer and funded over a “closed” 17 year period effective beginning the June 30, 2013 valuation (adopted November 20, 2013). The exception is that the additional UAAL attributable to the creation of Safety Plan 6 which is being amortized over a closed period and that period was 14 years as of the June 30, 2014 valuation. The amortization factors will change each year as the amortization periods decline, and will also change when the discount rate or salary assumptions are changed. Because the discount rate (investment return) and salary scale did change from prior valuation due to the Investigation of Experience, the amortization factors have changed from the previous valuation.

ACTUARIAL ASSET VALUATION METHOD

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

AMORTIZATION OF GAINS AND LOSSES

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

INVESTMENT RATE OF RETURN

Future investment earnings are assumed to accrue at an annual rate of 7.50%, compounded annually, exclusive of both investment, but not administrative, expenses effective June 30, 2013 (adopted November 20, 2013). The investment rate of return of 7.50% is comprised of 3.00% for Consumer Price Index (CPI) and 4.50% 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. For the June 30, 2014 actuarial valuation, a load of 3.1% has been applied to the employer and employee contribution rates, based on an assumed administrative expense amount of $ 4.25 million for the current Plan year.

PROJECTED SALARY INCREASES

Rates of annual salary increases (adopted November 20, 2013) assumed for the purpose of the valuation are:

- Variable percentage annually for merit and longevity based on service (duration) and
- 3.50% for inflation (cost-of-living adjustments – comprised of 3.00% for consumer price inflation and 0.5% for real wage inflation)

POST-RETIREMENT BENEFIT INCREASES

- Cost-of-Living benefit increases of 2.75% per year are assumed for the valuation in accordance with the maximum benefits provided for General Plan 5, Safety Plan 4, Safety Plan 6, Safety Plan 8 Public Employee' Pension Reform Act (PEPRA) and Air Pollution Control District (APCD) Plans 1 and 2 (adopted November 20, 2013).
- General Plan 7, General Plan 8 (PEPRA) and APCD Plan 8 (PEPRA) are limited to a maximum 2.0% cost of living adjustment.
- General Plan 2 is not eligible to receive these adjustments (adopted February 21, 2001).

EXPECTATION OF LIFE AFTER RETIREMENT

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

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

EXPECTATION OF LIFE AFTER DISABILITY

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

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

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

MORTALITY TABLES IMPACT ON EMPLOYEE CONTRIBUTION RATES

Member contribution rates will be based on the following sex distinct mortality tables adjusted by ages and used regardless of gender:

RP-2000 Combined Mortality Table Projected to 2037 Using Scale BB assumptions (adopted November 20, 2013):

- For General members, a blending of 35% of the Male table and 65% of the Female table
- For Safety members, a blending of 80% of the Male table and 20% of the Female table

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

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:

Service Retirement: Member retires after satisfaction of requirements of age and/or service for reasons other than disability.

Duty Disability: Member receives disability retirement; disability is employment related.

Ordinary Disability: Member receives disability retirement; disability not employment related.

Ordinary Death: Member dies prior to eligibility for retirement; death not employment related.

Service Death: Member dies in service as a result of injury or disease arising out of and in the course of employment.

Other Terminations: Member terminates and requests a refund of member contributions and/or terminates and leaves the contributions on deposit (vested terminations).

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

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

AGE ASSUMPTION FOR COMMENCEMENT OF RETIREMENT

Assumptions effective June 30, 2013

PLAN	AGE
General Plan 2	65
General Plan 5,7 & 8	58
Safety Plan 4 & 8	54
Safety Plan 6	50
APCD	58

RATE OF SEPARATION FROM ACTIVE SERVICE

Assumptions effective June 30, 2013

GENERAL MEMBERS – MALE

Age	Service Retirement	Duty Disability	Ordinary Disability	Ordinary Death	Years of Service	Other Terminations
20	0.0%	0.00%	0.01%	0.03%	**5**	5.50%
30	0.0%	0.00%	0.01%	0.04%	**10**	3.90%
40	3.0%	0.01%	0.01%	0.01%	**15**	2.90%
50	3.0%	0.09%	0.14%	0.16%	**20**	2.20%
60	15.0%	0.18%	0.27%	0.45%	**25**	0.80%
70	25.0%	0.18%	0.27%	1.55%	**30+**	0.00%
75	100.0%	0.00%	0.00%	0.00%		

