SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
A Component Unit of the City of Sacramento, California

Annual Financial Report

Fiscal Year Ended June 30, 2016
(With Comparative Totals as of June 30, 2015)

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
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Fiscal Year Ended June 30, 2016

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December 23, 2016

TO: Members of the Sacramento City Employees' Retirement System
Members of the Sacramento City Council

Transmitted herewith is the annual report of the Administration, Investment and Fiscal Management Board (Board) for the Sacramento City Employees' Retirement System (SCERS or System). This report addresses Board membership, history, investment objectives, asset allocation, financial results, members' interest credit, fund performance, administration highlights, independent auditor's report and the actuarial report for the fiscal year ended June 30, 2016.

The Annual Financial Report consists of three main sections: an Introductory Section which contains this letter of transmittal and the identification of the administrative organization and consulting services utilized by SCERS; the Financial Section which contains the Independent Auditor's Report; Management's Discussion and Analysis (MD&A), and the financial statements of SCERS; and the Actuarial Section which contains the independent consulting actuary's valuation along with related actuarial data and statements.

The accuracy and completeness of the data contained in this report is the sole responsibility of the management of the Sacramento City Employees' Retirement System.

BOARD MEMBERSHIP

As set out in the Sacramento City Charter, the Board is comprised of five members, three of whom are City officials (or their designees), and two of whom are public citizen members appointed by the City Council. The Sacramento City Manager, City Treasurer and Director of Finance are the City officials designated to serve on this Board. By City Charter, the public citizen members must be residents of the City of Sacramento, not connected with City government, and at least one of these members must be qualified by training and experience in the management and investment of funds.

The members of the Board as of the close of the fiscal year are as follows:

City Officials
John F. Shirey, City Manager (Dennis Kauffman, Designee)
John Colville, Interim City Treasurer
Leyne Milstein, Director of Finance

Public Citizen Members
David DeCamilla - President, DeCamilla Capital Management
Manuel Leon – State of California

David DeCamilla was re-elected by the Board in January 2010 to serve as Board Chair, a position he has held since January 1988. Mr. DeCamilla has served on the Board since February 1985, starting with a partial term as replacement for a departing boardmember and continuously in full term appointments from February, 1998 to the present. Mr. DeCamilla's current term expires on January 4, 2017.

Manuel Leon, an employee of the State of California, State Senate, was appointed to the Board in February, 2016 as a public citizen Board member and has served as the Vice-Chair since April, 2016.

John Colville, Interim City Treasurer, was appointed to his current position in February, 2016 and assumed his position on the Board at that time. Prior to his appointment as Interim City Treasurer, Mr. Colville served as Chief Investment Officer for the City and supervised the investment activities of the City Treasurer's Office, including the investment of City and SCERS funds. Mr. Colville has been a City employee since 2004.

John F. Shirey, City Manager, was appointed to his current position on September 1, 2011 and assumed the Board membership position. Mr. Shirey appointed Dennis Kauffman, Finance Operations Manager as his designee on the Board. Mr. Kauffman was appointed to the position of Accounting Manager in 2014 and has been a City employee since 2000.

Leyne Milstein, Finance Director, assumed Board membership at the time she was appointed to her current position in October 2008. Prior to this appointment, Ms. Milstein held the position of Budget Manager and has been a City employee since 2005.

HISTORY

SCERS (the System) is a defined benefit plan in which retirement benefits for City member employees are based upon age, final compensation and length of service. City employee members make contributions to the System and, until 1993, the City made a normal contribution which was a percentage of total City payrolls. These cash payments plus the income they earn are held in trust to meet the retirement benefits of members. However, if these assets prove inadequate to meet the defined benefits, the City of Sacramento must find additional sources of monies to pay benefits. Between fiscal year 1988/1989 and fiscal year 2006/2007, the System was fully funded or in an actuarial surplus condition, and the City was not required to make contributions to the System during this time period. The City has been required to make contributions from fiscal year 2007/2008 through the present.

In 1977, with the passage of Measure E, SCERS became a closed system. Since that time, all full-time and eligible part-time employees of the City participate in the California Public Employees' Retirement System (CalPERS) rather than SCERS. In 1977 the average age of SCERS active members was 36 years.

In June 1989, the voters of Sacramento approved the transfer of SCERS active safety members to CalPERS. Effective December 30, 1989, SCERS active safety members were transferred to CalPERS with a cash transfer of $103.3 million in January 1990. As of June 30, 2016, the average age of SCERS active members is 62.2 years and the average years of service is 33.9 years. As of said date, there are 16 active miscellaneous members and a total of 1,138 plan participants.

INVESTMENT OBJECTIVES

The overarching goal of the SCERS investment program is to generate adequate long-term returns that, when combined with employer and employee contributions, will result in sufficient assets to pay the present and future obligations of the System. In furtherance of this goal, the Board has adopted an investment policy that, among other things, authorizes the prudent investment in different asset classes to promote both long term returns and short term cash needs. The emphasis on cash income and fixed-income investments are intended to meet current benefit payments on a continuing basis, while equity investments are intended to grow the asset base with dividend income providing additional support for current benefit payments.

The emphasis on interest revenue and dividend income is particularly important for SCERS as there are no new entrants to the system to provide a continuing or increasing source of funds to help cover the liabilities of the system, and cash payments for benefits have exceeded contributions since 1989. Accordingly, the cash generation emphasis in SCERS investments is a critical feature required out of SCERS status as a "closed" fund, i.e. a fund that has negligible and declining numbers of active, contributing members. Equity investments are permitted in order to inject an element of growth within the investment portfolios, but equity allocations are less than the levels utilized by other pension plans so that the volatility inherent in equity investments will not unduly interfere with the ability of the investments to generate an adequate level of cash flow.

The Board annually reviews and approves the SCERS investment policy and forwards the same to the City Council for its approval pursuant to City Charter requirements. All SCERS investments are held by a third-party custodian, except for real estate trust deeds.

ASSET ALLOCATION

The Board typically reviews its asset allocation on an annual basis. On February 23, 2015, the Board established the asset allocation of the investment of SCERS funds during the fiscal year ending June 30, 2016. The Board voted to continue the balanced asset allocation policy approved the prior year as follows:

Fixed Income	
Fixed Bond	40%
Equity	
Large Cap Growth	35%
Equity Income	15%
International	10%
	100%

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On February 22, 2016, the Board adopted the following asset allocation to be effective for the fiscal year beginning July 1, 2016:

Fixed Income	
Fixed Bond	40%
Equity	
Large Cap Growth	35%
Equity Income	20%
International	5%
	100%

ACTUARIAL EARNING ASSUMPTION

During the fiscal year, SCERS actuarial earnings assumption was 6.5 percent.

FINANCIAL RESULTS

The plan net position of SCERS decreased from $301.263 million to $285.170 million by the end of fiscal year ended June 30, 2016. This $16.093 million decrease is summarized as follows:

SCERS PLAN NET POSITION	$ in thousands
Plan net position 6/30/15	$ 301,263
Members Contributions	146
City Contributions	8,645
Net Investment Income	8,937
Benefit Payments & Expenses	(33,821)
Plan net position 6/30/16	$ 285,170

SCERS' Actuarial Accrued Liability (AAL) as of June 30, 2016 is approximately $366.1 million. AAL represents the present value of all future benefits that will be paid by SCERS. SCERS funding ratio using market value of assets was 77.9 percent on June 30, 2016. The funding ratio is defined as that portion of the total AAL for which there are assets available for benefits. In general, this indicates that for every dollar of benefits due, SCERS has approximately $0.78 of assets available for payment.

An actuarial analysis of assets shows the rate of investment return for fiscal 2015-16 was 2.7 percent net of investment expense, which is below the assumed actuarial rate of return of 6.5 percent per annum.

TOTAL FUND PERFORMANCE

As required by the SCERS Investment Policy, to accomplish the calculation of total investment return and investment performance measurement, the Board retained a third-party firm, namely Segal Rogerscasey (formerly Rogerscasey). Segal Rogerscasey is an independent fund evaluation and performance measurement service that calculates and reports the investment results of over 2,500 managed pension investment portfolios in the U.S. Segal Rogerscasey calculates the investment results of the managed portfolios and compares such results to the database of predetermined industry benchmarks.

Table 1 below shows investment return results of SCERS for the specified periods ended June 30, 2016:

Table 1

SCERS Total Rate of Return
TOTAL PLAN ASSETS
For the periods ended June 30, 2016

Annualized Compound Returns	1 Yr.	3 Yrs.	10 Yrs.
SCERS – All Funds	3.15%	7.39%	5.77%
Custom Index – Target	4.62%	6.71%	5.18%
Actuarial Assumption	6.50%	6.50%	6.50%

A review of the total fund investment performance for the fiscal year ended June 30, 2016 shows a 3.15 percent overall return on SCERS assets.

Performance of SCERS' investments should be considered in light of the particular attributes presented by the System and the characteristics and demographics of its membership, both active members and retirees. The System's returns are not directly comparable to other the vast majority of pension funds in existence today, particularly those whose investment objectives require less focus on income and more focus on growth usually resulting in higher percentages of assets invested in equities (common stock) less in fixed income securities (bonds, notes, etc.)

As mentioned above, SCERS is a "closed" fund, meaning there are no new members allowed in the System and little or no current contributions made by active, working members. With SCERS, the number of active members has been in steady decline. As of the close of the fiscal year, only 16 active members remain. Pension funds with large number of current and new active members paying substantial contributions on a steady, continuing basis provides for flexibility to make investment decisions that could incur more risk in exchange for higher potential rates of return, i.e. higher percentages of more volatile equity investments. A "closed" fund has less flexibility as the investment corpus is somewhat fixed and is only supported by annual employer contributions. As it is with SCERS, preservation of a "closed" fund's assets is a critical concern.

Preservation of the SCERS' assets is challenged by the required cash payments of retiree benefits paid from such assets. As the number of active members and their contributions have been in constant decline, the number of retirees and hence the amount of cash needed for benefits payments has steadily increased. Accordingly, the capacity of System to generate cash is an important consideration to mitigate declines in the SCERS corpus, and to avoid undue or ill-timed liquidation of investment holdings based on a constant demand for cash.

In order to best manage the long term competing factors of capital preservation and cash generation, the Board historically has placed emphasis on income-generating investments. Such investments include allocations to interest-bearing fixed income instruments as well as dividend-paying equity securities. The emphasis on interest-bearing fixed income investments reached as high as 70% of plan assets in 1995, all with the goal of generating cash yields close to the actuarial return assumption of 6.5%. Such fixed income investments form the Fixed Fund maintained by the System.

Long term interest rates continued to fall from their high levels in the early 1980's, including consistent declines through the 1990's. As the yield on long maturity bonds fell below the actuarial return assumption, the Board started to allocate funds to dividend-paying equities. At first, these dividend-paying equity holdings were lumped together with interest-bearing fixed income securities, all within the Fixed Fund. While the dividend-paying stocks have certain bond-like attributes, such as a consistent, steady stream of periodic income, they behave sufficiently different to warrant analyzing and managing such holdings separately from bond holdings. From and after 2008, such stocks were recorded in their own portfolio within the System known as the Equity Income Fund. Similar to the interest revenue from fixed income investments, the Equity Income Fund's cash dividends are an important portion of the return of the investment, but these assets may also contribute capital returns in the form of higher share values. Accordingly, the goal of the Equity Income Fund is to achieve a total return (dividends plus capital gains) in excess of the actuarial rate of return.

For the fiscal year, approximately 55% of the System's assets were allocated to the Fixed Fund (40%) and Equity Income Fund (15%). The overweight to income-generating investments reflects the Board's prudent approach to maintain the actuarial soundness of the System and the ability to pay retiree benefits. Moreover, the volatility of the Fixed Fund and Equity Income Fund is less than what is experienced in the other growth equity portions of the SCERS portfolio. In overweighting the portfolio to these two Funds, the Board seeks more consistent cash revenue and total returns while minimizing City contributions which may be required as a result of potential wide-swings in the greater weightings to the more volatile growth-oriented equity allocations.

Fixed Income Performance

Based on the Board's asset allocation for FY2016, 40% of SCERS assets are to be allocated to fixed income investments within the Fixed Fund. During the year, such fixed income investments included corporate, municipal and agency bonds, plus short-term, cash-equivalent investments awaiting opportunistic long-term investment. In addition, the Fund includes real estate first trust deed funded by the System. In sum, the Fixed Fund's investments are debt securities whose primary source of portfolio return is interest income, with increases in value of the holdings a secondary source of return. As mentioned above, income-generating equity investments (common stock representing corporate ownership interests) are included in the Equity Income Fund, not the Fixed Fund. The Fixed Fund assets are managed internally by the City Treasurer's Office.

Table 2 reflects SCERS' performance of the Fixed Fund for various periods ending June 30, 2016.

Table 2

SCERS Total Rate of Return
FIXED INCOME
For the periods ended June 30, 2016

Annualized Compound Returns	1 Yr.	3 Yrs.	10 Yrs.
SCERS Fixed Fund	7.71%	6.34%	7.35%
Fixed Portfolio Index*	6.00%	4.06%	5.11%

*Fixed Portfolio Index = 100% Barclays US Aggregate from March 2008 to present; prior to March 2008, 100% Barclays US Intermediate Aggregate.

