City of Moreno Valley

GASB 75 OPEB Valuation
Report as of June 30, 2017

July 13, 2017

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July 13, 2017

Brigitta Bartha
Principal Accountant
City of Moreno Valley
14177 Frederick Street
Moreno Valley, California 92553

Re: City of Moreno Valley GASB 75 OPEB Valuation Report as of June 30, 2017

Dear Ms. Bartha :

At your request, we completed an actuarial valuation of the retiree health and welfare benefits as of June 30, 2017 for the City of Moreno Valley. This valuation is based on input from the City and from CalPERS, as well as our understanding of GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" (GASB 75).

We greatly appreciate your business. If you have any questions, please feel free to call us at (415) 801–5987.

Best Regards,

Roger T. Burton, FSA, FCA, MAAA

Contents

Purpose of the Report

Precision Actuarial prepared this report to meet employer financial accounting requirements under GASB Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" (GASB 75), issued in June 2015. This report includes information with respect to the obligation to provide future retiree health and welfare benefits for the fiscal year ending June 30, 2017.

Changes Since the Prior Valuation

The previous valuation was performed by Bartel Associates, LLC. We updated all assumptions and the census. This valuation is a full valuation.

As of June 30, 2017, the actuarial accrued liability is $16,912,341.

Actuarial Certification

Our determinations reflect the provisions and methods prescribed by GASB 75. In preparing this report, we relied on employee census, plan design, premium rates, and administrative fees provided directly or indirectly by the plan sponsor, and demographic assumptions provided by CalPERS. CalPERS' actuaries set the premium rates using community rating. We did not attempt to verify that the community-rated premium rates represent the true cost of claims and administrative fees.

We based the results in this report on this information, along with the actuarial assumptions and methods used herein. In our opinion, the assumptions used represent reasonable expectations of anticipated plan experience. We reviewed the census information for reasonableness, but we did not audit it.

Actuarial computations under GASB 75 fulfill employer accounting and financial reporting requirements. The calculations are on a basis consistent with our understanding of GASB 75. Determinations for purposes other than meeting employer financial accounting requirements may be significantly different from the results in our report. Accordingly, additional determinations may be necessary for other purposes, such as judging benefit security at termination.

Precision Actuarial's work is prepared solely for the internal business use of the City of Moreno Valley and by GovInvest. To the extent that Precision Actuarial's work is not subject to disclosure under applicable public record laws, the City may not provide our work to third parties without Precision Actuarial's prior written consent, except that the City may provide our complete work product to its qualified agents who are subject to confidentiality agreements and agree to use our work product only to benefit the City, and the City may provide our complete work product to other governmental agencies or individuals, as required by law.

No third-party recipient of Precision Actuarial's work product should rely solely on Precision Actuarial's work product. Any third-party recipient should engage qualified professionals for advice appropriate to their own needs.

There is no relationship between Precision Actuarial, its owner, subcontractors, or staff; GovInvest; or the City of Moreno Valley beyond the contractual services that we perform for the City of Moreno Valley.

Actuarial Certification *(continued)*

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, the report is complete and accurate and that we prepared it in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the applicable "Actuarial Standards of Practice" and "Actuarial Compliance Guidelines" as promulgated by the American Academy of Actuaries.

The undersigned is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Roger T Burton

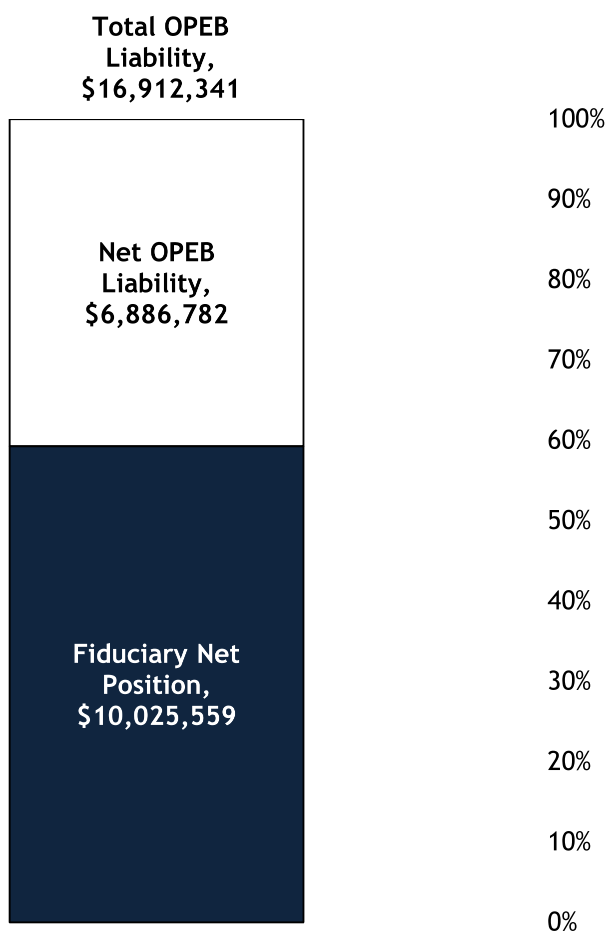
July 13, 2017

Roger T. Burton, FSA, FCA, MAAA
Fellow of the Society of Actuaries (FSA)
Member of the American Academy of Actuaries (MAAA)
Fellow of the Conference of Consulting Actuaries (FCA)

Date

A summary of the key valuation results follows.

Funded Status		For the Fiscal Year Ending June 30, 2017
Total OPEB Liability	$	16,912,341
Fiduciary Net Position		10,025,559
Net OPEB Liability	$	6,886,782
Plan fiduciary net position as a percentage of the total OPEB liability		59.28%
Covered payroll	$	20,650,038
Net OPEB Liability as a percentage of covered payroll		33.3%
2015-2016 Expense		n/a
2016-2017 Expense	$	738,845



Statement of Fiduciary Net Position
Fiscal Year Ending June 30, 2017

Assets	
Cash and deposits	$ -
Securities lending cash collateral	-
Total cash	-
Receivables:	
Contributions	-
Due from broker for investments sold	-
Investment income (interest on investments)	-
Other	-
Total receivables	-
Investments:	
Domestic fixed income securities	-
Domestic equities	
Investment Funds	10,025,559
International equities	-
Real estate	-
Total investments	10,025,559
Total assets	10,025,559
Liabilities	
Payables:	
Investment management fees	-
Due to broker for investments purchased	-
Collateral payable for securities lending	-
Other	-
Total liabilities	-
Net position restricted for postemployment benefits other than pensions*	$ 10,025,559

*Projected from the March 31, 2017 asset statement

Statement of Changes to the Fiduciary Net Position for the Fiscal Year Ended June 30, 2017

		Fiscal Year Ending June 30, 2017
Additions		
Investment income:		
Net appreciation in the fair value of investments	$	1,450,417
Interest and dividends		-
Less investment expense, other than from securities lending		-
Net income from investing, other than from securities lending		1,450,417
Securities lending income		-
Less securities lending expense		-
Net income from securities lending		-
Net investment income **(a)**	$	1,450,417
Contributions:		
Employer — cash subsidy	$	838,855
Employer — implicit subsidy		277,892
Employee		-
Total contributions **(b)**	$	1,116,747
Total additions (c) = (a) + (b)	$	2,567,164
Deductions		
Benefit payments, including refunds of employee contributions[1]	$	700,000
Implicit rate subsidy fulfilled		277,892
Administrative expense[2]		4,601
Total deductions (d)	$	982,493
Net increase in net position = (c) − (d)	$	1,584,671
Fiduciary net position restricted for postemployment benefits other than pensions		
Beginning of year	$	8,440,888
Net increase in the fiduciary net position		1,584,671
End of year[3]	$	10,025,559

[1]Estimate, per the City of Moreno Valley

[2]Estimate based on calendar-year 2016 actual expenses

[3]Projected assets as of June 30, 2017

The funded status of the Plan as of the fiscal year-end, as well as other required disclosure information, follows.