RATE OF SEPARATION FROM ACTIVE SERVICE

Assumptions effective June 30, 2013

GENERAL MEMBERS – FEMALE

Age	Service Retirement	Duty Disability	Ordinary Disability	Ordinary Death	Years of Service	Other Terminations
20	0.0%	0.00%	0.01%	0.02%	**5**	5.50%
30	0.0%	0.00%	0.01%	0.02%	**10**	3.60%
40	7.0%	0.01%	0.01%	0.05%	**15**	2.40%
50	7.0%	0.09%	0.14%	0.10%	**20**	1.70%
60	15.0%	0.18%	0.27%	0.29%	**25**	1.20%
70	25.0%	0.18%	0.27%	1.04%	**30+**	0.00%
75	100.0%	0.00%	0.00%	0.00%		

RATE OF SEPARATION FROM ACTIVE SERVICE

Assumptions effective June 30, 2013

SAFETY PLAN 4 MEMBERS - MALE

Age	Service Retirement	Duty Disability	Ordinary Disability	Service Death	Ordinary Death	Years of Service	Other Terminations
20	0.0%	0.09%	0.01%	0.01%	0.01%	5	3.00%
30	2.0%	0.14%	0.02%	0.01%	0.01%	10	2.10%
40	2.0%	0.23%	0.03%	0.01%	0.01%	15	1.20%
50	8.0%	0.05%	0.06%	0.01%	0.01%	20+	0.00%
60	25.0%	0.72%	0.08%	0.01%	0.01%		
65	100.0%	0.00%	0.00%	0.00%	0.00%		

RATE OF SEPARATION FROM ACTIVE SERVICE

Assumptions effective June 30, 2013

SAFETY PLAN 4 MEMBERS - FEMALE

Age	Service Retirement	Duty Disability	Ordinary Disability	Service Death	Ordinary Death	Years of Service	Other Terminations
20	0.0%	0.09%	0.01%	0.01%	0.02%	5	3.00%
30	2.0%	0.14%	0.02%	0.01%	0.02%	10	2.10%
40	2.0%	0.23%	0.03%	0.01%	0.05%	15	1.20%
50	8.0%	0.50%	0.06%	0.01%	0.10%	20+	0.00%
60	25.0%	0.72%	0.08%	0.01%	0.29%		
65	100.0%	0.00%	0.00%	0.00%	0.00%		

RATE OF SEPARATION FROM ACTIVE SERVICE

Assumptions effective June 30, 2013

SAFETY PLAN 6 MEMBERS - MALE

Age	Service Retirement	Duty Disability	Ordinary Disability	Service Death	Ordinary Death	Years of Service	Other Terminations
20	0.0%	0.09%	0.01%	0.01%	0.03%	5	3.00%
30	2.0%	0.14%	0.15%	0.01%	0.04%	10	2.10%
40	2.0%	0.23%	0.03%	0.01%	0.09%	15	1.20%
50	2.0%	0.50%	0.06%	0.01%	0.16%	20+	0.00%
60	25.0%	0.72%	0.08%	0.01%	0.45%		
65	100.0%	0.00%	0.00%	0.00%	0.00%		

RATE OF SEPARATION FROM ACTIVE SERVICE

Assumptions effective June 30, 2013

SAFETY PLAN 6 MEMBERS - FEMALE

Age	Service Retirement	Duty Disability	Ordinary Disability	Service Death	Ordinary Death	Years of Service	Other Terminations
20	0.0%	0.09%	0.01%	0.01%	0.02%	5	3.00%
30	2.0%	0.14%	0.02%	0.01%	0.02%	10	2.10%
40	2.0%	0.23%	0.03%	0.01%	0.05%	15	1.20%
50	2.0%	0.50%	0.06%	0.01%	0.10%	20+	0.00%
60	25.0%	0.72%	0.08%	0.01%	0.29%		
65	100.0%	0.00%	0.00%	0.00%	0.00%		

MORTALITY FOR MEMBERS - RETIRED FOR SERVICE

Assumptions effective June 30, 2013 (for the year 2013)