The Fixed Fund produced a total rate of return of 7.71% for the one-year period ending June 30, 2016, a rate substantially greater than the Fund's benchmark, the Barclays US Aggregate Bond Index that came in at 6.0%. This continues a long history of outperformance as reflected by the returns for the 3 and 10-yeare timeframes. Over the past 10 years, the Fixed Fund has returned 7.35% annually which exceeds the benchmark return of 5.11% and, more importantly, the assumed actuarial rate of return of 6.5%. Hence, the Fixed Fund has been a key contributor to the performance of the entire Plan. The Fund's outperformance is due primarily to its heavy weighting in high-quality, high coupon corporate and municipal securities that provided interest income substantially over interest provided by the government bonds that dominate Barclay's index.

The returns of both the Fixed Fund and its benchmark were aided by a general rally in US bonds as long bond yields dropped during the fiscal year (bond prices move inversely to bond yields with dropping yields reflective of a rally in bond prices). The benchmark 10-year treasury bond yield started the year at 2.35% and ended the year near historical lows at 1.47%. Likewise, the yield on the 30-year treasury bond dropped from 3.12 to 2.28. The drop in long term yields during the fiscal year was in response to general strong demand for US government bonds as a safe haven in early 2016 and later in June just before the close of the fiscal year. Early 2016 brought fears of a worse than expected slowdown in the global economy that was not helped by continued sub-2% nominal GDP growth in the United States. Global uncertainty also escalated as the United Kingdom's referendum on the European Union (the so-called Brexit vote) approached in the last week of June. Moreover, by the end of the fiscal year, nearly one-third of global sovereign debt had negative interest rates as Japan and European countries slashed rates through the zero point in efforts to prop up their flagging economies. All of these factors resulted in increased demand for US government bonds both as investors sought favorable yields and for the safety treasuries represent.

Macro impacts on US bond yields aside, the major fixed income news of the fiscal year was the Federal Reserve's (Fed's) move to raise the Federal Funds rate in December, 2015. Ever since the Fed terminated its bond purchase program (aka quantitative easing) in the Fall of 2014, attention was directed toward the timing of the end of its maintenance of dovish, low short term rates. By December, the Fed was motivated enough by the then-positive economic data to allow the Federal Funds rate (the ultra-short term rate on inter-bank overnight loans) from near zero percent to 0.25%, its first increase since the beginning of the Great Recession in 2006. This action resulted in a steep rise in other short term bonds as reflected in a move of the 2-year treasury bond from 0.65% to 1.09% by the end of 2015. However, like the longer bonds, due to economic concerns even 2-year bonds rallied into the close of the fiscal year to finish with yield at 0.58%, below where it started the year.

As of the end of the fiscal year, questions abound as to the Fed's future rate hike actions. The Fed's rate hike actions are dependent on supportive economic data and as of the close of the year, that data presented a uncertain future. If the data turns positive reflecting sustained growth in the economy, the Fed indicated it would raise short term rates. Whether long bond rates also rise in that circumstance would depend on the status of global demand for US treasury bonds and a substantial rise in inflation expectations. As of the close of the fiscal year, investment staff believed future rate increase will be gradual and inflation will remain contained also with gradual increases to the Fed target rate of 2.0%. Staff believes the high quality and high yielding securities held in the Fixed Fund should continue to be constructive to the returns of the entire SCERS portfolio absent sharp, drastic increases in long rates, the threat of which does not appear close as of the close of the fiscal year.

Equity Investment Performance

Equity investment is a broad term used to describe investments in ownership interests in the issuing corporation. Common stocks represent corporate ownership interests. Stocks are typically purchased with the desire to capitalize on the growth of the issuing corporation. Also, many corporations pay dividends to holders of their common stock which provides shareholders with cash income. Common stocks can be purchased individually so the shareholders can target specific companies for growth and/or income purposes. Common stocks may also be purchased in groups through exchange traded funds (ETF's). ETF's can hold stocks of companies included in indexes (e.g. S&P 500 and Russell 2000) or which participate in various economic sectors (e.g. technology, financial and energy sectors) or focus on different investment themes (e.g. growth and value stocks). ETF's provide investors with effective tools to provide exposure into broad swaths of the market or down to specific sectors of the economy. This is as opposed to requiring investors to identify stocks of individual companies to achieve the same exposure, all while incurring the risk that such selected individual companies fail to perform inline with the index or sector (known as "single company risk"). While an ETF represents a collection of stocks, each ETF trades like stocks of individual companies on the major exchanges.

By Board policy for the fiscal year ending June 30, 2016, 60% of SCERS assets were to be allocated to equity investments, both domestic and international and including both growth and income objectives. The Board selected the City Treasurer to manage all equity funds with internal management.

Table 3 shows the performance of SCERS' equity investments, both domestic and international:

Table 3

SCERS Total Rate of Return
DOMESTIC EQUITY INVESTMENTS
For the periods ended June 30, 2016

Annualized Compound Returns	1 Yr.	3 Yrs.	10 Yrs.
SCERS Domestic Equities	2.39%	9.66%	4.59%
Domestic Equity Index	0.04%	8.96%	5.27%
Individual SCERS Domestic Equity Portfolios			
Large Cap Growth Fund	-0.18%	9.76%	3.81%
Large Cap Index**	1.73%	9.33%	5.09%
Equity Income Fund	7.99%	9.37%	8.63%
Equity Income Index***	17.87%	14.12%	7.53%

**Large Cap Index = Dec 1992 – June 2007 = 100% Russell 1000 Growth, June 2007 to present = 100% S&P 500
***Equity Income Index = Apr 1986 – Feb 1992 = 100% Fixed Portfolio, Mar 1992 to present = 100% Dow Jones Select Dividend Index

*International Index = Feb 2006 – Jun 2007 = 33% Nikkei, 67% MSCI EAFE, Jul 2007 to present = 100% MSCI ACWI ex US

Table 3

SCERS Total Rate of Return
INTERNATIONAL EQUITY INVESTMENTS
For the periods ended June 30, 2016

Annualized Compound Returns	1 Yr.	3 Yrs.	10 Yrs.
SCERS International Fund	-13.19%	-1.40%	-1.53%
International Equity Index*	-12.68%	-1.42%	-1.44%

Per Table 3, the performance of the overall SCERS domestic equity portfolio was 2.39% for the one-year period as compared to the flat return by the benchmark (Russell 3000 which represents the stocks of approximately 98% of US publicly traded corporations). While the performance of domestic equities was superior to the broad market benchmark, these portfolios (and the benchmark) fell short of the Plan's actuarial rate of return of 6.5%. The below average performance of the portfolios and the market benchmark is commensurate with muted US economic growth as exacerbated by similarly muted economic growth in foreign countries. The underperformance of stocks in an economy moving forward in fits and starts is somewhat expected, but the same macro factors that drove investor dollars to support the above-described bond market rally came at the expense of the equities, to wit, unstable and collapsing energy prices, geo-political issues, Brexit and the first indications of the beginning of the end of the Fed-driven 9-year ultralow interest rate environment.

The two domestic stock portfolios, Large Cap Fund and Equity Income Fund, and the International Fund showed divergent returns, including -0.18%, 7.99% and -13.19%, respectively. The resulting returns are reflective of various factors affecting the constituent stocks of each Fund in different ways.

The Plan's largest equity portfolio is the Large Cap Growth Fund. It came in with essentially flat performance against a growth benchmark (S&P 500) at 1.73%. While economic factors tamped down on the returns in the marketplace, the Large Cap Growth Fund diverged from the benchmark primarily due to a restructuring of investments held in the fund. In an effort to reduce the Fund's volatility and to minimize single company risk, investment staff engaged in a multi-month effort to turn the Fund into a more ETF-centric portfolio. The transition was implemented between February and April, 2016 resulting in a portfolio whose holdings in ETF's went from approximately 35% (with single company names comprising the remaining 65%) to 70%. During the transition, the weightings of various sectors differed from weightings of the Fund's benchmark accounting for some of the difference in returns.

In July, 2014, the Board authorized an options program primarily involving the writing of call options on existing equity holdings. The purpose of the options program is to increase cash income to the Fund and provide a hedge against the decline in its investments. Since its inception, the call-write program has had a positive impact on the returns and cash generation of the Fund.

The second largest equity portfolio is the Equity Income Fund. As stated above, the purpose of this Fund is primarily to boost the cash income of the Plan to provide a source of benefit payments. The Fund's total return was 7.99% which outperformed the S&P 500 (1.73%) and Russell 3000 (flat) market-wide benchmarks, as well as the actuarial rate of return of 6.5% by wide margins. However, the Fund underperformed its benchmark (Dow Jones Select Dividend Index) by a significant degree. The benchmark is weighted to companies with the highest dividend yield in the US. Accordingly, the benchmark is heavily weighted toward utility, consumer staple and telecommunication companies, all sporting high yields. In the first half of 2016, these stocks outperformed the expectations of many market participants, even after posting stellar returns for calendar year 2015. Investment staff felt that chasing yield in these appreciated sectors of the market, where dividend yield, not individual company fundamentals, is the sine qua non of buying companies, would not be prudent. The underweights in the utility and consumer staples, was met with an unexpected, near parabolic rise in utility stocks, and increased the underperformance of the Fund. Notwithstanding the total return underperformance, the Equity Income Fund helps to fulfill the Board's objective of enhancing cash income to help pay benefits. The Fund's yield from dividends was 3.72 for the year, which exceeds the benchmark's 3.69 dividend yield despite that dividend yield is the primary factor to include stocks in the benchmark.

The International Fund holds equities issued by foreign corporations. It is the smallest of the three equity portfolios. While almost half of the world's investable equities are issued by foreign companies, the Board has kept the portfolio's weighting low (10% for the year ending June 30, 2016) due to global uncertainties. These uncertainties included incessant turmoil in the Mid-East (and resulting European refugee crisis), slow growth with a number of countries in or approaching recessions, lack of traction of easy monetary policies by European and Japanese Central Banks, and falling commodity and energy prices. The Fund lost -13.19% which compares to an equally dismal performance by the international benchmark at -12.68. While the Board allocated 10% of the portfolio to the International Fund for FY2016, actual implemented allocations can be plus or minus 5% of the Board's determination. Investment staff exercised its discretion to reduce the Fund's weighting to under 8% by December, 2015 and then to 5.1% by March, 2016. As the Board set international allocation to 5% for FY2017 effective July 1, 2016, investment staff lowered the allocation to 2.95% by said date. Staff will remain vigilant for an upturn to international stocks and will increase the allocation to foreign stocks should outperformance relative to domestic equities appear likely.

INDEPENDENT AUDIT

SCERS receives an independent audit of the basic financial statements. An independent audit has been performed for the fiscal year ended June 30, 2016, and the auditor's opinion is included in this report. The City of Sacramento is responsible for establishing and maintaining internal controls designed to ensure the protection of assets from loss, theft, or misuse, and for ensuring the accounting information generated is adequate to prepare financial statements in conformity with accounting principles generally accepted in the U.S. The design of the internal controls is to provide reasonable assurance, although not absolute assurance, of achieving these objectives. The accuracy and completeness of the data outlined in this report is the sole responsibility of the management of SCERS.

ACTUARIAL VALUATION

The actuarial valuation report for SCERS as of June 30, 2016 is presented in this document. Very briefly, this report identifies a Net Pension Liability (NPL) of $80.971 million as of June 30, 2016. This amount represents a 7.6% increase in NPL from the prior fiscal year. The increase was due to the reduction in value of the System's assets as retiree benefits and plan expenses exceeded the total member and City contributions received during the fiscal year plus investment returns. Attention is directed to the 2016 actuarial valuation report for a comprehensive review of SCERS financial condition, extent of liabilities, and funded status.

PROFESSIONAL SERVICES

SCERS engages the following consultants to assist in the management and investment of assets:

Firm	Duties
Segal Rogerscasey	Performance evaluation
Bartel Associates	Actuarial evaluation and asset allocation (Since 6/30/06)
Bank of New York	Custody and master trust (since 3/1/96)

BOARD MEETINGS

For the fiscal year ending June 30, 2017, regular meetings of the Board will be held in City Treasurer's Conference Room 2nd Floor, 915 "I" Street, at 1:30 p.m., on July 25, 2016, October 24, 2016, January 30, 2017 and May 1, 2017. The Board's meetings are open to the public and attendees are afforded the opportunity to provide input on any matter on the meeting agenda or not on the agenda that may be related to the Board's activities.

John Colville, Interim City Treasurer
Administration, Investment and
Fiscal Management Board

POLICY STATEMENT

As a matter of policy, the Administration, Investment and Fiscal Management Board has determined the following schedules shall be included as addenda to the Annual Financial Report of the Sacramento City Employees' Retirement System:

1. A letter of transmittal to the City Council from the Board Chair;
2. An independent auditor's report;
3. A statement of the System's financial position;
4. A summary schedule of changes in the investment position during the year by security type;
5. A detailed listing of investments (by security) as of the end of the fiscal year;
6. A statement from the Actuary showing the estimated position of the Fund based on latest actuarial projections; and
7. The policy statement of the Board. The Board shall notify recognized employee organizations and the City Council of any changes in the policy statement that are to be made.