	Increase (Decrease)		
	Total OPEB Liability	**Plan Fiduciary Net Position**	**Net OPEB Liability**
	(a)	(b)	(c) = (a) – (b)
Balances at July 1, 2016	$ 16,389,328	$ 8,440,888	$ 7,948,440
Changes for the year:			
Service Cost	397,604		397,604
Interest	1,103,301		1,103,301
Differences between expected and actual experience	-		-
Change in assumptions	-		-
Net investment income		1,450,417	(1,450,417)
Contributions			
Employer — cash subsidy		838,855	(838,855)
Employer — implicit subsidy		277,892	(277,892)
Employee		-	-
Benefit payments, including refunds of employee contributions	(700,000)	(700,000)	-
Implicit rate subsidy fulfilled	(277,892)	(277,892)	-
Administrative expense		(4,601)	4,601
Other changes		-	-
Net changes	523,013	1,584,671	(1,061,658)
Balances at June 30, 2017	$ 16,912,341	$ 10,025,559	$ 6,886,782

Expense	Fiscal Year End 2016	Fiscal Year End 2017	
1) Service Cost	n/a	$ 397,604	
2) Interest (on liabilities)	n/a	1,103,301	
3) Interest (on assets)	n/a	(595,722)	
4) Administrative Expenses		4,601	
5) Differences between expected and actual experience	n/a	-	(A)
6) Change in assumptions	n/a	-	(B)
7) Differences between expected and actual earnings	n/a	(170,939)	(C)
Total Expense	$ -	$ 738,845	

Derivation of 2016 Total Expense for Items 5), 6), and 7)

5) Amounts to include in expense are calculated as follows:	Earned 2016-2017	Total Recognized in 2016-2017	
Actual liabilities	$ 16,912,341		
Expected liabilities	− 16,912,341		
Difference	$ -	$ -	(A)

6) Amounts to include in expense are calculated as follows:	Earned in 2017	Total Recognized in 2017	
Liabilities after assumption change	n/a		
Liabilities before assumption change	− n/a		
Difference	$ -	$ -	(B)

7) Amounts to include in expense are calculated as follows:

	Earned in 2017	Total Recognized in 2017	
Expected earnings	$ 595,722		
Actual earnings (net of expenses)	− 1,450,417		
Difference	(854,695)	(854,695)	
Straight-line amortization over five years	$ (170,939)	$ (170,939)	(C)

Fiscal Year End 2017 Deferred Outflows and Inflows

	6/30/2017 Deferred Outflows of Resources	6/30/2017 Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on OPEB plan investments	-	683,756
Total	$ -	$ 683,756

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30	Amount	
2018	$ (170,939)	(C)
2019	(170,939)	
2020	(170,939)	
2021	(170,939)	
2022	$ -	

	Original Amount	Date Established	Original Recognition Period	Amount Recognized Each Year	Amount Recognized in OPEB Expense through 6/30/2017	Balance of Deferred Inflows as of 6/30/2017	Balance of Deferred Outflows as of 6/30/2017
Investment gains or losses	$ (854,695)	6/30/2017	5 years	$ (170,939)	$ (170,939)	$ 683,756	$ -
		Total		(170,939)	(170,939)	683,756	-
Economic/demographic gains or losses		Total			-	-	-
Assumption changes or inputs		Total			$ -	$ -	$ -

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability	Deferred Inflows	Deferred Outflows	Net Deferrals	Net OPEB Liability plus Net Deferrals	Annual Expense
Balances as of June 30, 2016	$ (16,389,328)	$ 8,440,888	$ (7,948,440)	$ -	$ -	$ -	$ (7,948,440)	
Service cost	(397,604)		(397,604)					$ 397,604
Interest on total OPEB liability	(1,103,301)		(1,103,301)					1,103,301
Effect of plan changes								
Effect of liability gains or losses	-		-	-		-		
Effect of assumption changes or inputs	-		-	-		-		
Expected investment income (net of investment expenses)		595,722	595,722					(595,722)
Investment gains or losses on expected return		854,695	854,695	854,695	-	(854,695)		
Contributions								
Employer — cash subsidy		838,855	838,855				838,855	
Employer — implicit subsidy		277,892	277,892				277,892	
Employee								
Benefit payments, including refunds of employee contributions	700,000	(700,000)						
Implicit rate subsidy fulfilled	277,892	(277,892)						
Administrative expenses		(4,601)	(4,601)					4,601
Recognition of liability gains or losses				-		-		-
Recognition of assumption changes or inputs				-		-		-
Recognition of investment gains or losses				(170,939)		170,939		(170,939)
Annual expense							(738,845)	$ 738,845
Balances as of June 30, 2017	$ (16,912,341)	$ 10,025,559	$ (6,886,782)	$ 683,756	$ -	$ (683,756)	$ (7,570,538)	

Actuarially Determined Contribution (ADC) for the Fiscal Year Ending June 30, 2017

The calculation of the Actuarially Determined Contribution (ADC) follows. The ADC is based on the City's funding policy.

Normal Cost — Entry Age Normal	$	308,924
Amortization of the Unfunded Actuarial Accrued Liability (UAAL)		328,607
Administrative Expenses		4,601
Actuarially Determined Contribution (ADC)	**$**	**642,132**
ADC as a Percentage of Payroll		3.11%
Discount Rate		7.00%

City's Funding Policy

This valuation assumes that the City will fund the OPEB benefits using the ADC each year, with the ADC calculated as follows: the ADC is the sum of the Entry Age Normal Cost (cash subsidy only) for the year plus amortization of the Unfunded Actuarial Accrued Liability (UAAL) and estimated administrative expenses. The Normal Cost is the portion of the Actuarial Present Value of benefits allocated to a valuation year. The UAAL is the excess of the Entry Age Normal Actuarial Accrued Liability over the Market Value of Assets.

The City is amortizing the UAAL on a closed basis. Remaining years of amortization:	20
The discount rate assumed for ADC calculations is the expected long-term rate of return:	7.00%

Amortization of Unfunded Actuarial Accrued Liability (UAAL)

A summary of the information used to establish the amortization amount for the current year, with respect to the Unfunded Actuarial Accrued Liability (UAAL), follows. We recalculate the amortization of the UAAL each fiscal year.