	GENERAL		SAFETY	
Age	**Male**	**Female**	**Male**	**Female**
20	0.03%	0.02%	0.03%	0.02%
25	0.03%	0.02%	0.03%	0.02%
30	0.04%	0.02%	0.04%	0.02%
35	0.06%	0.03%	0.06%	0.03%
40	0.09%	0.05%	0.09%	0.05%
45	0.12%	0.07%	0.12%	0.07%
50	0.16%	0.10%	0.16%	0.10%
55	0.24%	0.16%	0.24%	0.16%
60	0.45%	0.29%	0.45%	0.29%
65	0.87%	0.55%	0.87%	0.55%
70	1.55%	1.04%	1.55%	1.04%
75	2.61%	1.75%	2.61%	1.75%
80	4.62%	2.86%	4.62%	2.86%
85	8.28%	4.73%	8.28%	4.73%
90	14.32%	8.22%	14.32%	8.22%

MORTALITY FOR MEMBERS - RETIRED FOR DISABILITY

Assumptions effective June 30, 2013 (for the year 2013)

	GENERAL		SAFETY	
Age	**Male**	**Female**	**Male**	**Female**
20	0.03%	0.02%	0.03%	0.02%
25	0.03%	0.02%	0.03%	0.02%
30	0.04%	0.02%	0.04%	0.02%
35	0.07%	0.04%	0.07%	0.04%
40	0.10%	0.06%	0.10%	0.06%
45	0.13%	0.10%	0.13%	0.10%
50	0.18%	0.14%	0.18%	0.14%
55	0.30%	0.25%	0.30%	0.25%
60	0.57%	0.48%	0.57%	0.48%
65	1.11%	0.92%	1.11%	0.92%
70	1.91%	1.59%	1.91%	1.59%
75	3.29%	2.59%	3.29%	2.59%
80	5.82%	4.28%	5.82%	4.28%
85	10.32%	7.29%	10.32%	7.29%
90	17.62%	12.78%	17.62%	12.78%

SALARY INCREASE ASSUMPTIONS

SALARY INCREASE ASSUMPTIONS

Assumptions effective June 30, 2013

GENERAL MEMBERS

Years of Service	Due to Promotion & Longevity	Total Annual Increase	Years of Service	Due to Promotion & Longevity	Total Annual Increase
<1	4.75%	8.68%	**16**	0.50%	4.27%
1	4.00%	7.90%	**17**	0.48%	4.25%
2	3.25%	7.12%	**18**	0.46%	4.23%
3	2.50%	6.34%	**19**	0.44%	4.21%
4	2.00%	5.83%	**20**	0.42%	4.19%
5	1.50%	5.31%	**21**	0.40%	4.16%
6	1.25%	5.05%	**22**	0.38%	4.14%
7	1.00%	4.79%	**23**	0.36%	4.12%
8	0.90%	4.68%	**24**	0.34%	4.10%
9	0.80%	4.58%	**25**	0.32%	4.08%
10	0.78%	4.55%	**26**	0.30%	4.06%
11	0.75%	4.53%	**27**	0.28%	4.04%
12	0.70%	4.48%	**28**	0.26%	4.02%
13	0.65%	4.42%	**29**	0.25%	4.01%
14	0.60%	4.37%	**30+**	0.25%	4.01%
15	0.55%	4.32%			

The total expected increase in salary is the increase due to promotions and longevity, adjusted for an assumed 3.50% per annum increase in the general wage level of the membership. The total result is compounded rather than additive.

SALARY INCREASE ASSUMPTIONS

Assumptions effective June 30, 2013

SAFETY MEMBERS

Years of Service	Due to Promotion & Longevity	Total Annual Increase	Years of Service	Due to Promotion & Longevity	Total Annual Increase
<1	6.00%	9.98%	**16**	0.82%	4.60%
1	5.00%	8.94%	**17**	0.80%	4.57%
2	4.00%	7.90%	**18**	0.77%	4.55%
3	3.25%	7.12%	**19**	0.74%	4.52%
4	2.50%	6.34%	**20**	0.72%	4.50%
5	2.00%	5.83%	**21**	0.69%	4.47%
6	1.60%	5.41%	**22**	0.67%	4.45%
7	1.30%	5.10%	**23**	0.64%	4.42%
8	1.20%	4.99%	**24**	0.62%	4.39%
9	1.10%	4.89%	**25**	0.59%	4.37%
10	1.00%	4.79%	**26**	0.57%	4.34%
11	0.95%	4.74%	**27**	0.54%	4.32%
12	0.92%	4.70%	**28**	0.52%	4.29%
13	0.89%	4.68%	**29**	0.50%	4.27%
14	0.87%	4.65%	**30+**	0.50%	4.27%
15	0.85%	4.63%			

The total expected increase in salary is the increase due to promotions and longevity, adjusted for an assumed 3.50% per annum increase in the general wage level of the membership. The total result is compounded rather than additive.