Adopted May 1978

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Administration, Investment and Fiscal
Management Board
Sacramento City Employees' Retirement System
Sacramento, California

Honorable Mayor and City
Council
City of Sacramento
Sacramento, California

We have audited the accompanying financial statements of the Sacramento City Employees' Retirement System (SCERS), a component unit of the City of Sacramento, California (City), as of and for the year ended June 30, 2016, and the related notes to the financial statements.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 the entity's 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 the entity's 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 financial position of the Sacramento City Employees' Retirement System as of June 30, 2016, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

2151 River Plaza Drive, Suite 308 Sacramento, CA 95833 Tel: 916.570.1880 www.vtdcpa.com Fax: 916.570.1875

Emphasis of Matter

As described in Note 1, SCERS' adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application,* and GASB Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No. 73*, effective July 1, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Prior-Year Comparative Information

The financial statements include partial prior-year comparative information. Such information does not include all of the information required 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 SCERS' financial statements for the year ended June 30, 2015, from which such partial information was derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-6 and the schedules of changes in the net pension liability and related ratios, schedule of employer contributions, and schedule of investment returns on pages 20-23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the SCERS' basic financial statements. The introductory section, schedule of changes in investment position, listing of investments, and actuarial section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of changes in investment position and listing of investments are the responsibility of management and were derived from and relate 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, schedule of changes in investment position and listing of investments are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and actuarial 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.

Vavrinek, Trine, Day & Co. LLP

Sacramento, California
December 23, 2016

The management of the Sacramento City Employees' Retirement System (SCERS) is pleased to provide this overview and analysis of the financial activities of SCERS for the fiscal years ended June 30, 2016 and 2015. We encourage readers to consider the information presented here in conjunction with the Financial Statements and Supplemental Schedules that follow this discussion.

Financial Highlights

- SCERS reported $285.2 million in net position restricted for pension benefits at June 30, 2016 and $301.3 million at June 30, 2015. All of the net position is restricted for SCERS' ongoing obligation to plan participants and their beneficiaries.
- SCERS' funding objective is to maintain sufficient net position through investments and contributions to meet long-term obligations for benefits. As of June 30, 2016, for every dollar of total pension liability, SCERS had approximately $0.78 available to pay those benefits. That number is based on the most recent actuarial valuation as of June 30, 2016 and is calculated based on the requirements of GASB Statement No. 67. As of June 30, 2015, SCERS had a funded status, as defined under GASB Statement No. 67, of 80% which means that for every dollar of benefits due as of that date, SCERS had approximately $0.80 of assets available for payment. That number is based on the most recent actuarial valuation as of June 30, 2016.
- SCERS' employer contribution was $8.6 million for the fiscal year ended June 30, 2016, compared to $9.2 million in 2015.
- For the fiscal year ended June 30, 2016, SCERS' net income from investment activity was $7.8 million compared to net investment income of $13.2 million in the prior year. The decrease in return was a result of less appreciation in the fair value of the investments during fiscal year 2016 compared to fiscal year 2015.

Overview of Financial Statements

The following discussion and analysis are intended to serve as an introduction to SCERS' financial statements, which are comprised of the following components:

1. ***Statement of Plan Net Position*** is a snapshot of account balances as of June 30, 2016 with comparative amounts for 2015. It indicates the total assets and the total liabilities as well as the net position available for future payment of retirement benefits and investment expenses.
2. ***Statement of Changes in Plan Net Position*** provides a view of additions and deductions to SCERS' net position during each of the fiscal years.
3. ***Notes to Financial Statements*** and ***Required Supplementary Information*** provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

The statement of plan net position and the statement of changes in plan net position report information about SCERS' financial activities, prepared using the accrual basis of accounting. Contributions to SCERS are recognized when due, and benefits and refunds are recognized when due and payable. Investments are reported at fair value, except mortgage loans, which are reported at amortized cost. The estimated fair value of investments is the quoted market price. Purchases and sales of investments are recorded on a trade date basis.

Financial Analysis

SCERS' net position may serve over time as a useful indication of SCERS' financial position. All of SCERS' net position is restricted for SCERS ongoing obligation to plan participants and their beneficiaries.

SCERS' net position as of June 30, 2016 and 2015 is represented in the chart below.

NET POSITION SUMMARY
As of June 30, 2016 and 2015
(in thousands)

	2016	2015	Change	Percent
Cash and cash equivalents	$ 14,782	$ 7,970	$ 6,812	85%
Receivables	1,686	2,147	(461)	-21%
Investments at fair value	271,593	293,943	(22,350)	-8%
Total assets	288,061	304,060	(15,999)	-5%
Total liabilities	2,891	2,797	94	3%
Net position restricted for pension benefits	$ 285,170	$ 301,263	$ (16,093)	-5%

SCERS' net position restricted for pension benefits decreased the fiscal year ended June 30, 2016 due primarily to the decreased value of investments. Cash increased as market conditions became more favorable for investment.

The following table shows the changes in the various additions and deductions:

HIGHLIGHTS OF CHANGES IN NET POSITION
Fiscal year ended June 30, 2016
(in thousands)

	2016	2015	Change	Percent
Additions:				
Employer contributions	$ 8,645	$ 9,183	$ (538)	-6%
Employee contributions	146	82	64	78%
Net (reduction) appreciation in the fair value of investments	(908)	2,847	(3,755)	-132%
Interest	5,236	6,915	(1,679)	-24%
Dividends	4,609	4,671	(62)	-1%
Investment expenses	(1,138)	(1,230)	92	-7%
Net securities lending activity	-	172	(172)	-100%
Total additions	16,590	22,640	(6,050)	-27%
Deductions:				
Benefit payments	32,633	33,590	(957)	-3%
Refunds of employee contributions	50	201	(151)	-75%
Total deductions	32,683	33,791	(1,108)	-3%
Net increase/(decrease) in net position	(16,093)	(11,151)	(4,942)	44%
Net position restricted for pension benefits:				
Beginning of fiscal year	301,263	312,414	(11,151)	-4%
End of fiscal year	$ 285,170	$ 301,263	$ (16,093)	-5%

- Required employer contributions decreased for the fiscal year ended June 30, 2016 due to improved performance of the investment portfolio over the past several years.
- Employee contributions for the fiscal year ended June 30, 2016 increased from 2015 due to a repayment of retirement deficit of $75 thousand. Contributions are expected to decline as the system is closed to new members and the number of active members is decreasing each year.
- Net appreciation in fair value of investments decreased by $3.8 million. The $908 thousand loss during the fiscal year ended June 30, 2016 included $12.9 million unrealized loss and $12.8 million realized gain compared to $12.2 million unrealized loss and $15 million realized gains during the fiscal year ended June 30, 2015. The largest loss incurred in the exchange traded fund portfolios.
- Benefit payments to plan participants decreased because of annual inflation adjustments. The decrease was somewhat offset by a decline in the number of retirees receiving benefits. Because the plan has been closed for nearly 36 years, the number of participants receiving benefits declines each year.

Changes in Funded Ratio

The funded ratio shows how much net position the plan has available to pay each dollar of benefit liability as of the measurement date. SCERS funded ratio for the years ended June 30, 2015 and 2016 is 80.0% and 77.9%, respectively. The decrease between June 30, 2015 and June 30, 2016 is largely due to investment performance.

Currently Known Facts and Events

The overall risk profile of SCERS has remained unchanged since June 30, 2016, and the volatility of the investment portfolio remains in line with the overall financial markets. The global capital markets are highly dynamic and the value of SCERS investments changes every day.

Requests for Information

This financial report is designed to provide a general overview of SCERS' finances, and to demonstrate SCERS' accountability for the money it receives and distributes. If you have questions about this report, or need additional financial information, contact the City of Sacramento Department of Finance, Accounting Division, 915 I Street, 4th floor, Sacramento, California, 95814.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
Statement of Plan Net Position
June 30, 2016
With Comparative Totals for June 30, 2015
(Amounts Expressed in Thousands)

	2016	2015
Assets		
Cash and cash equivalents	$ 14,782	$ 7,970
Receivables:		
Interest and dividends	1,686	2,147
Investments:		
U.S. agencies	1,430	1,859
Corporate bonds	53,775	59,085
Equities	50,326	102,566
Exchange traded funds	114,915	81,426
Municipal bonds	49,223	44,985
Mortgage loans	1,924	4,022
Total investments	271,593	293,943
Total assets	288,061	304,060
Liabilities		
Benefits payable	2,872	2,766
Accounts payable	19	31
Total liabilities	2,891	2,797
Net position restricted for pensions	$ 285,170	$ 301,263

See accompanying notes to basic financial statements.

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
Statement of Changes in Plan Net Position
Fiscal Year Ended June 30, 2016
With Comparative Totals as of June 30, 2015
(Amounts Expressed in Thousands)

	2016	2015
Additions		
Contributions:		
Employer	$ 8,645	$ 9,183
Employees	146	82
Total contributions	8,791	9,265
Investment income:		
From investment activities:		
Net increase / (decrease) in fair value of investments	(908)	2,847
Interest	5,236	6,915
Dividends	4,609	4,671
Total investment income	8,937	14,433
Less investment expense:		
Banking, interest, fiscal agent & other	103	129
Professional services	1,035	1,101
Total investment expense	1,138	1,230
Net income from investing activities	7,799	13,203
From securities lending activities:		
Securities lending income	-	229
Securities lending expenses:		
Management fees	-	57
Net income from securities lending activities	-	172
Total net investment income	7,799	13,375
Total net additions	16,590	22,640
Deductions		
Benefits	32,633	33,590
Refunds of employee contributions	50	201
Total deductions	32,683	33,791
Net decrease in plan net position	(16,093)	(11,151)
Net position restricted for pensions		
Beginning of fiscal year	301,263	312,414
End of fiscal year	$ 285,170	$ 301,263

See accompanying notes to basic financial statements.

(Dollars in thousands, except as otherwise noted)

Note A – Plan Description

The City of Sacramento, California, (City) sponsors and administers a defined benefit contributory pension system known as the Sacramento City Employees' Retirement System (SCERS). The fiscal management of SCERS is vested in the five-member Administration, Investment, and Fiscal Management Board (Board), consisting of the City Manager, Director of Finance, City Treasurer and two public members who are appointed by the City Council. Because of this relationship with the City, SCERS is reported as a component unit of the City.

SCERS is a single-employer system and an integral part of the City. The accompanying financial statements are included as a pension trust fund in the basic financial statements of the City. The system covers all City employees hired before January 29, 1977 and is closed to new members. Employee contribution rates are generally frozen (with minor exceptions) and the City is responsible for any actuarially determined unfunded obligation of the plan. SCERS is comprised of the individual plans listed below. The City Charter establishes plan membership, contributions, and benefit provisions. Any changes must be approved by the electorate of the City.

1. Charter Section 399 Plan – This defined benefit plan was established effective January 1, 1977 to provide retirement, disability and death benefits. Active members contribute at a rate based upon entry age and type of employment.

2. Equal Shares Plan – This defined benefit plan was established July 1, 1970 to provide retirement, disability and death benefits to all City employees electing coverage at that date and to all employees who were hired from that date through January 1, 1977.

3. Charter Section 175 Plans – These defined benefits were established in 1953 and provide for retirement, disability and death benefits at a lower amount than the successor Equal Shares Plan.

Plan membership at June 30, 2016 consisted of the following:

	Section 399	Equal Shares	Section 175	Total
Inactive members or beneficiaries receiving benefits	976	69	65	1,110
Inactive members entitled to but not yet receiving benefits	10		2	12
Active plan members	16	-	-	16
Total plan members	1,002	69	67	1,138

Note A – Plan Description (Continued)

Cost-of-Living Adjustment – This adjustment, established in 1969, provides for annual retirement benefit increases of up to 3% of normal benefits based on a corresponding rise in the consumer price index. Cost-of-living benefits are payable to retirees and beneficiaries of all of the above plans after one year of retirement. The cost-of-living adjustment was 2.8% for fiscal year 2016. Members contribute to this adjustment at a rate of 1% of their normal retirement contributions. The City is required to fund all costs in excess of members' contributions and investment earnings.

SCERS reports the assets and activities of all plans in one trust fund. All assets accumulated for the payment of benefits may be used to pay benefits to any of the plan members or beneficiaries.

Since benefits fully vest after five years of service and admission to the plan was restricted in 1976 and closed in 1980, all accumulated benefits at June 30, 2016 are fully vested.

Since the plans included in SCERS are closed to new members, the number of active members in the system is declining. Member contributions have declined as members retire. During the fiscal year ended June 30, 2016 active member contributions ranged from 3% to 10% of payroll. At June 30, 2016, active members' accumulated contributions, including interest, totaled approximately $4.8 million. For the fiscal year ended June 30, 2016, interest was credited to members' contributions at the rate of 5.6%. Members have an option to withdraw their accumulated contributions, including interest, upon termination of their employment with the City.