Actuarial Accrued Liability (AAL) — Entry Age Normal*		$ 14,713,098
Actuarial Value of Plan Assets	–	10,025,559
Unfunded Actuarial Accrued Liability (UAAL)	=	$ 4,687,539

Interest Rate Used to Determine Amortization Payment	7.00%
Amortization Period For the Fiscal Year Ending June 30, 2017	20 years
Amount Recognized (Principal & Interest)	**$ 328,607**

*Level percent of pay, cash subsidy liabilities only.

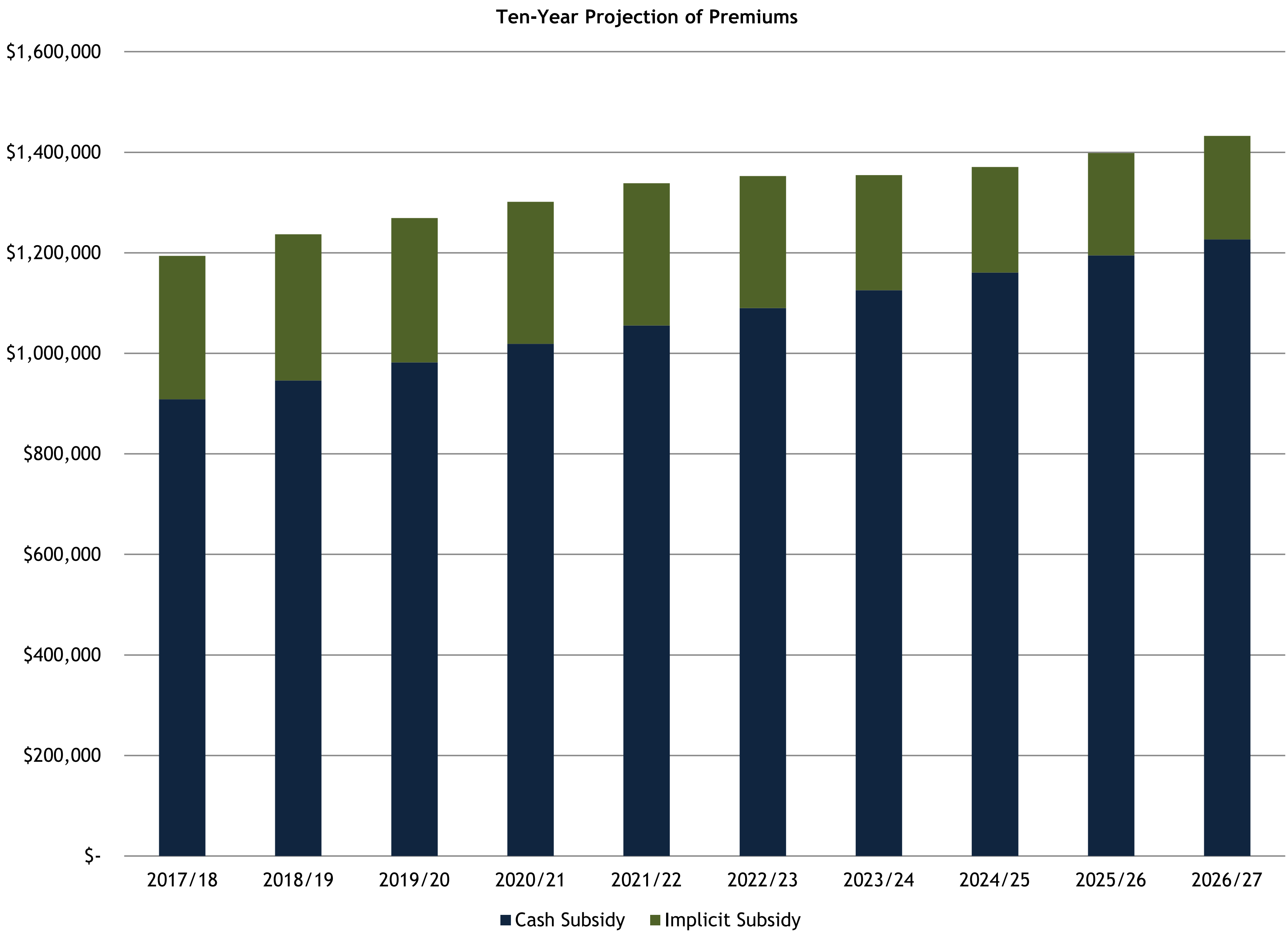
Projection of ADC and Net OPEB Liability

		Fiscal Year Ending		
		2017	2018	2019
Estimated Liabilities				
OPEB liability, beginning of year		$ 16,389,328	$ 16,912,341	$ 17,353,419
Normal cost	+	397,604	409,532	421,818
Interest on liabilities	+	1,103,301	1,225,658	1,258,032
Projected Benefit Payments				
Benefit payments, including refunds of employee contributions		(700,000)	(908,451)	(945,871)
Implicit rate subsidy fulfilled		(277,892)	(285,661)	(291,071)
Total benefit payments	+	(977,892)	(1,194,112)	(1,236,941)
OPEB liability, end of year **(a)**	=	$ 16,912,341	$ 17,353,419	$ 17,796,328
Estimated Assets				
Assets, beginning of year		$ 8,440,888	$ 10,025,559	$ 10,446,914
Expected earnings*	+	$ 1,450,417	$ 692,306	$ 721,161
Contributions				
Employer — cash subsidy		$ 838,855	$ 642,216	$ 661,483
Employer — implicit subsidy		277,892	285,661	291,071
Employee		-	-	-
Total contributions	+	$ 1,116,747	$ 927,877	$ 952,553
Projected benefit payments				
Benefit payments, including refunds of employee contributions		$ (700,000)	$ (908,451)	$ (945,871)
Implicit rate subsidy fulfilled		(277,892)	(285,661)	(291,071)
Total benefit payments	+	$ (977,892)	$ (1,194,112)	$ (1,236,941)
Administrative expenses	+	$ (4,601)	$ (4,716)	$ (4,834)
Assets, end of year **(b)**	=	$ 10,025,559	$ 10,446,914	$ 10,878,853
Net OPEB liability, end of year = (a) − (b)		$ 6,886,782	$ 6,906,505	$ 6,917,475
Estimated expense		$ 738,845	$ 776,661	$ 792,584
Estimated ADC		$ 642,132	$ 642,216	$ 661,483

*Fiscal Year-End 2017 includes actual earnings through 3/31/2017

OPEB cash flow projections for the next twenty years follow.