IMMEDIATE REFUND OF CONTRIBUTIONS UPON TERMINATION OF EMPLOYMENT

Assumptions effective June 30, 2013

GENERAL & SAFETY MEMBERS

Years of Service	General Male	General Female	Safety
0	100%	100%	100%
5	40%	40%	25%
10	25%	25%	0%
15	10%	10%	0%
20	10%	10%	0%
25	0%	10%	0%
30+	0%	0%	0%

ACTIVE MEMBER DATA

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date	Plan Type	Active Members		Average Annual Salary		Average	% Increase in Average Salary
June 30, 2011	General	3,198	$	222,046,000	$	69,433	1.1%
	Safety	904		81,025,000		89,630	3.5%
	APCD	46		3,457,000		75,152	-7.0%
	Total	**4,148**	$	**306,528,000**	$	**73,898**	**1.6%**
June 30, 2012	General	3,141	$	220,234,000	$	70,116	1.0%
	Safety	885		79,168,000		89,456	-0.2%
	APCD	46		3,475,000		75,548	0.5%
	Total	**4,072**	$	**302,877,000**	$	**74,380**	**0.7%**
June 30, 2013	General	3,161	$	216,968,000	$	68,639	2.1%
	Safety	904		81,004,000		89,606	0.2%
	APCD	43		3,344,000		77,767	2.9%
	Total	**4,108**	$	**301,316,000**	$	**73,349**	**-1.4%**
June 30, 2014	General	3,226	$	221,733,000	$	68,733	0.1%
	Safety	910		83,659,000		91,933	2.6%
	APCD	41		3,335,000		81,341	4.6%
	Total	**4,177**	$	**308,727,000**	$	**73,911**	**0.8%**
June 30, 2015	General	3,307	$	231,757,487	$	70,081	1.96%
	Safety	931		86,077,154		92,457	0.57%
	APCD	40		3,079,706		76,993	-5.35%
	Total	**4,278**	$	**320,914,347**	$	**75,015**	**1.49%**
June 30, 2016	General	3,394	$	241,729,055	$	71,222	1.63%
	Safety	916		86,041,656		93,932	1.60%
	APCD	38		2,979,643		78,412	1.84%
	Total	**4,348**	$	**330,750,354**	$	**76,070**	**1.41%**

SCHEDULE OF RETIREES & BENEFICIARIES ADDED TO AND REMOVED FROM RETIREMENT PAYROLL - PENSION

	Added to Rolls		Removed from Rolls		Rolls at End of Year			
Fiscal Year	Member Count	Annual Allowance*	Member Count	Annual Allowance	Member Count	Annual Allowance	% Increase in Allowance	Average Annual Allowance
2007	203	$ 7,348,140	-70	$ (1,165,047)	2,812	$ 70,763,105	9.6%	$ 25,165
2008	232	$ 8,624,426	-72	$ (1,213,017)	2,972	$ 83,023,412	17.3%	$ 27,935
2009	239	$ 8,842,975	-94	$ (2,084,942)	3,117	$ 92,275,326	11.1%	$ 29,604
2010	301	$ 13,005,361	-100	$ 2,443,989	3,318	$ 104,978,781	13.8%	$ 31,639
2011	192	$ 5,922,775	-123	$ 2,942,348	3,387	$ 110,219,174	0.5%	$ 32,542
2012	226	$ 9,082,861	-106	$ 2,884,973	3,507	$ 118,545,000	7.6%	$ 33,802
2013	364**	$ 8,811,248	-98	$ 1,787,108	3,773	$ 126,691,263	6.9%	$ 33,578
2014	203	$ 6,842,058	-79	$ 2,112,523	3,897	$ 132,766,493	4.8%	$ 34,069
2015	241	$ 9,044,486	-108	$ 2,627,746	4,030	$ 141,193,001	6.3%	$ 35,035
2016	244	$ 9,705,939	-103	$ 2,534,190	4,171	$ 149,683,889	6.0%	$ 35,886