Note B – Summary of Significant Accounting Policies

Basis of Accounting

SCERS' financial statements are prepared using the accrual basis of accounting. Member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investments

As of July 1, 2015, SCERS retrospectively applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosure related to all fair value measurements. The City categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The City categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Purchases and sales of investments are recorded on a trade date basis.

Note B – Summary of Significant Accounting Policies (Continued)

Administrative Costs

The City charter requires all costs of administration, excluding investment activity, to be paid by the City. These costs are, therefore, excluded from the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Note C – Cash and Investments

Cash and Cash Equivalents

SCERS participates in the City of Sacramento's investment pool, which is not rated by a nationally recognized statistical rating organization. The City Treasurer is granted authority for managing the pool by City Charter, City Council ordinances and resolutions. The City Treasurer reports investment activity quarterly to the City Council and quarterly the investment policy is reaffirmed by the City Council. The pool is accounted for on an amortized cost basis during the year. The value of the pool shares that may be withdrawn at any time is determined on an amortized cost basis, which is different than the fair value of SCERS' position in the pool. Information regarding the investments within the City's pool, including the related risks, can be found in the City's Comprehensive Annual Financial Report (CAFR). The City's investment pool is not rated and has a weighted average maturity of 1.88 years as of June 30, 2016

Investments

The City Charter vests the Board with the authority to administer and invest the funds of the System consistent with charter provisions. The Board is mandated to adopt general investment standards that the City Council shall either approve or disapprove. These standards are set forth in an Investment Policy document that is annually reviewed by the Board and approved by the City Council. The Investment Policy sets forth the type of investments the System may hold and directs the Board to determine how the System funds may be allocated to different general asset classes. The Board sets the asset allocations by resolution effective for each fiscal year. The Board and its investment managers are required to conform their investment practices to the terms of the Investment Policy and related Board resolutions.

(Dollars in thousands, except as otherwise noted)

Note C – Cash and Investments (continued)

On February 22, 2016, the Board adopted the following asset allocation policy to be implemented by June 30, 2016.

Asset Class	Target Allocation
Fixed Income	40%
Large Cap Growth	35%
Equity Income	15%
International	10%
Total	100%

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that SCERS manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of SCERS' investments to market interest rate fluctuations is provided by the following tables that shows the distribution of SCERS' investments by maturity. The remaining maturity of the SCERS' investments included in the tables below is based on the stated maturity dates of the individual investments, except in the case of variable rate investments where the maturity date below is the next reset date. Variable rate securities are investments with terms that provide for the adjustment of interest rates on specified dates based on predefined mathematical formulas. The fair value of such investments can reasonably be expected to be affected at each interest rate reset date. SCERS' investments have maturities as follows:

		Remaining Maturity in Years				
Investment Type	No Maturity	Under 1	1-5	Over 5/ 10 or less	Over 10	Fair Value
Cash and short-term investments:						
City of Sacramento Investment Pool	$ -	$ -	$ 14,782	$ -	$ -	$ 14,782
Investments:						
Corporate bonds/notes	-	4,965	38,618	-	10,191	53,774
Equities	50,327	-	-	-	-	50,327
Exchange traded funds	114,915	-	-	-	-	114,915
Mortgage loans	-	-	-	1,924	-	1,924
Municipal bonds	-	-	2,791	-	46,432	49,223
U.S. agencies	-	-	5	44	1,381	1,430
Total Investments	165,242	4,965	41,414	1,968	58,004	271,593
Total Cash and Investments	$ 165,242	$ 4,965	$ 56,196	$ 1,968	$ 58,004	$ 286,375

(Dollars in thousands, except as otherwise noted)

Note C – Cash and Investments (Continued)

Investments in callable bonds are investments that, although having clearly defined maturities, allow for the issuer to redeem or call such bonds earlier than their respective maturity dates. The investor must then replace the called bonds with investments that may have lower yields than the original bonds.

The fair values of the callable bonds held at June 30, 2016 by investment type are as follows:

Investment Type	Fair Value
Corporate bonds	$ 3,005
Municipal bonds	20,543

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. As of June 30, 2016, SCERS held a bond that is currently in default of the semi-annual interest payments. The bond issuer Lehman Brothers filed for Chapter 11 bankruptcy protection on September 15, 2008. The bond has a maturity date of December 29, 2099 and a fair value of $169 as of June 30, 2016,

At June 30, 2016, SCERS' investments and credit ratings are as follows:

Investment Type	S & P	Moody's	Fair Value
City of Sacramento Investment Pool	not rated	not rated	$ 14,782
Corporate bonds/notes	A	A	11,442
	AA	A	25,537
	AA	Aa	2,191
	AA	withdrawn	3,005
	BBB	A	11,430
	not rated	withdrawn	169
Equities (exempt from disclosure)	N/A	N/A	50,327
Exchange traded funds (exempt from disclosure)	N/A	N/A	114,915
Mortgage loans	not rated	not rated	1,924
Municipal bonds	A	Baa	3,424
	A	not rated	6,019
	AA	A	14,975
	AA	Aa	14,867
	AA	Aaa	2,940
	AA	not rated	5,694
	not rated	Aa	1,304
U.S. agencies	AA	Aaa	1,430
Total			$ 286,375

Note C – Cash and Investments (Continued)

Concentration of Credit Risk

As of June 30, 2016, SCERS had the following investments in one issuer exceeding 5% of plan net position or 5% of total investments excluding investments issued or explicitly guaranteed by the U.S. government:

General Electric Capital Corporation	$27,889

Money-weighted rate of return

For the year ended June 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense was 3.05%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Fair Value Measurement and Application

SCERS categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy gives 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). The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the SCERS has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Unobservable inputs reflect the SCERS' own assumptions about the inputs market participants would use in pricing the asset or liability (including assumptions about risk).

Note C – Cash and Investments (Continued)

Fair Value Measurement and Application (Continued)

Unobservable inputs are developed based on the best information available in the circumstances and may include SCERS' own data.

The asset's level within the hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used, need to maximize the use of observable inputs and minimize the use of unobservable inputs. The determination of what constitutes observable requires judgment by the SCERS' management. SCERS management considers observable data to be that market data, which is readily available, regularly distributed or updated, reliable, and verifiable, not proprietary, and provided by multiple independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the relative observability of the inputs to its fair value measurement and does not necessarily correspond to SCERS management's perceived risk of that investment.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The SCERS' assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

SCERS' treasury pools asset market prices are derived from closing bid prices as of the end of business day as supplied by Interactive Data Corporation. Where prices are not available from generally recognized sources, the securities are priced using a yield-based matrix system to arrive at an estimated market value. Prices that fall between data points are interpolated.

The following is a description of the valuation methods and assumptions used by SCERS to estimate the fair value of its investments:

- When available, quoted prices are used to determine fair value. When quoted prices in active markets are available, investments are classified within Level 1 of the fair value hierarchy.
- For investments classified within Level 2 of the fair value hierarchy, SCERS' custodians generally use a multi-dimensional relational model. Inputs to their pricing models are based on observable market inputs in active markets. The inputs to the pricing models are typically benchmark yields, reported trades, broker-dealer quotes, issuer spreads and benchmark securities, among others.
- SCERS held one type of investment that is measured using Level 3 inputs, Mortgage Loans. The Mortgage Loan is reported using the income approach. The value of the Mortgage Loan on the books is materially close to the Discounted Cash Flow, therefore the book value is reported.

(Dollars in thousands, except as otherwise noted)

Note C – Cash and Investments (Continued)

There have been no changes in the methods and assumptions used at June 30, 2016. The methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. SCERS management believes its valuation methods are appropriate and consistent with other market participants. The use of different methodologies or assumptions to

Fair Value Measurement and Application (Continued)

determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

SCERS has the following recurring fair value measurements as of June 30, 2016:

		Fair Value Measurements on a Recurring Basis Using		
Investments by Fair Value Level	Balance at June 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate bonds/notes	$ 53,774	-	$ 53,774	-
Equities	50,327	50,327	-	-
Exchange traded funds	114,915	114,915	-	-
Mortgage loans	1,924	-	-	1,924
Municipal bonds	49,223	-	49,223	-
U.S. agencies	1,430	-	1,430	-
	271,593	$ 165,242	$ 104,427	$ 1,924
Investments at Fair Value not Subject to Fair Value Heirarchy				
City of Sacramento Investment Pool	14,782			
Total Cash and Investments	$ 286,375			

Deposits and withdrawls in the City of Sacramento Investment Pool are made on the basis of $1 and not fair value. Accordingly, the measurement of fair value of SCERS' investment in the investment pool is based on uncategorized inputs not defined as Level 1, Level 2, or Level 3.

Note D – Related Party Transactions

At June 30, 2016, SCERS held municipal bonds issued by the Sacramento City Financing Authority (SCFA) in the amount of $6,019. SCFA is also a blended component unit of the City of Sacramento because its Board is comprised of all City Council members, and there is a financial benefit/burden relationship between the City and SCFA.

Note E – Funding Policy

The City's funding policy provides for actuarially determined contributions under the entry age normal method, which are discounted and adjusted annually to ensure that sufficient assets will be available to pay benefits when due. The City Council established and may amend the obligations of the plan members and the City to contribute to the plan. For the fiscal year ended June 30, 2016, the City's annual required and actual contribution was $8.6 million.

Note F – Net Pension Liability of the City

The components of the net pension liability of the City at June 30, 2016 is shown below (dollars in millions). The total pension liability is based on an actuarial valuation as of June 30, 2016.

	June 30, 2016
Total pension liability	$ 366,141
Plan fiduciary net position	(285,170)
City's net pension liability	$ 80,971
Plan fiduciary net position as a percentage of the total pension liability	77.9%

Actuarial assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement.

Inflation	3.0%
Salary increases	3.0% CPI plus 0.5% merit, average
Discount rate	6.5%

Mortality rates for service retirements and beneficiaries were based on CalPERS 1997-2011 Mortality Table projected fully generational with Scale MP-2014 modified to converge to ultimate improvement rates in 2022. Mortality rates for disability retirements were based on CalPERS 1997-2011 Mortality Table for non-work Disabled Retirees for Miscellaneous and CalPERS 1997-2011 Mortality Table for work-related Disabled Retirees for Safety. Both tables were projected fully generational with Scale MP-2014 modified to converge to ultimate improvement rates for 2022.

(Dollars in thousands, except as otherwise noted)

Note F – Net Pension Liability of the City (Continued)

Long-term expected rate of return

The 6.5% long-term expected rate of return was derived based on the inflation assumption of 3.0% and long-term asset allocation of 60% equities and 40% fixed income. The geometric real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016, are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return
Fixed Income	1.55%
Equities	5.35%

Discount rate

The Discount Rate was set equal to the long-term expected rate of return. The long-term expected rate of return of 6.5% was used since current assets, future City contributions, and future member contributions are projected to be sufficient to cover all future benefit payments and expenses. This "crossover test" was performed in accordance with the requirements specified in GASB Statement 67, including a projection that Plan's funding policy will remain unchanged.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.5%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.5%) or 1 percentage-point higher (7.5%) than the current rate:

	1% decrease (5.5%)	Current Discount Rate (6.5%)	1% increase (7.5%)
City's net pension liability	$114,431	$80,971	$52,297

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence 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. Actuarial calculations reflect a long-term perspective and are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation.

Note G – New Accounting Pronouncements

GASB Statement No. 72 – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application.* This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. These disclosures should be organized by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). The provisions in Statement 72 are effective for fiscal years beginning after June 15, 2015. The Statement was implemented effective July 1, 2015.

GASB Statement No. 82 – In March 2016, GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statement No. 67, No. 68, and No. 73.* The objective of the Statement is to address certain issues that have been raised with respect to Statement No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68.* Specifically, the Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions in Statement 82 are effective for fiscal years beginning after June 15, 2016. SCERS has early implemented this Statement effective July 1, 2015.

REQUIRED SUPPLEMENTARY INFORMATION

Sacramento City Employees' Retirement System
Schedule of Changes in the City's Net Pension Liability and Related Ratios
Last Ten Fiscal Years

(in thousands)

	2016	2015	2014
Total pension liability			
Service cost	$ 103	$ 131	176
Interest	23,416	23,134	23,779
Differences between expected and actual experience	(1,173)	(8,783)	-
Changes of assumptions	-	23,117	-
Benefit payments, including refunds of member contributions	(32,683)	(33,791)	(33,688)
Net change in total pension liability	(10,337)	3,808	(9,733)
Total pension liability -- beginning	376,478	372,670	382,403
Total pension liability -- ending (a)	$ 366,141	$ 376,478	372,670
Plan fiduciary net position			
Contributions -- employer	$ 8,645	$ 9,183	9,649
Contributions -- member	146	82	161
Net investment income	7,799	13,375	40,317
Benefits payments, including refunds of member contributions	(32,683)	(33,791)	(33,688)
Net change in fiduciary net position	(16,093)	(11,151)	16,439
Plan fiduciary net position -- beginning	301,263	312,414	295,975
Plan fiduciary net position -- ending (b)	$ 285,170	$ 301,263	312,414
Net pension liability -- ending (a) - (b)	$ 80,971	$ 75,215	60,256
Plan fiduciary net position as a percentage of the total pension liability	77.89%	80.02%	83.83%
Covered payroll	$ 1,020	$ 1,180	$ 2,279
Net pension liability as a percentage of covered-employee payroll	7938.33%	6374.15%	2643.97%

Only three year of data available.