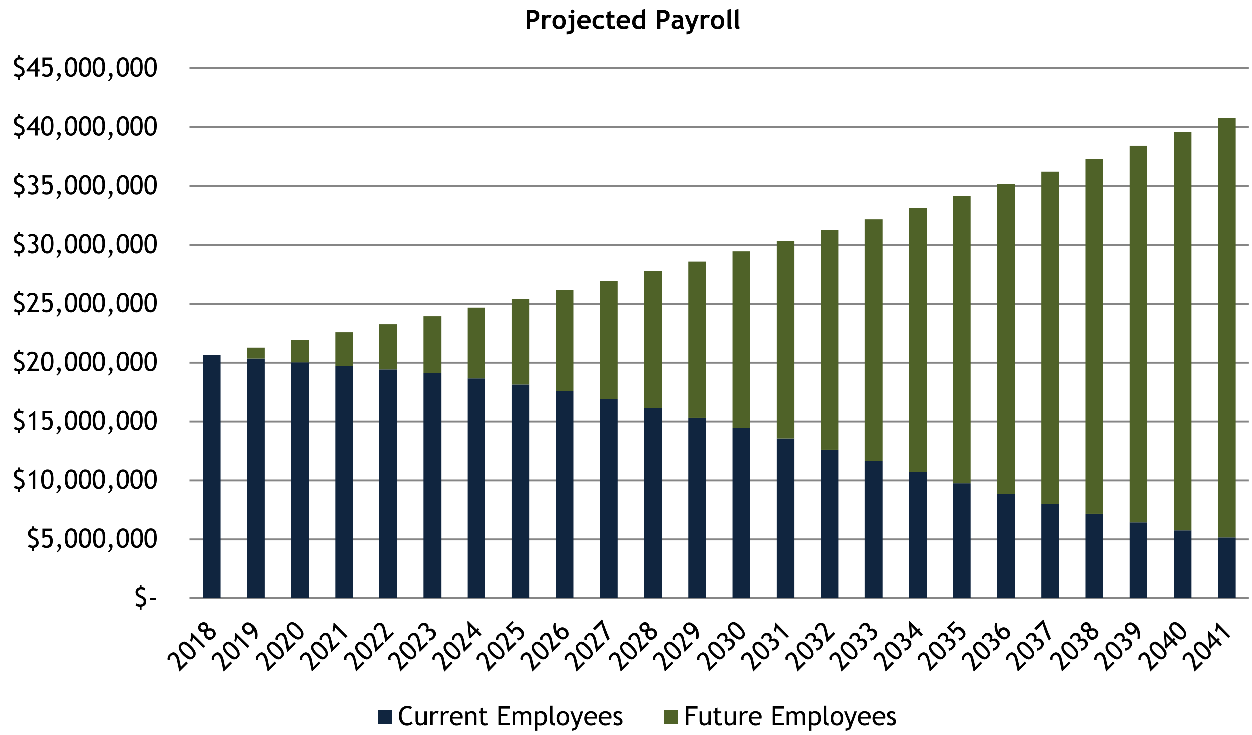
Fiscal Year Ending	Total Projected OPEB Payments	Cash Subsidy	Implicit Subsidy
2018	$ 1,194,112	$ 908,451	$ 285,661
2019	1,236,941	945,871	291,071
2020	1,269,017	982,197	286,820
2021	1,301,273	1,019,074	282,200
2022	1,338,406	1,055,368	283,038
2023	1,352,937	1,090,207	262,730
2024	1,354,700	1,125,641	229,060
2025	1,370,891	1,160,809	210,082
2026	1,398,388	1,194,955	203,433
2027	1,432,470	1,226,853	205,617
2028	1,457,316	1,261,279	196,037
2029	1,488,015	1,298,543	189,472
2030	1,526,823	1,328,722	198,101
2031	1,556,683	1,356,294	200,390
2032	1,585,004	1,380,084	204,920
2033	1,619,806	1,399,756	220,050
2034	1,635,473	1,418,756	216,717
2035	1,635,457	1,433,514	201,943
2036	1,635,313	1,446,022	189,291
2037	1,636,335	1,458,924	177,411



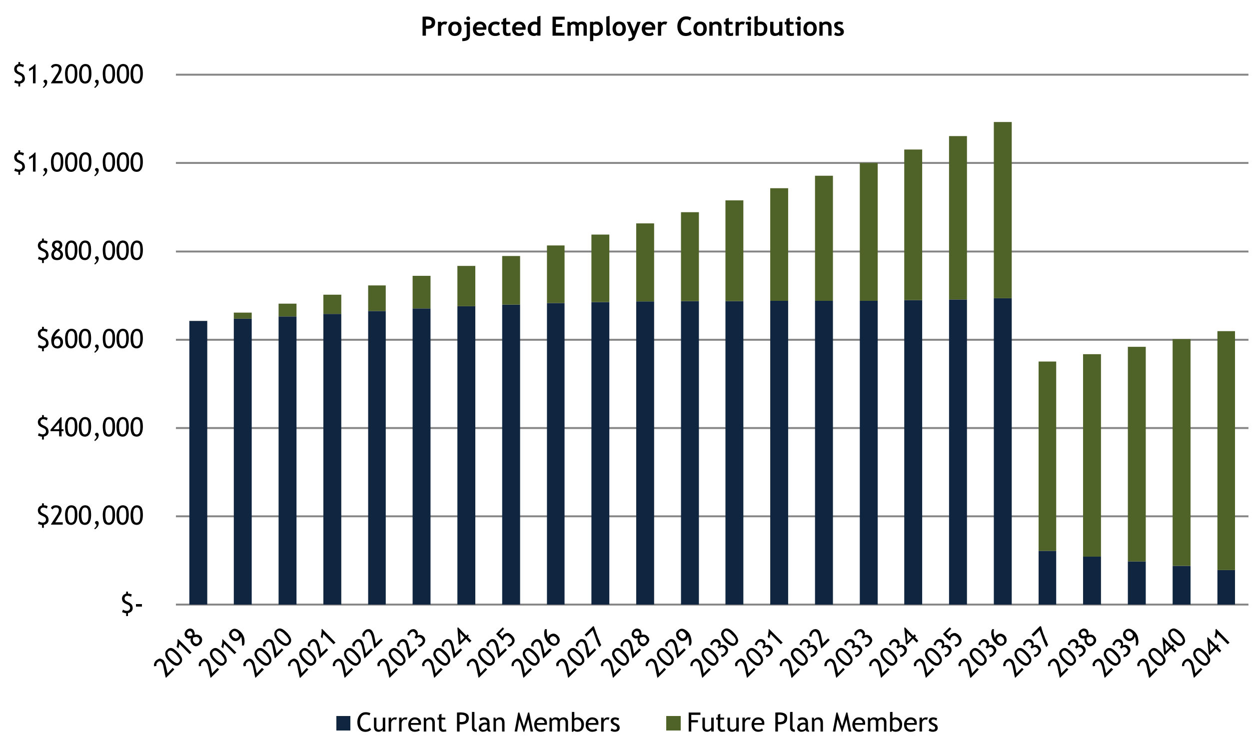
Ten-Year Projection of Premiums
$1,600,000
$1,400,000
$1,200,000
$1,000,000
$800,000
$600,000
$400,000
$200,000
$-
2017/18
2018/19
2019/20
2020/21
2021/22
2022/23
2023/24
2024/25
2025/26
2026/27
Cash Subsidy
Implicit Subsidy