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

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

ACTUARIAL SOVENCY TEST

PENSION PLAN

ACTUARIAL SOLVENCY TEST - PENSION

(Dollars in Thousands)

		Actuarial Accrued Liabilities (AAL) for						
Valuation Date	Valuation Assets	Active Member Contribution (A)	Retirees and Beneficiaries (B)	Active Members (Employer Financed) (C)	Total AAL	Portion of Accrued Liabilities Covered by Reported Assets (A)	(B)	(C)
6/30/2010	$ 1,927,299	$ 162,432	$ 1,483,728	$ 969,987	$ 2,616,147	100%	100%	29.0%
6/30/2011	$ 2,007,859	$ 165,774	$ 1,559,716	$ 1,024,324	$ 2,749,814	100%	100%	28.0%
6/30/2012	$ 2,046,641	$ 165,623	$ 1,660,773	$ 1,047,987	$ 2,874,383	100%	100%	21.0%
6/30/2013 *	$ 2,150,006	$ 171,614	$ 1,747,430	$ 1,049,090	$ 2,968,134	100%	100%	22.0%
6/30/2014	$ 2,513,630	$ 174,958	$ 1,822,654	$ 1,100,403	$ 3,098,015	100%	100%	47.0%
6/30/2015	$ 2,532,529	$ 178,233	$ 1,926,975	$ 1,125,926	$ 3,231,134	100%	100%	38.0%

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

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE - PENSION

(Dollars in Millions)

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

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

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%

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

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

	July 1, 2012	June 30, 2014	% Change
Active Employees*			
Member Count	4,063.00	3,707.00	-8.76%
Average Age	45.80	46.80	2.18%
Average Service	12.00	13.80	15.00%
Total Payroll	$ 302,378,528	$ 282,962,944	-6.42%
Terminated Vested Participants Count	878	890	1.37%
Average Age	48.1	48.5	0.83%
Inactive Participants			
Retired Participants Count	2,767	3,246	17.31%
Average Age	69.1	69.2	0.14%
Disabled Participants Count	238	240	0.84%
Average Age	65.3	65.5	0.31%
Surviving Spouses Count	358	408	13.97%
Average Age	74.8	74.6	-0.27%
Total Count of Inactive Participants	3,363	3,894	15.79%

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

SUMMARY OF MAJOR PENSION PLAN PROVISIONS

ELIGIBILITY

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

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

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

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

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

FINAL COMPENSATION

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

SERVICE RETIREMENT

Normal Retirement Age

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

Early Retirement

- Age 50 and 10 years for General Plan 5, 7, and APCD Plan
- Age 55 and 10 years for General Plan 2
- Age 50 and 10 years for Safety Plan 4
- Age 52 and 5 years for General Plan 8 (PEPRA)
- Age 50 and 5 years for Safety Plan 8 (PEPRA)

  OR
- 30 years for General Plan 5, 7 and APCD Plan (other than Plan 8)
- 20 years for Safety Plans 4 and 6

Benefit at Normal Retirement Age

- 2% of final average salary per year of service times age factor (§31676.12 and §31676.15, respectively) for General Plan 5, 7, and APCD Plan.
- 1/60 of final average salary per year of service times age factor (§31676.1) for General Plan 7.
- 2% of final average salary per year of service (maximum 35 years) plus 1% of final average salary per year of service in excess of 35 (maximum 10 years) reduced by 1/35 of Social Security benefit at age 65 per year of service (maximum 35 years) for General Plan 2.
- 3% of final average salary per year of service times age factor for Safety Plans 4 (§31664.2) and 6 (§31664.1).
- 1% of final average salary per year of service at age 52, increasing by 0.1% for each year of age to 2.5% at age 67 for General Plan 8 (PEPRA). In between exact ages, the multiplier will increase by 0.025% for each quarter year increase in age.
- 2% of final average salary per year of service at age 50, increasing by 0.1% for each year of age to 2.7% at age 57 for Safety Plan 8 (PEPRA). In between exact ages, the multiplier will increase by 0.025% for each quarter year increase in age.