The base mortality tables were updated to the newest CalPERS experience study and a new mortality improvement projection was used.

Sacramento City Employees' Retirement System
Schedule of Employer Contributions
Last Ten Fiscal Years

(in thousands)

	Fiscal Year				
	2016	2015	2014	2013	2012
Actuarially determined contributions	$ 8,645	$ 9,183	$ 9,649	$ 10,573	$ 10,361
Contributions in relation to the actuarially determined contribution	$ 8,645	9,183	9,649	10,573	10,361
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	1,020	$ 1,180	$ 2,279	$ 2,279	$ 2,959
Contributions as a percentage of covered-employee payroll	848%	778%	423%	464%	350%

Notes to Schedule

Valuation date:
Actuarially determined contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar payments over 14 years, open period
Asset valuation method	3 year smoothed market value
Inflation	3%
Salary increases	3% CPI plus 0.5% merit
Discount rate	6.50%
Retirement age	Deferred vested members covered under Section 399 are assumed to retire at age 62; those covered under 175 are assumed to retire at age 65
Mortality	CalPERS 1997-2011 Mortality Tables with Scale MP-2014

Sacramento City Employees' Retirement System
Schedule of Employer Contributions
Last Ten Fiscal Years

(in thousands)

	Fiscal Year				
	2011	2010	2009	2008	2007 *
Actuarially determined contributions	$ 10,547	$ 3,431	$ 3,159	$ 3,534	$ -
Contributions in relation to the actuarially determined contribution	10,547	3,431	3,159	3,534	-
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 4,132	$ 5,302	$ 5,749	$ 8,869	$ 9,587
Contributions -- member	255%	65%	55%	40%	0%

Notes to Schedule

Valuation date:
Actuarially determined contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Level dollar payments over 14 years, open period
Asset valuation method	3 year smoothed market value
Inflation	3%
Salary increases	3% CPI plus 0.5% merit
Discount rate	6.50%
Retirement age	Deferred vested members covered under Section 399 are assumed to retire at age 62; those covered under 175 are assumed to retire at age 65
Mortality	CalPERS 1997-2011 Mortality Tables with Scale MP-2014

* No contribution was required because the plan was 100% funded

Sacramento City Employees' Retirement System
Schedule of Investment Returns
Last Ten Fiscal Years

(in thousands)

	2016	2015	2014
Annual money weighted rate of return, net of investment expense	3.05%	4.86%	14.56%

Notes to Schedule:

Only three years of data available

ADDITIONAL INFORMATION

SACRAMENTO CITY EMPLOYEE'S RETIREMENT SYSTEM

Schedule of Changes in Investment Position

For the Year Ended June 30, 2016

(in thousands)

Description	Balance June 30, 2015 (Fair Value)	Additions	Disposals	Change In Unrealized Gains	Balance June 30, 2016 (Fair Value)
U.S. agencies	$ 1,859	$ -	$ (389)	$ (40)	$ 1,430
Corporate bonds	59,085	-	(5,661)	351	53,775
Equities	102,566	110,662	(146,452)	(16,450)	50,326
Exchange traded funds	81,426	44,545	(15,562)	4,506	114,915
Mortgage loans	4,022	-	(2,098)	-	1,924
Municipal bonds	44,985	7,847	(6,322)	2,713	49,223
Total Investments	293,943	163,055	(176,485)	(8,920)	$ 271,593
Cash and short-term investments	7,970	471,113	(464,301)	-	14,782
	$ 301,913	$ 634,168	$ (640,786)	$ (8,920)	$ 286,375

SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM
LISTING OF INVESTMENTS
JUNE 30, 2016

Investments	Maturity Date	Quantity	Amortized Cost	Market Value
US GOVERNMENT AGENCY				
Gnma Pool #167166	8/15/2016	47.97	$ 49.44	$ 47.94
Gnma Pool #208975	3/15/2017	1,793.95	1,803.84	1,801.65
Gnma Pool #211421	4/15/2017	3,046.86	3,063.66	3,060.27
Gnma Pool #256393	9/1/2036	135,388.10	134,943.86	154,602.38
Gnma Pool #320296	3/15/2022	13,376.50	13,134.05	13,485.79
Gnma Pool #329837	11/15/2022	27,755.45	27,330.44	30,230.96
Gnma Pool #439515	3/15/2027	19,553.33	19,174.48	20,864.58
Gnma Pool #450066	12/15/2026	4,890.92	4,858.83	4,909.36
Gnma Pool #550718	11/15/2035	759,797.85	739,378.28	859,642.89
Gnma Pool #648348	10/15/2035	297,370.83	296,348.62	341,018.92
Sub-total			**1,240,086**	**1,429,665**
CORPORATE BONDS				
Bank Of America Na	6/15/2017	4,762,000	4,733,781	4,965,385
Chevron Corporation	3/3/2019	2,000,000	2,181,194	2,191,240
General Electric Capital Corp	5/1/2018	15,000,000	14,876,659	16,261,500
General Electric Capital Corp	3/15/2032	5,000,000	5,096,674	7,017,250
General Electric Capital Corp	8/24/2037	3,000,000	3,027,286	3,004,950
Goldman Sachs Group Inc	4/1/2018	6,000,000	5,946,275	6,465,000
Lehman Bros Hldg Inc Escrow	12/29/2099	2,500,000	1,536,243	168,750
Lloyds Tsb Bk Plc	1/21/2021	5,000,000	5,170,824	5,859,400
Metlife Inc	8/15/2018	5,000,000	5,004,741	5,582,250
Pfizer Inc	3/15/2019	2,000,000	1,999,327	2,258,820
Sub-total			**49,573,004**	**53,774,545**
EQUITIES - LARGE CAP GROWTH				
American Airls Grp Inc Com		13,000	511,388	368,030
Apple Inc.		4,000	166,056	382,400
Amgen Inc		3,500	558,206	532,525
Amazon.com Inc.		900	323,676	644,058
Arista Networks Inc Com		4,000	276,486	257,520
Boeing Co Com		5,000	683,343	649,350
Bank Of America Corp		28,000	408,954	371,560
Bristol Myers Squibb Com		9,000	641,544	661,950
Citigroup Inc		7,000	337,315	296,730
Salesforce Com Inc Com		9,000	691,420	714,690
Delta Air Lines Del Com New		11,000	430,971	400,730
Facebook Inc Cl A		7,000	405,872	799,960
First Data Corp		40,000	499,232	442,800
General Electric Co		16,000	394,295	503,680
Alphabet, Inc. Cl C Capital Stock		1,200	515,369	830,520
Halliburton Co		28,000	1,481,022	1,268,120
Home Depot Inc		4,000	305,355	510,760
Illumina Inc		4,000	704,984	561,520
Ingersoll-Rand Plc Shs		7,000	353,155	445,760
Jpmorgan Chase & Co		6,000	241,681	372,840
Kinder Morgan Inc Del Com		20,000	597,812	374,400

Lumentum Hldgs Inc Com	28,000	605,257	677,600
Southwest Airlines	10,000	380,312	392,100
Mastercard Inc Cl A	6,000	546,914	528,360
Mondelez Intl Inc Cl A	19,000	450,304	864,690
Medtronic Plc Shs	8,000	600,160	694,160
Netflix Inc Com	5,000	500,249	457,400
Nike Inc Cl B	8,000	394,124	441,600
Starbucks Corp	9,000	561,105	514,080
Schlumberger Ltd	13,000	1,016,287	1,028,040
Constellation Brands Cl A	3,500	514,595	578,900
At&t Inc	30,000	934,164	1,296,300
Tjx Companies Inc	9,000	680,192	695,070
Under Armour Inc Cl A	12,000	570,140	481,560
Unitedhealth Group Inc	5,000	602,028	706,000
U. S. Bancorp	10,000	311,128	403,300
Visa Inc Com Cl A	7,000	323,594	519,190
Verizon Communications Inc	21,000	674,371	1,172,640
Wells Fargo & Company	6,000	217,702	283,980
Sub-total		**20,410,762**	**23,124,873**
EQUITIES - FIXED ALTERNATIVE EQUITIES			
Altria Group Inc	26,000	691,940	1,792,960
Chevron Corporation	15,000	1,683,276	1,572,450
Cisco Sys Inc Com	27,000	677,943	774,630
Darden Restaurants Inc Com	14,000	871,013	886,760
Dominion Res Va New Com	24,000	1,052,958	1,870,320
Duke Energy Corp New Com New	12,000	675,966	1,029,480
General Electric Co	35,000	1,042,488	1,101,800
International Bus Mach	5,000	729,813	758,900
Kimberly Clark Corp	10,000	1,184,285	1,374,800
Lilly Eli & Co	23,000	1,681,028	1,811,250
Lockheed Martin Corp	7,500	1,016,037	1,861,275
Mcdonald's Corp	10,000	964,597	1,203,400
Merck & Co Inc (new)	20,000	1,042,959	1,152,200
Metlife Inc Com	13,000	690,010	517,790
Microsoft Corp	18,000	891,622	921,060
Monsanto C0 New Com	7,000	622,880	723,870
Pepsico Inc	12,000	1,190,891	1,271,280
Pfizer Inc	53,000	1,302,641	1,866,130
Philip Morris Intl Inc Com	18,000	871,355	1,830,960
Pinnacle West Cap Corp	23,000	947,204	1,864,380
Procter & Gamble Co	12,000	908,065	1,016,040
Sub-total		**20,738,969**	**27,201,735**
EXCHANGE TRADED FUNDS			
Alps Etf Tr Alerian Mlp	165,000	2,005,328	2,098,800
Ishares Select Dividend ETF	180,000	13,700,365	15,350,400
Ishares Tr Mrg Rl Es Cp Etf	145,000	1,485,873	1,487,700
Ishares Tr U.S. Real Es Etf	12,000	896,032	988,680
Ishares Tr Us Pfd Stk Idx	28,000	1,083,816	1,116,920
Powershares Etf Tr Ii Pfd Portfolio	70,000	1,039,594	1,066,800
Powershares S+P 500 High D Low Vola	155,000	5,786,910	5,928,750
Select Sector Spdr Tr Sbi Int-Utils	10,000	480,300	524,700
Ishares Inc Core Msci Emkt	27,000	1,112,007	1,129,680

Ishares MSCI Eafe ETF		100,000	6,505,167	5,582,000
Vaneck Vectors Etf Tr Gold Miners Etf		32,000	512,748	886,720
Vaneck Vectors Etf Tr Jr Gold Miners E		9,000	208,130	383,400
Spdr Gold Trust Gold Shs		3,000	325,752	379,410
Ishares Tr Nasdq Bio Indx		6,000	1,638,772	1,544,040
Ishares Us Home Cons Etf		40,000	1,067,511	1,106,000
Ishares Russell 2000 ETF		19,000	1,999,057	2,184,620
Ishares US Healthcare ETF		24,000	1,425,374	3,559,440
Ishares US Basic Materials ETF		12,000	835,420	911,280
Ishares Tr Transp Ave Idx		9,000	1,021,412	1,207,260
Ishares US Technology ETF		24,000	1,756,419	2,526,720
Spdr Series Trust Kbw Regn Bk Etf		86,000	3,214,996	3,302,400
Vaneck Vectors Etf Tr Semiconductor Et		65,000	3,457,625	3,705,650
Spdr Tr Unit Ser 1		41,000	7,675,772	8,588,475
Vanguard Index Fds Reit Etf		20,000	1,662,494	1,773,400
Select Sector Spdr Tr Sbi Int-Energy		98,000	6,045,932	6,687,520
Select Sector Spdr Tr Sbi Int-Finl		275,000	5,147,139	6,285,125
Select Sector Spdr Tr Sbi Int-Inds		96,000	5,197,832	5,376,960
Select Sector Spdr Tr Technology		128,000	5,546,544	5,551,360
Select Sector Spdr Tr Sbi Cons Stpls		178,000	8,623,884	9,816,700
Select Sector Spdr Tr Sbi Int-Utils		67,000	2,789,603	3,515,490
Select Sector Spdr Tr Sbi Healthcare		62,200	4,276,077	4,460,051
Select Sector Spdr Tr Sbi Cons Discr		62,000	3,528,180	4,839,720
Spdr Series Trust S&p Retail Etf		25,000	1,093,884	1,049,000
Sub-total			**103,145,950**	**114,915,171**
MUNICIPAL BONDS				
Bay Area Toll Auth Calif Toll Toll Brid	4/1/2030	1,000,000	1,020,447	1,319,410
California St Build America Bonds	4/1/2034	500,000	476,438	758,420
California St Go Bds	11/1/2026	2,000,000	2,000,000	2,703,000
California St Go Bds	3/1/2036	5,000,000	5,323,908	6,077,050
Houston Tex Arpt Sys Rev Arpt Sys	1/1/2028	5,000,000	4,583,417	6,124,400
Millbrae Calif Sch Dist	7/1/2020	500,000	544,876	566,530
Moreland Calif Sch Dist	8/1/2030	1,235,000	1,235,000	1,303,888
Pasadena Calif Wtr Rev	6/1/2031	3,000,000	2,956,629	3,257,880
Pasadena Calif Wtr Rev	6/1/2033	2,000,000	1,971,073	2,178,900
Riverside Calif Pub Fing Auth Tax Alloc	8/1/2017	535,000	530,365	539,986
Riverside Cnty Calif Redev Agy Tax Alloc	10/1/2037	3,000,000	3,013,728	3,424,350
Sacramento Calif Pub Fing Auth	4/1/2050	5,000,000	5,321,700	6,018,950
San Diego Cnty Calif Pension O	8/15/2017	635,000	667,511	670,122
San Francisco Calif City & Cnt Tax Alloc	8/1/2039	5,000,000	5,185,188	6,990,900
Union City Calif Cmnty Redev A	10/1/2030	250,000	244,763	257,513
Univ Calif Regts Med Ctr Poole	5/15/2031	2,350,000	2,488,864	3,077,772
University Calif Revs For Prev	5/15/2021	1,000,000	1,000,000	1,014,050
Vermont State Build America Bonds	8/15/2027	2,700,000	2,668,459	2,939,490
Sub-total			**41,232,366**	**49,222,610**
MORTGAGE LOANS				
Walgreens Drugs/Adahi, Inc	5/1/2024	1,924,034	$ 1,924,034	$ 1,924,034
Sub-total			**1,924,034**	**1,924,034**
Total			**238,265,171**	**271,592,633**