Fiscal Year Ending	Payroll for Current Employees (a)	Payroll for Future Employees (b)	Total Employee Payroll (c)	Employer Contributions Related to Payroll of all Plan Members (d) = (b) x 3.11% for 19 Years, 1.52% Thereafter	Employer Contributions Related to Payroll of Future Plan Members (e) = (b) x 1.52%	Portion of Employer Contribution for Current Plan Members (f) = (d) − (e)
2018	$ 20,650,038	$ -	$ 20,650,038	$ 642,216	$ -	$ 642,216
2019	20,335,221	934,318	21,269,539	661,483	14,202	647,281
2020	20,020,914	1,886,712	21,907,625	681,327	28,678	652,649
2021	19,719,393	2,845,462	22,564,854	701,767	43,251	658,516
2022	19,429,745	3,812,055	23,241,800	722,820	57,943	664,877
2023	19,093,960	4,845,094	23,939,054	744,505	73,645	670,859
2024	18,660,545	5,996,681	24,657,225	766,840	91,150	675,690
2025	18,151,712	7,245,231	25,396,942	789,845	110,128	679,717
2026	17,566,281	8,592,569	26,158,850	813,540	130,607	682,933
2027	16,897,818	10,045,798	26,943,616	837,946	152,696	685,250
2028	16,153,824	11,598,100	27,751,924	863,085	176,291	686,794
2029	15,324,299	13,260,183	28,584,482	888,977	201,555	687,423
2030	14,442,772	14,999,245	29,442,016	915,647	227,989	687,658
2031	13,543,438	16,781,839	30,325,277	943,116	255,084	688,032
2032	12,592,946	18,642,090	31,235,035	971,410	283,360	688,050
2033	11,631,261	20,540,825	32,172,086	1,000,552	312,221	688,331
2034	10,688,210	22,449,039	33,137,249	1,030,568	341,225	689,343
2035	9,756,028	24,375,338	34,131,366	1,061,485	370,505	690,980
2036	8,861,231	26,294,077	35,155,307	1,093,330	399,670	693,660
2037	7,982,642	28,227,325	36,209,967	550,391	429,055	121,336
2038	7,163,607	30,132,659	37,296,266	566,903	458,016	108,887
2039	6,434,680	31,980,474	38,415,154	583,910	486,103	97,807
2040	5,760,980	33,806,629	39,567,608	601,428	513,861	87,567
2041	5,162,844	35,591,793	40,754,636	619,470	540,995	78,475

Projected Payroll for Current and Future Employees



Projected Employer Contributions for Current and Future Plan Members



Fiscal Year Ending	Projected Beginning Fiduciary Net Position (a)	Projected Total Contributions (b)	Projected Benefit Payments — Cash Subsidy (c)	Projected Administrative Expense (d)	Projected Investment Earnings (e)	Projected Ending Fiduciary Net Position (f) = (a) + (b) − (c) − (d) + (e)
2018	$ 10,025,559	$ 642,216	$ 908,451	$ 4,601	$ 692,310	$ 10,447,033
2019	10,447,033	647,281	$ 945,871	4,716	$ 720,677	10,864,405
2020	10,864,405	652,649	$ 982,197	4,834	$ 748,805	11,278,828
2021	11,278,828	658,516	$ 1,019,074	4,955	$ 776,725	11,690,041
2022	11,690,041	664,877	$ 1,055,368	5,078	$ 804,458	12,098,929
2023	12,098,929	670,859	$ 1,090,207	5,205	$ 832,066	12,506,442
2024	12,506,442	675,690	$ 1,125,641	5,336	$ 859,516	12,910,672
2025	12,910,672	679,717	$ 1,160,809	5,469	$ 886,717	13,310,829
2026	13,310,829	682,933	$ 1,194,955	5,606	$ 913,641	13,706,843
2027	13,706,843	685,250	$ 1,226,853	5,746	$ 940,322	14,099,816
2028	14,099,816	686,794	$ 1,261,279	5,889	$ 966,674	14,486,116
2029	14,486,116	687,423	$ 1,298,543	6,037	$ 992,428	14,861,386
2030	14,861,386	687,658	$ 1,328,722	6,188	$ 1,017,643	15,231,778
2031	15,231,778	688,032	$ 1,356,294	6,342	$ 1,042,613	15,599,788
2032	15,599,788	688,050	$ 1,380,084	6,501	$ 1,067,536	15,968,790
2033	15,968,790	688,331	$ 1,399,756	6,663	$ 1,092,682	16,343,384
2034	16,343,384	689,343	$ 1,418,756	6,830	$ 1,118,268	16,725,410
2035	16,725,410	690,980	$ 1,433,514	7,001	$ 1,144,545	17,120,421
2036	17,120,421	693,660	$ 1,446,022	7,176	$ 1,171,846	17,532,729
2037	17,532,729	121,336	$ 1,458,924	7,355	$ 1,180,218	17,368,004
2038	17,368,004	108,887	$ 1,466,338	7,539	$ 1,167,986	17,171,000
2039	17,171,000	97,807	$ 1,465,971	7,727	$ 1,153,814	16,948,923
2040	16,948,923	87,567	$ 1,459,916	7,921	$ 1,138,115	16,706,769
2041	16,706,769	78,475	$ 1,448,002	8,119	$ 1,121,256	16,450,379
2042	16,450,379	70,502	$ 1,435,342	8,322	$ 1,103,466	16,180,684
2043	16,180,684	62,997	$ 1,419,106	8,530	$ 1,084,886	15,900,932

Actuarial standard of practice (ASOP) number 6, "Measuring Retiree Group Benefits Obligations and Determining Retiree Group Benefits Program Periodic Costs or Actuarially Determined Contributions", recently changed to require the inclusion of the implicit subsidy in OPEB valuations. This change is effective for actuarial studies with a measurement date on, or after, March 31, 2015. As such, this valuation includes implicit subsidy amounts.

The implicit subsidy arises when an employer allows a retiree (and their dependents) to continue on the active plans and pay the active premiums. Retirees are not paying the true cost of their benefits because they have higher utilization rates than actives and therefore are partially subsidized by the active employees. Once a retiree reaches Medicare eligibility, the rates are sufficient to cover the true costs and there is no implicit subsidy.

The portion of the actuarial accrued liability attributed to the implicit subsidy is below.

Discount Rate: 7.00%

Actuarial Accrued Liability (AAL) as of June 30, 2017

Cash subsidy	$	14,401,313
Implicit subsidy		2,511,028
Total AAL	**$**	**16,912,341**

Schedule of Changes in the City's Net OPEB Liability and Related Ratios

GASB 75 requires a disclosure of the changes in Net OPEB Liability for the last 10 fiscal years, or as many years as are available

		Fiscal Year Ending June 30, 2017
Total OPEB Liability		
Service cost	$	397,604
Interest		1,103,301
Changes of benefit terms		-
Differences between expected and actual experience		-
Change of assumptions		-
Benefit payments, included refunds of employee contributions		(700,000)
Implicit rate subsidy fulfilled		(277,892)
Net change in total OPEB liability		523,013
Total OPEB liability — beginning of year		16,389,328
Total OPEB liability — end of year (a)	$	16,912,341
Plan Fiduciary Net Position		
Net investment income		1,450,417
Contributions		
Employer — cash subsidy	$	838,855
Employer — implicit subsidy		277,892
Employee		-
Benefit payments, included refunds of employee contributions		(700,000)
Implicit rate subsidy fulfilled		(277,892)
Administrative expense		(4,601)
Other		-
Net change in plan fiduciary net position		1,584,671
Plan fiduciary net position — beginning of year		8,440,888
Plan fiduciary net position — end of year (b)		10,025,559
City's net OPEB liability — end of year = (a) – (b)	$	6,886,782
Plan fiduciary net position as a percentage of the total OPEB liability		59.28%
Covered-employee payroll	$	20,650,038
City's net OPEB liability as a percentage of covered-employee payroll		33.35%

Notes to schedule:

The City adopted GASB 75 for the fiscal year ending June 30, 2017.