Benefit adjustments

Reduced for retirement before:

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

Reductions for §31486.4 are actuarial equivalents

Increased for retirement after:

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

DISABILITY RETIREMENT

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

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

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

DEATH BEFORE RETIREMENT

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

DEATH AFTER RETIREMENT

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

VESTING

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

MEMBER'S CONTRIBUTIONS

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

MAXIMUM BENEFIT

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

COST-OF-LIVING

- Up to 2.75% cost-of-living adjustment for General Plans 5, Safety Plans 4, 6, and 8 (PEPRA), and APCD Plans 1 and 2.
- Limited to a maximum 2% cost-of-living adjustment for General Plan 7 and any General Plan 8 members where the employer had adopted 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 (SBCERS or the System) economic condition. The following schedules reflect financial trend and operating information.

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

SCHEDULE OF ADDITONS TO PLAN BY SOURCE

Fiscal Year	Member Contributions	Employer Contributions	Gross Return on Investments	Investment Expenses	Other Income	Total
2007	$ 15,853,139	$ 63,395,296	$ 285,497,505	$ (13,887,027)	$ 2,233,265	$ 353,092,178
2008	15,479,629	69,460,616	(122,988,456)	(10,260,776)	629,238	(47,679,749)
2009	11,083,461	83,118,559	(328,434,883)	(5,321,065)	63,736	(239,490,192)
2010	11,648,995	93,429,332	198,920,921	(4,306,777)	228,877	299,921,348
2011	10,843,091	103,102,443	350,862,466	(5,141,373)	23,724,517	483,391,144
2012	14,524,627	117,126,395	44,319,664	(5,935,784)	223,470	170,258,372
2013	19,023,527	118,940,302	174,387,739	(6,175,490)	395,294	306,571,372
2014	14,514,010	128,126,717	335,037,717	(5,906,399)	543,990	472,316,035
2015	16,622,138	133,033,308	27,656,731	(6,899,225)	689,829	171,102,781
2016	18,311,646	134,445,930	39,484,948	(7,636,818)	1,527,699	186,133,405

SCHEDULE OF DEDUCTIONS TO PLAN BY TYPE

Fiscal Year	Benefits Paid	Member Withdrawals	Administrative Expenses	Total
2007	$ 76,846,452	$ 1,883,614	$ 5,619,908	$ 84,349,974
2008	84,409,181	1,819,710	3,604,096	89,832,987
2009	95,259,946	1,609,893	3,900,782	100,770,621
2010	105,642,308	1,319,448	4,045,903	111,007,659
2011	114,697,730	1,476,583	4,112,150	120,286,463
2012	121,684,623	1,071,850	4,023,062	126,779,535
2013	130,222,106	591,490	4,239,711	135,053,307
2014	138,898,965	812,467	4,607,478	144,318,910
2015	145,507,792	966,902	4,817,662	151,292,356
2016	154,527,560	946,405	5,600,783	161,074,748

SCHEDULE OF BENEFIT EXPENSES OF PLAN BY TYPE

Fiscal Year	Benefits Paid General	Benefits Paid Safety	Benefits Paid APCD	Death Benefits	OPEB Benefits	Total
2007	$ 46,357,692	$ 29,787,719	$ 418,508	$ 282,533	$ -	$ 76,846,452
2008	50,680,926	32,900,009	596,896	231,350	-	84,409,181
2009	50,499,643	37,495,522	710,087	475,527	6,079,167	95,259,946
2010	55,347,535	41,389,618	793,023	283,040	7,829,092	105,642,308
2011	59,908,869	45,400,748	980,330	371,566	8,036,217	114,697,730
2012	66,495,891	45,227,106	1,113,117	689,875	8,158,634	121,684,623
2013	64,629,373	55,375,280	1,520,394	330,305	8,366,754	130,222,106
2014	73,086,778	55,050,002	1,738,768	412,570	8,610,847	138,898,965
2015	76,809,418	57,519,938	2,051,853	423,108	8,703,475	145,507,792
2016	81,831,563	61,167,215	2,324,366	388,167	8,816,249	154,527,560

SCHEDULE OF PARTICIPATING EMPLOYERS

For the years ended June 30, 2016 and 2015

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

Data is for Pension Plan only.