APPENDIX A

City of Sacramento

Sacramento City Employees' Retirement System

June 30, 2016
Actuarial Valuation

December 12, 2016

BARTEL ASSOCIATES, LLC

ACTUARIAL VALUATION

CITY OF SACRAMENTO
SACRAMENTO CITY EMPLOYEES' RETIREMENT SYSTEM (SCERS)
DEFINED BENEFIT PLAN

We are pleased to present the results of our June 30, 2016 actuarial valuation of the Sacramento City Employees' Retirement System (SCERS).

The purpose of this valuation is to:

- Determine the System's June 30, 2016 Funded Status, and
- Calculate the fiscal year 2017/18 Actuarially Determined Contribution (ADC).

The information in this report may not be appropriate for purposes other than System funding but may be useful to the City for the System's financial management. Future valuations may differ significantly if the System's experience differs from our assumptions or if there are changes in plan design, actuarial methods or actuarial assumptions. The project scope did not include an analysis of this potential variation.

The valuation is based on the System's benefit provisions summarized in Section 9, employee data, and on the System's financial information, all furnished by the City. We reviewed the financial and employee data for reasonableness, including comparing to prior year data, but did not perform an audit.

To the best of our knowledge, this report is complete and accurate and has been conducted using generally accepted actuarial principles and practices. As members of the American Academy of Actuaries, meeting Academy Qualification Standards, we certify the actuarial results and opinions herein.

Respectfully submitted,

Mary Elizabeth Redding

Mary Elizabeth Redding, FSA, MAAA, EA
Vice President

Deanna D. Van Valer

Deanna Van Valer, ASA, MAAA, EA
Assistant Vice President

Katherine Moore

Katherine Moore, ASA, MAAA
Associate Actuary

TABLE OF CONTENTS

SECTION 1
EXECUTIVE SUMMARY

Following are the valuation results. See notes following the table for a description of terms. Results from the June 30, 2015 valuation are provided for comparative purposes.

	--------*amounts in $000's*---------		
	June 30, 2015	**June 30, 2016**	**% change**
■ **Participant Counts**			
• Actives	19	16	-15.8%
• Terminated Vesteds & Reciprocals	14	12	-14.3%
• Service Retirees	662	641	-3.2%
• Disableds	145	140	-3.4%
• Beneficiaries	334	329	-1.5%
• Total	1,174	1,138	-3.1%
■ **Actuarial Liabilities**			
• Present Value of Projected Benefits	$ 376,767	$ 366,391	-2.8%
• Actuarial Accrued Liability	376,479	366,141	-2.7%
■ **Assets**			
• Market Value of Assets	301,263	285,170	-5.3%
• Approximate Annual Rate of Return	4.5%	2.7%	
• Actuarial Value of Assets	293,036	286,675	-2.2%
• Approximate Annual Rate of Return	8.0%	6.2%	
■ **Plan Funded Status**			
• Actuarial Accrued Liability	376,479	366,141	-2.7%
• Actuarial Value of Plan Assets	293,036	286,675	-2.2%
• Unfunded Actuarial Accrued Liability	83,443	79,466	-4.8%
• Funded Ratio	77.8%	78.3%	0.6%
• Funded Ratio, Market Value Basis	80.0%	77.9%	-2.6%
■ **Maturity Ratios**			
• Inactive AAL/Total AAL	97.8%	98.1%	
• Inactive Count/Total Count	98.4%	98.6%	
	2016/17	**2017/18**	**% change**
■ **Annual Cost**[1]	$ 8,330	8,267	-0.8%
■ **Annual Cost (% Proj. Plan Payroll)**[1]	953.6%	1144.3%	
■ **Annual Cost (% Proj. City Payroll)**	2.9%	2.8%	

1 See page 11 for details.

SECTION 1
EXECUTIVE SUMMARY

Purpose of Actuarial Valuation

The actual costs of a defined benefit plan are determined entirely by the amount of the benefit promise, the actual salaries and service of the plan participants, and how long they and their beneficiaries live to receive payments. An actuarial valuation is a mathematical model which attempts to quantify this actual cost by setting assumptions that, it is hoped, duplicate reality as closely as possible. In addition, the actuarial methodology provides a reasonable plan, or method, towards funding the expected plan costs. This information assists the plan trustees so they can make informed decisions regarding plan investments and how much in contributions will be required from the employer to eventually fully pay the plan's costs.

Summary Information & Results

The Sacramento City Employees' Retirement System (SCERS) is a closed defined benefit pension plan. It has not accepted new members since January 28, 1977, and only 16 active members (out of a total plan membership of 1,138) remain.

Since the last valuation, the plan experienced overall small gains on liabilities and losses on market assets. Plan liabilities decreased more than expected, by a net $1.1 million. Market value return on assets was less than expected, about 2.7% for the year, resulting in a loss of $0.6 million on the actuarial value of assets. The July 1, 2016 total plan unfunded actuarial accrued liability (UAAL) is $79.5 million, as compared to expected UAAL of $80.0 million.

No actuarial assumption changes were made in the valuation.

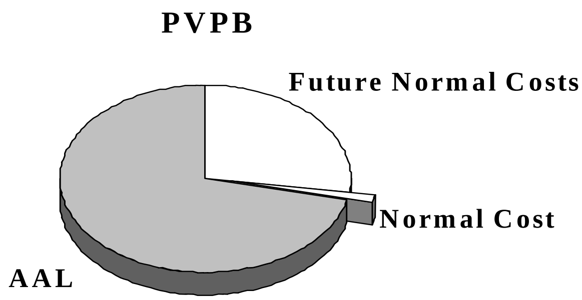
The plan's funded ratio on an actuarial value of assets basis is 78.3%, an increase from 77.8% in the prior valuation. The plan's funded ratio using market value of assets basis is 77.9%, a slight decrease from 80.0% in the prior valuation.

The City's contribution has decreased from $8.330 million for fiscal year 2016/17 to $8.267 million for fiscal year 2017/18. The prior valuation projected a 2017/18 contribution of $7.715 million. The 2017/18 contribution is higher than projected due to the investment loss.

SECTION 1
EXECUTIVE SUMMARY

Definitions

The Present Value of Projected Benefits (PVPB) is the present value of all future benefits for current plan participants. The Actuarial Accrued Liability (AAL) represents the portion of the PVPB attributable to past service. The AAL is recognized over service through the date a participant is expected to commence benefits. Therefore, the AAL is equal to the PVPB for current retirees. The Normal Cost is the portion of the PVPB allocated or earned during the year following the valuation date.



SECTION 2
LIABILITY INFORMATION & FUNDED STATUS

A comparison of the Present Value of Benefits, Actuarial Accrued Liability, Employer Normal Cost, and the Funded Ratio for the current and prior valuations follows. (Note that numbers throughout the report may not add due to rounding.)

(amounts in $000's)

	June 30, 2015	June 30, 2016
Present Value of Projected Benefits		
■ Active Employees	$ 8,678	$ 7,342
■ Vested Terminated & Reciprocals	2,796	2,758
■ Service Retirees	265,580	258,349
■ Disabled Participants	43,990	41,692
■ Beneficiaries	55,724	56,251
■ Total	376,767	366,391
Actuarial Accrued Liability		
■ Active Employees	$ 8,390	$ 7,092
■ Vested Terminated & Reciprocals	2,796	2,758
■ Service Retirees	265,580	258,349
■ Disabled Participants	43,990	41,692
■ Beneficiaries	55,724	56,251
■ Total	376,479	366,141

	2015/16	2016/17
Normal Cost		
■ Employer Normal Cost (beginning of year)	$ 57	$ 42

	June 30, 2015	June 30, 2016
Plan Funded Status		
■ Total Actuarial Accrued Liability	$ 376,479	$ 366,141
■ Actuarial Value of Plan Assets	293,036	286,675
■ Unfunded Actuarial Accrued Liability	83,443	79,466
■ Funded Ratio	77.8%	78.3%
■ Market Value of Assets	301,263	285,170
■ Funded Ratio – Market Value Basis	80.0%	77.9%

SECTION 2
LIABILITY INFORMATION & FUNDED STATUS

Details of the June 30, 2016 Present Value of Benefits, Actuarial Accrued Liability and Employer Normal Cost by employee category:

(amounts in $000's)

	Safety	Miscellaneous	Total
Present Value of Projected Benefits			
■ Active Employees	$ -	$ 7,342	$ 7,342
■ Vested Terminated & Reciprocals	-	2,758	2,758
■ Service Retirees	26,593	231,756	258,349
■ Disabled Participants	19,408	22,284	41,692
■ Beneficiaries	18,271	37,980	56,251
■ Total	64,272	302,120	366,391
Actuarial Accrued Liability			
■ Active Employees	-	7,092	7,092
■ Vested Terminated & Reciprocals	-	2,758	2,758
■ Service Retirees	26,593	231,756	258,349
■ Disabled Participants	19,408	22,284	41,692
■ Beneficiaries	18,271	37,980	56,251
■ Total	64,272	301,869	366,141

	Safety	Miscellaneous	Total
Normal Cost			
■ Employer Normal Cost (on June 30, 2016)	$ 0	$ 42	$ 42

SECTION 2
LIABILITY INFORMATION & FUNDED STATUS

Details of the June 30, 2016 Present Value of Benefits, Actuarial Accrued Liability and Employer Normal Cost by benefit section:

(amounts in $000's)

	Section 175	Sections 302 & 399	Total
Present Value of Projected Benefits			
■ Active Employees	$ 0	$ 7,342	$ 7,342
■ Vested Terminated & Reciprocals	732	2,026	2,758
■ Service Retirees	8,164	250,185	258,349
■ Disabled Participants	2,092	39,600	41,692
■ Beneficiaries	4,388	51,863	56,251
■ Total	15,375	351,016	366,391
Actuarial Accrued Liability			
■ Active Employees	0	7,092	7,092
■ Vested Terminated & Reciprocals	732	2,026	2,758
■ Service Retirees	8,164	250,185	258,349
■ Disabled Participants	2,092	39,600	41,692
■ Beneficiaries	4,388	51,863	56,251
■ Total	15,375	350,766	366,141

	Section 175	Sections 302 & 399	Total
Normal Cost			
■ Employer Normal Cost (on 6/30/16)	$ 0	$ 42	$ 42

SECTION 3
ASSET INFORMATION

Assets for SCERS are held in trust. Trust monies may be used to pay benefits to plan participants and their beneficiaries. The trust is managed under the direction of the Administration, Investment, and Fiscal Management Board. Asset information is provided by the City of Sacramento, and has not yet been audited.

Asset Reconciliation – Market Value of Assets

Following reconciles the June 30, 2014 through June 30, 2015 and the June 30, 2015 through June 30, 2016 market value of assets.

(amounts in $000's)

	2014/15		2015/16	
■ Beginning of Year Balance:		$ 312,414		$ 301,263
• Member Contributions	$ 82		$ 146[2]	
• City Contributions	9,183		8,645	
• Investment Income	14,662		8,937	
■ Total Additions		23,927		17,728
• Benefit Payments	33,590		32,633	
• Member Refunds	201		50	
• Investment Expenses	1,287		1,138	
■ Total Deductions		35,078		33,821
■ Net Assets at End of Year		301,263		285,170
■ Approximate Return on Assets		4.5%		2.7%

2 Includes $77,000 in member contributions for a deficit account buyback

SECTION 3
ASSET INFORMATION

Asset Allocation – Market Value of Assets

The July 1, 2016 trust asset allocation is provided by the City of Sacramento and based on an allocation strategy of 40% fixed income and 60% equity. Details are shown below.