Schedule of Investment Returns

GASB 75 requires a schedule of investment returns for the last ten fiscal years, or as many years as are available.

	Fiscal Year Ending June 30, 2017
Annual money-weighted rate of return, net of investment expense	9.77%

Notes: Rate of return shown on a April 1 – March 31 basis

GASB 75 requires a schedule of contributions for the last 10 fiscal years, or as many years as are available.

	Fiscal Year Ending June 30, 2017
Actuarially determined contribution	$ 642,132
Less: contributions made	– 838,855
Contribution deficiency (excess)	(196,723)
Covered-employee payroll	$ 20,650,038
Contributions as a percentage of covered-employee payroll	4.06%

Notes to Schedule:

Assumptions and Methods

Actuarial cost method	Entry age normal, level percent of pay
Amortization method	Closed period
Amortization period	20 years
Asset valuation method	Market value 3/31/2017, projected to 6/30/2017
Inflation	2.50%
Healthcare trend rates	7.00%, trending down to 3.94%
PEMHCA trend rate	3.00%
Rate of return on assets	7.00%
Mortality rate	CalPERS Rates
Retirement rates	CalPERS Rates
Other information	The ADC does not take into account the implicit subsidy

A draft of the required notes to the City's financial statements, based on the requirements of GASB 75 and our understanding of the City's retiree health plan, follows.

Notes to the Financial Statements
for the Year Ended June 30, 2017

Summary of Significant Accounting Policies

Postemployment Benefits Other Than Pensions (OPEB). For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense information about the fiduciary net position of the City of Moreno Valley Retiree Benefits Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Note X — Other Post-employment Benefits (OPEB)

Plan Description: The City administers a single-employer defined-benefit post-employment healthcare plan. Benefits vary by hire date and employment status (Management or Non-Management). Benefits continue to the surviving spouses.

Benefits Provided: The PEMHCA minimum amount for retirees participating in PEMHCA is $128 month for 2017. PEMHCA amounts are adjusted on an annual basis.

An additional $318.73 per month will be paid for medical, dental, and vision for full-time employees hired and for City Council elected before September 30, 2011. The total subsidy will not be greater than the premium for the retiree and spouse. Coverage is allowed under any medical plan.

Employees covered by benefit terms: At December 31, 2016 (the census date), the following employees were covered by the benefit terms:

Category	Count
Active employees:	287
Inactive employees or beneficiaries currently receiving benefit payments:	272
Inactive employees entitled to but not yet receiving benefit payment:	0

Contributions. The City establishes contributions based on the Actuarially Determined Contribution (ADC). For the year ended June 30, 2017, the City's average contribution rate was 4.06% of covered-employee payroll. Employees do not contribute to the plan, but instead pay the difference between the benefit that they receive and the monthly premium for that benefit.

Net OPEB Liability

We measured the City's net OPEB liability as of June 30, 2017, and we deterimned the total OPEB liability used to calculate the net OPEB liability with an actuarial valuation as of that date.

Actuarial Assumptions . We determined the total OPEB liability for the June 30, 2017 actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation: 2.50%

Salary increases: Aggregate salary increases 3.00%. Individual salary increases based on CalPERS.

Investment rate of return: 7.00%

Healthcare cost trend rates: 7.00% in the first year, trending down to 3.94% over 58 years.

Mortality rates were based on CalPERS tables.

We determined the long-term expected rate of return on OPEB plan investments using a building-block method in which we use best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) developed for each major asset class. We combine these ranges to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. We summarize the target allocation and best estimates of the arithmetic real rates of return for each major asset class in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	57%	5.82%
Fixed Income	27%	2.37%
Treasury Inflation Protection Securities	5%	1.44%
Real Estate Investment Trusts	8%	4.25%
Commodities	3%	2.34%
Total	100%	4.44%

Discount rate. The discount rate used to measure the total OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that the City contribution will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to cover all future OPEB payments. Therefore, we determined the discount rate to be the long-term expected rate of return on OPEB plan investments.

Changes in the Net OPEB Liability

	Increases (Decreases)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(c)
Balances as of June 30, 2016	$ 16,389,328	$ 8,440,888	$ 7,948,440
Changes for the year:			
Service cost	397,604		397,604
Interest	1,103,301		1,103,301
Differences between expected and actual experience	-		-
Contributions			
Employer — cash subsidy		838,855	(838,855)
Employer — implicit subsidy		277,892	(277,892)
Employee		-	-
Net Investment Income		1,450,417	(1,450,417)
Benefit payments, including refunds of employee contributions	(700,000)	(700,000)	-
Implicit rate subsidy fulfilled	(277,892)	(277,892)	-
Administrative expenses		(4,601)	4,601
Net changes	523,013	1,584,671	(1,061,658)
Balances as of June 30, 2017	$ 16,912,341	$ 10,025,559	$ 6,886,782

Sensitivity of the net OPEB liability to changes in the discount rate. The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) follows:

	1% Decrease	Discount Rate	1% Increase
	6.00%	7.00%	8.00%
Net OPEB liability (asset)	$ 6,548,223	$ 6,886,782	$ 6,806,147

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (6.00%) or one percentage point higher (8.00%) than current healthcare cost trend rates follows:

	1% Decrease	Trend Rate	1% Increase
	6.00% Decreasing to 2.94%	7.00% Decreasing to 3.94%	8.00% Decreasing to 4.94%
Net OPEB liability (asset)	$ 5,073,387	$ 6,886,782	$ 8,563,139

OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB

For the year ended June 30, 2017, the City recognized OPEB expense of $789,230. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	$ -	$ -
Change of assumptions	$ -	$ -
Net difference between projected and actual earnings on OPEB plan investments	$ -	$ 683,756
Total	$ -	$ 683,756

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30	Amount
2018	$ (170,939)
2019	(170,939)
2020	(170,939)
2021	(170,939)
2022	$ -

Basis of Valuation

A summary of the substantive plan used as the basis of the valuation follows.