SCHEDULE OF EMPLOYER CONTRIBUTION RATES

Effective July 2015

Plan		APCD	SB County & SB Courts		Special Districts
General	APCD 1	38.08%			
	APCD 2	36.84%			
	APCD 8	29.90%			
General	Plan 2		20.40%		
	Plan 5A		31.64%	*	31.64%
	Plan 5B		32.08%		
	Plan 5C		33.23%		
	Plan 7		30.16%		
	Plan 8		25.35%		
Safety	Plan 4A		52.00%		52.00%
	Plan 4B		49.95%		
	Plan 4C		51.44%		
	Plan 6A		58.29%		
	Plan 6B		58.41%		
	Plan 8		40.67%		

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

SCHEDULE OF AVERAGE BENEFIT PAYMENTS

	Years of Retirement					
	0-9	10-14	15-19	20-24	25-29	30+
June 30, 2007						
Average Monthly Benefit	$ 2,462	$ 2,045	$ 1,906	$ 1,510	$ 1,056	$ 1,113
Average Annual Benefit	$ 29,544	$ 24,540	$ 22,872	$ 18,120	$ 12,672	$ 13,356
Number of Active Retirees	1,566	349	314	232	207	144
June 30, 2008						
Average Monthly Benefit	$ 2,651	$ 2,176	$ 2,106	$ 1,764	$ 1,310	$ 1,332
Average Annual Benefit	$ 31,812	$ 26,112	$ 25,272	$ 21,168	$ 15,720	$ 15,984
Number of Active Retirees	1,776	340	305	228	192	131
June 30, 2009						
Average Monthly Benefit	$ 2,835	$ 2,321	$ 2,232	$ 1,960	$ 1,603	$ 1,378
Average Annual Benefit	$ 34,020	$ 27,852	$ 26,784	$ 23,520	$ 19,236	$ 16,536
Number of Active Retirees	1,742	485	296	228	177	207
June 30, 2010						
Average Monthly Benefit	$ 3,049	$ 2,419	$ 2,213	$ 2,180	$ 1,733	$ 1,406
Average Annual Benefit	$ 36,588	$ 29,028	$ 26,556	$ 26,160	$ 20,796	$ 16,872
Number of Active Retirees	1,858	537	320	221	173	209
June 30, 2011						
Average Monthly Benefit	$ 3,099	$ 2,455	$ 2,350	$ 2,326	$ 1,894	$ 1,448
Average Annual Benefit	$ 37,188	$ 29,460	$ 28,200	$ 27,912	$ 22,728	$ 17,376
Number of Active Retirees	1,912	556	308	244	162	205
June 30, 2012						
Average Monthly Benefit	$ 3,202	$ 2,673	$ 2,374	$ 2,363	$ 1,968	$ 1,545
Average Annual Benefit	$ 38,424	$ 32,076	$ 24,488	$ 28,356	$ 23,616	$ 18,540
Number of Active Retirees	1,949	612	311	264	157	214
June 30, 2013						
Average Monthly Benefit	$ 3,082	$ 2,856	$ 2,282	$ 2,518	$ 2,028	$ 1,625
Average Annual Benefit	$ 36,987	$ 34,271	$ 27,387	$ 30,212	$ 24,334	$ 19,503
Number of Active Retirees	2,080	692	361	270	162	208
June 30, 2014						
Average Monthly Benefit	$ 3,121	$ 2,838	$ 2,552	$ 2,402	$ 2,222	$ 1,716
Average Annual Benefit	$ 37,452	$ 34,056	$ 30,624	$ 28,824	$ 26,664	$ 20,592
Number of Active Retirees	2,097	731	423	247	175	224
June 30, 2015						
Average Monthly Benefit	$ 3,173	$ 3,040	$ 2,632	$ 2,354	$ 2,387	$ 1,779
Average Annual Benefit	$ 38,076	$ 36,480	$ 31,584	$ 28,248	$ 28,644	$ 21,348
Number of Active Retirees	2,128	766	473	273	172	218
June 30, 2016						
Average Monthly Benefit	$ 3,270	$ 3,079	$ 2,633	$ 2,441	$ 2,421	$ 1,850
Average Annual Benefit	$ 39,240	$ 36,948	$ 31,596	$ 29,292	$ 29,052	$ 22,200
Number of Active Retirees	2,170	832	496	271	185	217

GLOSSARY

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

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

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

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

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

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

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

AUDITOR'S REPORT: In the context of a financial audit, a statement by the auditor describing the scope of the audit and the auditing standards applied in the examination, and setting forth the auditor's opinion on the fairness of presentation of the financial information in conformity with accounting principles generally accepted in the United States of America (GAAP) or other comprehensive basis of accounting.

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

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

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

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

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

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

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

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