(amounts in $000's)

		Market Value	Percentage
■ Cash & Short Term Investments		$ 14,782	5.2%
■ Receivables		1,686	0.6%
■ Investments			
• US Agencies	$ 1,430		0.5%
• Corporate Bonds	53,775		18.9%
• Equities	50,326		17.6%
• Exchange Traded Funds	114,915		40.3%
• Mortgage Loans	1,924		0.7%
• Municipal Bonds	49,223		17.3%
■ Total Investments		271,593	
■ Total Assets		288,061	
■ Other Liabilities Payable		(2,891)	-1.0%
■ Net Pension Benefit Trust Assets		285,170	100.0%

Target Allocation by Asset Class

The Administration, Investment and Fiscal Management Board of the Sacramento City Employees' Retirement System most recently adopted a new asset allocation July 1, 2016, as shown below. The fund is rebalanced each year.

	Prior Allocation		Current Allocation	
■ Fixed Bonds/Real Estate	40%		40%	
Total Fixed		40%		40%
■ Large Cap Growth	35%		35%	
■ Equity Income	15%		20%	
■ International Equities	10%		5%	
Total Equity		60%		60%
Total Fixed & Equity		100%		100%

Discount Rate Development

We recommend the following discount rate assumption for the June 30, 2016 valuation, based upon a 55% confidence level:

Confidence Level	**50%**	**55%**	**60%**
Inflation Adjusted Return	7.23%	6.95%	6.69%
Investment Expenses[3]	0.30%	0.30%	0.30%
Net Return after Expenses	6.93%	6.65%	6.39%
Discount Rate Assumption		**6.50%**	

3 Based on average investment expenses for a typical passive investment strategy. This is not plan specific.

SECTION 3
ASSET INFORMATION

Development of Actuarial Value of Assets

The Actuarial Value of Assets is based upon a three year smoothing of market assets. This method reduces volatility in contribution rates, and also reduces volatility in the size of the actuarial gains and losses due to asset returns. Because the plan is frozen to new membership and the membership is primarily composed of retirees and beneficiaries, it is important from a cash flow perspective that asset values used in calculating contribution rates not stray too far from market value. For this reason, a corridor of 15% around the market value is imposed upon the actuarial value.

(amounts in $000's)

	2015/16
■ **Actuarial Value of Assets, Beginning of Year**	$ 293,036
• Contributions	8,791
• Expected Earnings	18,283
• Benefit Payments	(32,683)
■ Expected Actuarial Value of Assets, End of Year	287,427
■ Market Value of Assets, End of Year	285,170
■ Difference between MVA & Expected AVA	(2,257)
■ **Preliminary Actuarial Value of Assets, End of Year** *(Expected AVA+ 1/3 Difference)*	286,675
■ Actuarial Value of Assets Corridor	
• Cap: 115% of Market Value	327,946
• Min: 85% of Market Value	242,395
■ **Actuarial Value of Assets, End of Year** *(No greater than Cap, not less than Min)*	286,675
■ Approximate Annual Rate of Return	6.2%

Actuarially Determined Contribution
Following is the development of the 2017/18 Actuarially Determined Contribution. The 2016/17 Actuarially Determined Contribution was calculated in the June 30, 2015 actuarial valuation and is shown for comparison.

(amounts in $000's)

Contribution Year	2016/17	2017/18
■ Actuarially Determined Contribution		
• Employer Normal Cost	$ 43	$ 30
• UAAL Amortization[4]	8,287	8,236
• Total Cost	8,330	8,267
■ Projected Plan Payroll	874	722
■ Actuarially Determined Contribution (as a percent of plan payroll)		
• Employer Normal Cost	5.0%	4.2%
• UAAL Amortization	948.6%	1140.1%
• Total Contribution	953.6%	1144.3%
■ Projected Total City Payroll	283,330	295,629
■ Actuarially Determined Contribution (as a percent of total City payroll)		
• Employer Normal Cost	0.0%	0.0%
• UAAL Amortization	2.9%	2.8%
• Total Contribution	2.9%	2.8%

4 The Unfunded Actuarial Accrued Liability (UAAL) is being amortized as a level dollar amount over a 14 year open period for the 2016/17 and 2017/18 ADC. As the plan continues to mature, this amortization period will be monitored.

SECTION 5
SCHEDULE OF FUTURE CONTRIBUTIONS

Below are the historic and projected contributions and benefit payments. City contributions for years ending 6/30/2019 and later are estimated assuming 6/30/17 and subsequent market value of assets earn 6.5% and assuming the Actuarially Determined Contribution is contributed each year. These contributions are designed to achieve 100% funding of the system.

Year Ending[5]	Member Contributions	City Contributions	Benefit Payments
6/30/1990	3,305,000	9,664,000	20,000,000
6/30/1991	1,704,000	6,017,000	20,400,000
6/30/1992	1,818,000	2,984,000	22,000,000
6/30/1993	1,672,000	857,000	23,042,000
6/30/1994	1,432,000	0	24,165,000
6/30/1995	1,320,000	0	24,565,000
6/30/1996	1,228,000	0	25,027,000
6/30/1997	1,080,000	0	23,274,000
6/30/1998	1,090,000	0	23,825,000
6/30/1999	1,136,000	0	24,249,000
6/30/2000	1,079,000	0[6]	24,901,000
6/30/2001	989,000	0	25,087,000
6/30/2002	1,011,000	0	25,588,000
6/30/2003	978,000	0	26,619,000
6/30/2004	1,056,000	0	26,772,000
6/30/2005	809,000	0	27,524,000
6/30/2006	789,000	0	28,749,000
6/30/2007	699,000	0	29,604,000
6/30/2008	596,000	3,534,000	29,896,000
6/30/2009	607,000	3,159,000	30,707,000
6/30/2010	377,000	3,431,000	31,719,000
6/30/2011	342,000	10,547,000	33,003,000
6/30/2012	332,000	10,361,000	33,057,000
6/30/2013	219,000	10,573,000	33,237,000
6/30/2014	161,000	9,649,000	33,688,000
6/30/2015	82,000	9,183,000	33,791,000
6/30/2016	69,000	8,645,000	32,683,000
6/30/2017	*60,000*	8,330,000	*32,592,000*
6/30/2018	*42,000*	8,267,000	*32,512,000*
6/30/2019	*29,000*	*7,920,000*	*32,316,000*
6/30/2020	*20,000*	*7,579,000*	*32,018,000*
6/30/2021	*12,000*	*7,247,000*	*31,624,000*

5 Information prior to 6/30/2006 valuation is taken from prior actuary's valuation report. Member contributions and benefit payments for years ending 6/30/2017 and later are estimated.

6 Shown as a negative 1.367 million by prior actuary.

SECTION 6
ACTUARIAL (GAIN)/LOSS ANALYSIS

The gain/loss analysis of plan assets, actuarial liability, and unfunded actuarial actuarial liability for the one year period between valuation dates:

(amounts in $000's)

	Actuarial Accrued Liability (Gain)/Loss	Actuarial Value of Assets Gain/(Loss)	Unfunded Actuarial Accrued Liability (Gain)/Loss
■ **June 30, 2015 Actual Value**	$ 376,479	$ 293,036	$ 83,443
■ **June 30, 2016 Expected Value**	367,259	287,253	80,005
• Actual COLA Less Than Expected (Gain)/Loss	(1,218)		
• Other Demographic (Gain)/Loss	100		
■ Total Liability (Gain)/Loss	(1,118)		
• Investment (Loss)		(578)[7]	
■ Total Asset Gain/(Loss)		(578)	
■ **Total (Gain)/Loss**			(540)
■ **June 30, 2016 Actual Value**	366,141	286,675	79,466

7 Includes gain from $77,000 in member contributions for deficit account buyback.

SECTION 7
SENSITIVITY ANALYSIS

The Plan's June 30, 2016 funded status and 2017/18 fiscal year contribution are shown below at 5.5%, 6.5% and 7.5% discount rates.

(amounts in $000's)

Discount Rate	5.5%	6.5%	7.5%
■ Present Value of Projected Benefits	$ 399,937	$ 366,391	$ 337,656
■ Funded Status			
• Actuarial Accrued Liability	399,601	366,141	337,467
• Actuarial Value of Assets	286,675	286,675	286,675
• Unfunded Actuarial Accrued Liability	112,926	79,466	50,792
■ Funded Ratio	71.7%	78.3%	84.9%
■ 2017/18 Actuarially Determined Contribution			
• Employer Normal Cost	53	30	14
• UAAL Amortization[8]	11,288	8,236	5,286
• Total Contribution	11,341	8,267	5,301
• Total Employer Contribution (as a percent of Plan payroll)	1569.9%	1144.3%	733.7%
• Total Employer Contribution (as a percent of total City payroll)	3.8%	2.8%	1.8%

The Plan's 2017/18 fiscal year contribution would increase if the amortization period of the Unfunded Actuarial Accrued Liability were shorter. Shown below are results based on the current 14-year period, as well as for 13, 12 and 10 year periods.

(amounts in $000's)

Amortization Years	14	13	12	10
■ 2017/18 Actuarially Determined Contribution				
• Employer Normal Cost	$ 30	$ 30	$ 30	$ 30
• UAAL Amortization	8,236	8,633	9,100	10,327
• Total Employer Contribution	8,267	8,664	9,130	10,358
• Total Employer Contribution (as a percent of Plan payroll)	1144.3%	1199.2%	1263.8%	1433.8%
• Total Employer Contribution (as a percent of total City payroll)	2.8%	2.9%	3.1%	3.5%

8 14 year period

SECTION 8
HEADCOUNT AND BENEFIT PAYMENT PROJECTION

Headcount and Benefit Payment Projection

Fiscal Year Ending June 30,	Active Count	Term Vested Count	Retiree Count	Benefit Payments (000's)
2017	16	12	1,110	$ 32,592
2018	11	12	1,085	32,512
2019	7	12	1,056	32,316
2020	5	12	1,024	32,018
2021	3	12	990	31,624
2022	2	12	955	31,153
2023	1	12	917	30,619
2024	1	12	880	30,017
2025	0	12	841	29,362
2026	0	12	803	28,658
2027	0	11	764	27,912
2028	0	11	726	27,127
2029	0	11	687	26,309
2030	0	11	650	25,457
2031	0	11	613	24,572
2032	0	11	577	23,657
2033	0	10	541	22,710
2034	0	10	506	21,733
2035	0	10	472	20,727
2036	0	10	439	19,692
2037	0	9	406	18,630
2038	0	9	374	17,544
2039	0	8	344	16,438
2040	0	8	314	15,319
2041	0	7	285	14,192
2042	0	7	257	13,067
2043	0	6	231	11,952
2044	0	6	206	10,856
2045	0	5	183	9,789
2046	0	5	161	8,759

SECTION 8
HEADCOUNT AND BENEFIT PAYMENT PROJECTION

Fiscal Year Ending June 30,	Active Count	Term Vested Count	Retiree Count	Benefit Payments (000's)
2047	0	4	141	$ 7,777
2048	0	3	122	6,849
2049	0	3	105	5,979
2050	0	2	89	5,175
2051	0	2	76	4,439
2052	0	2	63	3,777
2053	0	1	53	3,188
2054	0	1	44	2,674
2055	0	1	36	2,231
2056	0	1	29	1,854
2057	0	0	24	1,538
2058	0	0	19	1,277
2059	0	0	15	1,066
2060	0	0	12	898
2061	0	0	10	769
2062	0	0	8	672
2063	0	0	7	599
2064	0	0	6	545
2065	0	0	5	506
2066	0	0	4	475

SECTION 9
PLAN PROVISIONS

A. Plan Effective Date

Originally established effective April 1, 1935.

B. Plan Year

July 1 to June 30.

C. Participation

The plan is closed with no new members since January 28, 1977.

D. Eligibility to Retire

Section 175: Age 70, or age 55 and 20 years of service.

Sections 302 and 399: Age 70, or age 50 and 5 years of service.

E. Vesting

100% vesting with five years of participation.

F. Average Monthly Compensation

Average monthly salary for the 36 months prior to termination.

G. Employee Contributions

Each participant contributes a certain percentage based on his or her age at entry into the plan.

H. Service Retirement Benefit

Section 175:

Average Monthly Compensation times years of service times Benefit Factor. For retirement after age 65 with 20 years of service, benefit is a minimum of $60 per month.

Sections 302 and 399:

Average Monthly Compensation times years of service times Benefit Factor, but no larger than 75% of final average earnings.

Benefit Factors at sample ages:

Retirement Age	Section 175	Sections 302 and 399
50	n/a	1.10%
55	1.10%	1.75%
60	1.67%	2.40%
65	2.44%	2.40%

SECTION 9
PLAN PROVISIONS

I. Vested Termination Benefit

Return of employee contributions with interest, or if the value is greater than $500, the member may choose to leave the contributions in the system. The member may become eligible in the future for retirement, disability or death benefits.

J. Non-Industrial (Ordinary) Disability Benefit

Eligibility is ten years of service.

Section 175:

With 16 2/3 years of service: 1½% of final average salary times years of service to disability.

Less than 16 2/3 years of service: Minimum of 1½% of final average salary times years of service would have earned to age 60, or 25% of final average earnings.