All Retirees	
Duration of coverage	Retiree's lifetime
Conditions of coverage	Retire directly from the City under CalPERS (service or disability)
Dependent coverage	Benefit continues to surviving spouse of retiree or on death of active employee while eligible for retirement
Medical plan choices	Same as actives

Management hired/elected before September 30, 2011 and Non-Management hired before July 1, 2009	
Eligibility for additional retiree benefits	Age 50 with 5 years of service
Eligibility for PEMHCA-only benefits	Age 50 with 5 years of service
Employer monthly contributions (full benefits)	
• **Additional amount**	$318.73 monthly, no future increases
• **PEMHCA amount**	$128 monthly (2017 amount) with annual increase

Non-Management Full-Time Employees Hired between July 1, 2009 and September 30, 2011	
Eligibility for additional retiree benefits	Age 50 with 10 years of service
Eligibility for PEMHCA-only benefits	Age 50 with 5 years of service
Employer monthly contributions (full benefits)	
• **Additional amount**	$318.73 monthly, no future increases
• **PEMHCA amount**	$128 monthly (2017 amount) with annual increase

All Full-Time Employees hired after September 30, 2011	
Eligibility for PEMHCA-only benefits	Age 50 with 5 years of service
Employer monthly contributions (full benefits)	
• **Retiree only**	$128 monthly (2017 amount) with annual increase

Excluded Employees	
Temporary employees	Unless participating in PEMHCA
Crossing guards	Unless participating in PEMHCA
Seasonal employees	Unless participating in PEMHCA

Census Date: December 31, 2016

Age and service determined as of the census date.

All Employees							
	Years of Service						
Age	**0-5**	**5-10**	**10-15**	**15-20**	**20-25**	**25+**	**Total**
<25	5	1					**6**
25-30	12	2	1				**15**
30-35	16	5	3	1			**25**
35-40	18	7	8	6			**39**
40-45	9	10	11	8	2		**40**
45-50	14	9	15	8	4	4	**54**
50-55	9	9	12	14	1	5	**50**
55-60	5	6	9	12	5	5	**42**
60-65	1	1	3	4	0	0	**9**
65+	1	1	3	2	0	0	**7**
Total	**90**	**51**	**65**	**55**	**12**	**14**	**287**

Census Date: December 31, 2016
Age and service determined as of the census date.

Inactive Participants							
	PEMHCA			Non-PEMHCA			
Age	Retirees	Spouses	Surviving Spouses	Retirees	Spouses	Surviving Spouses	Total
< 50		1		1			2
50-54	1	2		4			7
55-59	22	11		22		3	58
60-64	31	13		31		4	79
65-69	26	10		13		1	50
70-74	6	3	1	23		1	34
75-79	5	2		11		2	20
80-84	5	2	1	7			15
85-89	1			3			4
90+	1			1		1	3
Total	98	44	2	116	0	12	272

A summary of the actuarial assumptions used for this valuation follows. We considered the reasonableness of each assumption independently based on its own merits, consistent with each other assumption, and the combined impact of all assumptions.

Assumption	Rates
Actuarial Cost Method	Entry Age Normal Level Percentage of Salary
Measurement Date	June 30, 2017
Census Date	December 31, 2016
Discount Rate	We selected a discount rate of 7.00% The discount rate is the long-term rate of return for the plan's assets, as our projections show that the assets will be sufficient to cover the projected benefit payments should the City continue to contribute to the plan with an amount of at least the ADC each year. Should the assets not be sufficient to cover the projected benefit payments at any time in the future, we would employ a discount rate reflecting the 20-year tax-exempt municipal bond yield or index rate to the period after which we project assets to run out. We would then use a single, blended discount rate equivalent to the long-term rate of return and the 20-year rate. If there are no assets, we would use only the 20-year rate for the valuation.
Mortality	Same as CalPERS. See appendix.
Turnover	Same as CalPERS. See appendix.
Disability	Same as CalPERS. See appendix.
Retirement	Same as CalPERS. See appendix.
Per Capita Claims Cost	Developed based on CalPERS premiums and CalPERS HMO population data. Assumed annual per capita claims costs follow:

Age	Males	Females
50	$ 9,626	$ 9,351
55	11,780	9,768
60	13,165	10,163
64	$ 13,165	$ 10,163

Assumption	Rates
Aging or Morbidity Factors	Based on actual CalPERS HMO population data.
Participant Contributions	Based on service at retirement and employee group.
Salary Increases	3.00% per year (same as CalPERS). The salary increase is used to determine the growth in the aggregate payroll. Individual Salary Increases: 2015 CalPERS Merit Salary Increases.
Marital Status	Actual spouse coverage is used for current retirees. Future retirees: 50% assumed to be married

Assumption	Rates
Inflation Rate	2.50%
Spouse Age Difference	Actual spouse age is used for current retirees. Assumes males are three years older than females for future retirees.
Participation	For newly eligible retirees:

Hired before 9/30/2011			Hired after 9/30/2011	
Healthcare Plan			Healthcare Plan	
PEMHCA	60%		PEMHCA	70%
Non-PEMHCA	30%		Waived	30%
Waived	10%			
Total	100%	#	Total	100%

Participation for Waived Employees

Currently < 65	
Non-PEMHCA participants	Waived participants
Current non-PEMHCA plan after age 65	20% elect PEMHCA plan at age 65 and receive the minimum City contribution

Currently > 65: current plan election

PEMHCA Administration Fee	0.31% of retiree premium.
Annual PEMHCA Amount	$1,536 for the period December 31, 2016 through June 30, 2017
Annual Additional City Contribution (see substantive plan for details on eligibility)	$3,824.76 for both Medicare-eligibles and Medicare-ineligibles.

Assumption	Rates

Annual Premiums

For 2017

Plan	Employee	Employee + 1
Anthem Blue Cross Select HMO Los Angeles Area	$592.78	$1,185.56
Anthem Blue Cross Select HMO Other Southern California	$659.03	$1,318.06
Anthem Blue Cross Traditional HMO Other Southern California	$713.69	$1,427.38
Blue Shield Access+ Los Angeles Area	$675.98	$1,351.96
Blue Shield Access+ Other Southern California	$778.45	$1,556.90
Health Net Salud y Mas Los Angeles Area	$414.79	$829.58
Health Net Salud y Mas Other Southern California	$473.46	$946.92
Health Net SmartCare Los Angeles Area	$526.73	$1,053.46
Health Net SmartCare Other Southern California	$537.20	$1,074.40
Kaiser Permanente California Los Angeles Area	$573.89	$1,147.78
Kaiser Permanente California Other Southern California	$599.54	$1,199.08
PERS Choice Los Angeles Area	$637.53	$1,275.06
PERS Choice Other Southern California	$714.43	$1,428.86
PERS Select Other Southern California	$633.46	$1,266.92
PERSCare Los Angeles Area	$715.88	$1,431.76
PERSCare Other Southern California	$802.24	$1,604.48
UnitedHealthcare HMO Los Angeles Area	$545.71	$1,091.42
UnitedHealthcare HMO Other Southern California	$549.76	$1,099.52

Trend Rates

Medical Long-Term Trends from Society of Actuaries "Long Term Healthcare Cost Trends Model v2016_a" using baseline assumptions.

Year	Medical Trend	PEMHCA Trend
2017	7.00%	3.00%
2018	6.50%	3.00%
2019	6.00%	3.00%
2020	5.60%	3.00%
2021	5.50%	3.00%
2022	5.48%	3.00%
2023	5.46%	3.00%
2024	5.45%	3.00%
2025	5.43%	3.00%
2026	5.41%	3.00%
2027	5.39%	3.00%
2028-2074	…	3.00%
2075+	3.94%	3.00%

This section includes a brief summary of GASB 75, as well as definitions of some of the key terminology used in this report.