Sections 302 and 399:

Not Eligible for Retirement: Lesser of 1½% of Final Average Earnings times years of service or final average earnings times benefit factor at age 50 times years of service at age 50, minimum of 25% of final average earnings.

Eligible for Retirement: Maximum of retirement allowance or 25% of final average earnings.

K. Industrial Disability Benefit

Sections 302 and 399:

Not Eligible for Retirement: 50% of final average earnings.

Eligible for retirement: Maximum of retirement allowance or 50% of final average earnings.

L. Death Benefit – Pre Retirement Eligibility

Return of employee contributions with interest, plus 1/12 of salary in the year preceding death multiplied by the smaller of 6 or years of service.

M. Death Benefit – Post Retirement Eligibility

50% of the member's benefit as if the member retired at the time of death, paid as a lifetime benefit to the spouse.

N. Death Benefit – Post Retirement Death

$500 paid to the member's estate upon death.

O. Social Security Reduction at age 62

For members participating in Social Security, their benefit will be reduced at the later of age 62 or actual retirement age. The amount of the reduction is one half of the PIA from Social Security, multiplied by the ratio of the sum of salary earned from the City to the sum of salary from all sources used in the calculation of the Social Security amount. The member's benefit under the System plus the amount received from Social Security cannot be less than the member's benefit under the System calculated with no reductions as of his retirement age. The City applies this offset to service retirees, not to disabled retirees.

P. Reduction Account

A member can choose to reduce his normal contributions to the System by an amount equal to the taxes paid for Social Security coverage. At the time of retirement, the regular retirement benefit will be reduced by the actuarial equivalent of the accumulated value of the reduction of contributions.

Q. Cost of Living

Benefits will be increased each July 1 by the change in the CPI for the San Francisco/Oakland area for the preceding calendar year limited to 3% (with COLA bank).

R. Benefit Forms

Section 175:

Lifetime benefit to the member, which may be actuarially reduced to provide a continuance to a beneficiary.

Section 302 and 399:

Lifetime benefit to the member, with an automatic 50% continuance to the spouse.

SECTION 10
METHODS AND ASSUMPTIONS

Actuarial Methods

The actuarial cost method used for this valuation is the Entry Age Normal (EAN) method. The Present Value of Projected Benefits (PVPB) is the present value of all future benefits for current plan participants. The Actuarial Accrued Liability (AAL) represents the portion of the PVPB attributable to past service. The AAL is recognized over service through the date a participant is expected to commence benefits.

The current unfunded AAL will be amortized over a 14 year rolling period as a level dollar amount. Because the plan is closed the amortization period should be regularly reviewed. Under current Board policy, when the average future life expectancy of the plan participants drops below 5 years, the amortization period will be reduced to no more than 5 years.

Plan funded status based on excess of

1) Value of Normal Retirement Benefit in excess of employee contributions over
2) Actuarial Value of Assets

The contribution generated by the current valuation will be payable for the City's fiscal year beginning one year later (2017/18). The June 30, 2015 valuation generated a contribution for fiscal year 2016/17.

The Actuarial Value of Assets is a 3-year smoothed market value. Gains and losses will be recognized over a three year period. For June 30, 2006, the first year of this method, the Actuarial Asset Value was set equal to the Market Value. The Actuarial Value of Assets will be limited by a 15% corridor. The Actuarial Value of Assets will be no greater than 115% of Market Value of Assets and no less than 85% of Market Value of Assets.

Data

The City provided participant data as of 7/1/2016. We reviewed the data, but did not perform an audit.

Basis for Assumptions

Mortality assumptions are based on CalPERS 1997-2011 experience study. Mortality improvement is the Society of Actuaries Scale MP-2014, modified slightly as, in our estimate, appropriate to CalPERS base mortality table. Inflation is based on our estimate for the plan's very long time horizon.

Actuarial Assumptions

Assumptions used in the valuation are as follows:

- **Discount Rate**

  6.50%, net of investment expenses[9]

- **Inflation**

  3.0%

- **Salary Scale**

  3.00% CPI

  0.50% Merit

- **Social Security Wage Base**

  3.25%

- **Termination**

  Rates vary based on age and gender. Sample rates follow:

Age	Male	Female
30	9.56%	11.32%
35	6.92%	8.58%
40	4.48%	5.82%
45	2.28%	3.08%
50	0.00%	0.00%

- **Retirement**

  Rates vary based on age. Sample rates follow:

Age	Non Sec 175
50	1%
55	6%
60	26%
65	40%
70	100%

9 Administrative expenses are not paid from plan assets.

- **Disability**

  Rates vary based on age, gender and if the disability is job-related or not. Sample rates follow:

	Job Related		Ordinary	
	Male	Female	Male	Female
40	.00075	.00045	.00204	.00123
45	.00192	.00093	.00525	.00252
50	.00351	.00180	.00966	.00495
55	.00502	.00273	.01374	.00747
60	.00639	.003512	.01761	.00969

- **Healthy Mortality**

  CalPERS 1997-2011 Pre-Retirement Mortality table for males and females and CalPERS 1997-2011 Post-Retirement Mortality table for males and females. Sample rates are as follows:

	Pre-Retirement		Post-Retirement	
Age	Male	Female	Male	Female
50	0.16%	0.11%	0.53%	0.49%
60	0.35%	0.22%	0.82%	0.53%
70	0.71%	0.47%	1.77%	1.26%
80	1.34%	1.04%	5.28%	3.69%
90	n/a	n/a	16.19%	12.34%
100	n/a	n/a	34.55%	31.88%

- **Post-Retirement Disabled Mortality**

  For Miscellaneous retirees, CalPERS 1997-2011 Non-Work-Related Disability table for males and females. For Safety retirees, CalPERS 1997-2011 Work-Related Disability table for males and females. Sample rates are as follows:

	Non-Work-Related		Work-Related	
Age	Male	Female	Male	Female
50	1.78%	1.23%	0.53%	0.49%
60	2.63%	1.51%	0.87%	0.63%
70	3.89%	2.81%	2.21%	1.78%
80	8.23%	6.02%	6.63%	4.98%
90	18.47%	16.08%	16.19%	12.34%
100	34.55%	31.88%	34.55%	31.88%

- **Mortality Improvement Projection**

  Mortality projected fully generational with Scale MP-2014 modified to converge to ultimate improvement rates in 2022.

- **Social Security Offset**

  Monthly benefits for current retirees and vested terminated assumed to decrease at the later of age 62 or actual retirement, based on the average expected offset of future retirees.

- **Marriage**

  85% of male employees and 60% of female employees are assumed to be married. Wives are assumed to be four years younger than husbands.

- **Retirement Age**

  Deferred vested members covered under Section 399 are assumed to retire at age 62; those covered under Section 175 are assumed to retire at age 65.

- **Reciprocal Members**

  All remaining deferred vested members are assumed to have reciprocity with other retirement systems, and their pay is assumed to increase with salary scale after separation from the City.

Data Summary

Following summarizes participant demographic information for the June 30, 2015 and June 30, 2016 actuarial valuations.

	June 30, 2015	June 30, 2016
Participant Counts		
• Actives	19	16
• Terminated Vesteds	11	9
• Reciprocals	3	3
• Service Retirees	662	641
• Disableds	145	140
• Beneficiaries	334	329
• Total	1,174	1,138
Actives		
• Average Age	61.0	62.2
• Average Service	33.5	33.9
• Salary		
➢ Total	$ 1,179,884	$ 1,019,832
➢ Average	62,099	63,740
• Overall City Payroll	264,491,000	275,973,000
Terminated Vesteds & Reciprocals		
• Average Age	65.1	65.9
Retirees, Disableds & Beneficiaries		
• Average Age	76.9	77.5
• Average Monthly Benefit	$ 2,406	$ 2,463
• Life expectancy	13.2	12.9

June 30, 2016 Participant Data

Following summarizes participant demographic information for the June 30, 2016 actuarial valuation, broken out by employee category and benefit section.

	Safety		Miscellaneous		
	Section 175	Section 302 & 399	Section 175	Section 302 & 399	Total
■ **Actives**					
• Count	-	-	-	16	16
• Average Age	n/a	n/a	n/a	62.2	62.2
• Average Service	n/a	n/a	n/a	33.9	33.9
• Salary					
➢ Average	$ -	$ -	$ -	$63,740	$63,740
➢ Total (000's)	-	-	-	1,020	1,020
■ **Vested Terms & Reciprocals**					
• Count	-	-	2	10	12
• Average Age	n/a	n/a	67.8	65.5	65.9
■ **All Inactives**					
• Count	28	189	37	856	1,110
• Average Age	84.9	81.8	81.2	76.1	77.5
• Avg. Monthly Benefit	$2,472	$3,083	$1,671	$2,361	$2,463
■ **Service Retirees**					
• Count	11	62	17	551	641
• Average Age	87.0	87.1	79.8	75.1	76.6
• Average Retirement Age	55.2	55.1	63.5	59.5	59.1
• Avg. Monthly Benefit	$3,124	$4,625	$2,153	$2,819	$2,981
■ **Disabled Retirees**					
• Count	6	50	4	80	140
• Average Age	85.5	75.5	80.3	73.3	74.8
• Average Retirement Age	47.7	42.1	50.0	48.7	46.3
• Avg. Monthly Benefit	$2,615	$2,678	$1,253	$1,965	$2,227
■ **Beneficiaries**					
• Count	11	77	16	225	329
• Average Age	82.6	81.7	82.8	79.6	80.4
• Avg. Monthly Benefit	$1,743	$2,104	$1,263	$1,378	$1,555

SECTION 11
PARTICIPANT DATA

Data Reconciliation
6/30/2015 to 6/30/2016

		Terminated		Receiving Payments			
	Actives	**Vested**	**Reciprocal**	**Disabled**	**Benefic.**	**Retirees**	**Total**
■ **June 30, 2015**	19	11	3	145	334	662	1,174
• New Hires	-	-	-	-	-	-	-
• Disabled	-	-	-	-	-	-	-
• Terminated	-	-	-	-	-	-	-
• Deceased	-	-	-	(5)	(18)	(24)	(47)
• New Beneficiaries	-	-	-	-	13	-	13
• Retired	(3)	-	-	-	-	3	-
• Adjustment/Cash Out	-	(2)	-	-	-	-	(2)
■ **June 30, 2016**	16	9	3	140	329	641	1,138

Active Age/Service

Following are active counts by age and service groups:

Service								
Age	**0-4**	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30 & Over**	**Total**
Under 25	-	-	-	-	-	-	-	-
25-29	-	-	-	-	-	-	-	-
30-34	-	-	-	-	-	-	-	-
35-39	-	-	-	-	-	-	-	-
40-44	-	-	-	-	-	-	-	-
45-49	-	-	-	-	-	-	-	-
50-54	-	-	-	-	-	-	-	-
55-59	-	-	-	-	-	1	1	2
60-64	-	-	-	1	-	2	9	12
65 & Over	-	-	-	-	-	1	1	2
Total	-	-	-	1	-	4	11	16

Inactives Age/Status/Monthly Benefit

Following are inactive counts and monthly benefit by age and status.

Safety

Age		Service Retirees	Disability Retirees	Beneficiaries	Total
Under 50	Count	-	-	-	-
	Avg. Benefit	-	-	-	-
50-54	Count	-	-	-	-
	Avg. Benefit	-	-	-	-
55-59	Count	-	-	-	-
	Avg. Benefit	-	-	-	-
60-64	Count	-	-	1	1
	Avg. Benefit	-	-	1,932	1,932
65-69	Count	-	8	9	17
	Avg. Benefit	-	3,086	1,762	2,385
70-74	Count	5	21	11	37
	Avg. Benefit	3,289	2,325	2,237	2,429
75-79	Count	2	9	14	25
	Avg. Benefit	4,741	2,621	2,304	2,613
80-84	Count	10	10	18	38
	Avg. Benefit	3,829	3,104	1,913	2,731
85 & Over	Count	56	8	35	99
	Avg. Benefit	4,587	2,681	2,060	3,540
Total	Count	73	56	88	217
	Avg. Benefit	4,399	2,671	2,059	3,004

Miscellaneous

Age		Service Retirees	Disability Retirees	Beneficiaries	Total
Under 50	Count	-	-	-	-
	Avg. Benefit	-	-	-	-
50-54	Count	-	-	3	3
	Avg. Benefit	-	-	1,389	1,389
55-59	Count	3	1	6	10
	Avg. Benefit	3,797	2,908	1,286	2,202
60-64	Count	57	15	12	84
	Avg. Benefit	3,189	1,991	1,120	2,680
65-69	Count	120	17	31	168
	Avg. Benefit	2,805	2,252	1,564	2,520
70-74	Count	122	14	30	166
	Avg. Benefit	2,908	1,611	1,532	2,550
75-79	Count	99	14	30	143
	Avg. Benefit	2,696	2,159	1,624	2,419
80-84	Count	77	13	44	134
	Avg. Benefit	2,763	1,616	1,386	2,199
85 & Over	Count	90	10	85	185
	Avg. Benefit	2,509	1,738	1,186	1,860
Total	Count	568	84	241	893
	Avg. Benefit	2,799	1,931	1,371	2,332