About GASB 75

In General. In June 2015 the Governmental Accounting Standards Board released GASB 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". GASB 75 replaced GASB 45 for fiscal years beginning after June 15, 2017 for employers that sponsor OPEB plans. The provisions in GASB 75 are similar to the provisions of GASB 68 for pensions.

Accounting. GASB 75 requires a liability known as the Net OPEB Liability (NOL). The employer recognizes the NOL on its balance sheet. The employer also recognizes an OPEB expense in the income statement. GASB 45 recorded the Unfunded Accrued Actuarial Liability (UAAL) in the notes to the financial statement, whereas GASB 75 records the NOL, which is very similar to the UAAL with just a few technical differences, on the balance sheet.

Financial Statement Impact (Employers). One of the biggest changes to the financial statements of governmental employers that provide OPEB is the reporting of the OPEB liability on the face of the statements rather than in the footnotes. Governments that do not provide OPEB through a trust are required to recognize the entire OPEB liability in the financial statements. For governments that provide OPEB through an OPEB plan that is administered through a trust, the government's OPEB liability is recognized net of the amount of the OPEB plan's fiduciary net position.

Changes to the Measurement of the Total OPEB Liability. Measurement of the OPEB liability includes discounting future benefit payments for current and former employees and their beneficiaries to their present value and allocating the present value over past and future periods of the employee service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. The calculation continues to include employee-related events, such as projected salary increases and projected years of service, if they affect the amount of OPEB payments employees will receive, as well as provisions for automatic cost-of-living adjustments (COLAs) and other automatic benefits. Additionally, ad hoc COLAs and other ad hoc benefit changes, which are made at the discretion of the government, are included in projections as well, if they routinely recur.

GASB 75 requires governments to discount projected OPEB payments to their present value. Under the new standard, governments discount the projected OPEB payments to be made in each year and the amount of plan assets (if a government administers the OPEB through a trust) available for providing those benefits to current active and inactive employees and their beneficiaries. Similar to the pension standards, the discount rate used is based on whether the plan assets are projected to be sufficient to make future payments. If the plan assets are sufficient, governments discount future payments using the long-term expected rate of return. If projected plan assets are insufficient to make all future payments to current and inactive employees and their beneficiaries, or if there are no plan assets held in trust, the discount rate is based on a high-quality 20-year tax-exempt general obligation municipal bond yield or index rate. "High-quality" is defined as being rated AA or higher (or an equivalent rating).

Cost Method. The Entry Age Normal Cost method must be used.

About GASB 75 (continued)

Factors that affect a government's OPEB liability, such as actual earnings on plan investments when the OPEB plan is administered as a trust, employee compensation changes, interest on the outstanding OPEB liability, contributions from employees and employers, and actual demographic and economic changes that are not in line with assumptions made in the actuarial calculations, are considered when determining the government's OPEB expense. A government's annual OPEB expense is calculated with consideration for factors affecting the OPEB liability within the reporting period. Several causes of changes in OPEB liability are immediately factored into the calculation of OPEB expense for the period, such as benefits earned each year, interest on the total OPEB liability, changes in benefit terms, and projected earnings on plan investments, if administered through a trust.

Governments are required to recognize deferred outflows of resources or deferred inflows of resources and then introduce into the expense calculation, systematically and rationally over the average remaining years of employment (active employees and inactive employees, including retirees), the effect on the total OPEB liability of differences between assumptions and actual experience.

Key Terminology

Actuarially Determined Contribution	A target or recommended contribution to a defined benefit OPEB plan for the reporting period, determined in conformity with Actuarial Standards of Practice based on the most recent measurement available when the contribution for the reporting period was adopted.
Actuarial Present Value of Projected Benefit Payments	Projected benefit payments discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment.
Actuarial Valuation Date	The date as of which an actuarial valuation is performed.
Agent Employer	An employer whose employees are provided with OPEB through an agent multiple-employer defined-benefit OPEB plan.
Closed Period	A specific number of years that is counted from one date, which declines to zero with the passage of time. For example, if the recognition period initially is five years on a closed basis, four years remain after the first year, three years after the second year, and so forth until no years remain.
Contributions	Additions to an OPEB plan's fiduciary net position for amounts from employers, non-employer contributing entities, or employees.
Defined Benefit OPEB	OPEB for which the benefits that the employee will receive at or after separation from employment are defined by the benefit terms. The OPEB may be stated as (a) a specified dollar amount (b) an amount that is calculated based on one or more factors such as age, years of service, and compensation, or (c) a type or level of coverage such a prescription drug coverage or a percentage of health insurance premiums. OPEB that does not have all of the terms of defined contribution OPEB is classified as defined-benefit OPEB.

Key Terminology (continued)

Discount Rate	The single rate of return that, when applied to all projected benefit payments, results in an actuarial present value of projected benefit payments equal to the total of the following: a. The actuarial present value of benefit payments projected to be made in future periods in which (1) the amount of the OPEB plan's fiduciary net position is projected to be greater than the benefit payments that are projected to be made in that period and (2) OPEB plan assets up to that point are expected to be invested using a strategy to achieved the long-term expected rate of return, calculated using the ling-term expected rate of return on OPEB plan investments. b. The actuarial present value of projected benefit payments not included in (a), calculated using a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale).
Measurement Period	The period between the prior and current measurement dates.
Net OPEB Liability	The liability of employers and non-employer contributing entities to employees for benefits provided through a defined-benefit OPEB plan that is administered through a trust that meets the criteria in paragraph 4 of GASB
Other Postemployment Benefits (OPEB)	Benefits (such as death benefits, life insurance, disability, and long-term care) that are paid in the period after employment and that are provided separately from a pension plan, as well as healthcare benefits paid in the period after employment, regardless of the manner in which they are provided. OPEB does not include termination benefits or termination payment for sick leave.
Projected Benefit Payments	All benefits estimated to be payable through OPEB plan to current active and inactive employees as a result of their past service and their expected future service.
Service Costs	The portions of the actuarial present value of projected benefit payments that are attributed to valuation years.
Substantive Plan	The plan terms as understood by the employer and the plan members at the time of the valuation, including only changes to plan terms that have been made and communicated to employees.

The valuation used the following decrement tables from the CalPERS OPEB Assumption Model, revised March 7, 2014:

https://www.calpers.ca.gov/page/employers/benefit-programs/cerbt/opeb-assumption-model

	Source Table
Mortality	
Miscellaneous Employees	Mort and Disb Rates_Misc
Disability Rates	
Miscellaneous Employees	Mort and Disb Rates_Misc
Terminated Vested Rates	
Miscellaneous Employees	Terminated Vested Rates_Misc
Terminated Refund Rates	
Miscellaneous Employees	Terminated Refund Rates_Misc
Service Retirement Rates	
Miscellaneous Employees	
• 3.0% at 60	Rx Misc 3% @ 60
• 2.7% at 55	Rx Misc 2.7 % @ 55