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January 10, 2019

Ms. Claudia Reed
Chief Financial Officer
Valley Mountain Regional Center
702 N. Aurora Street
Stockton, California 95202

Valley Mountain Regional Center – ASC 715-60 Actuarial Valuation for the Fiscal Year Ended June 30, 2018

Dear Ms. Reed:

I am pleased to enclose the above-titled Milliman report. The report covers postretirement health benefits provided to active and retired employees.

The purpose of this report is to provide you with the expense and financial statement disclosures required under ASC 715-60 for the fiscal year ending June 30, 2018.

	FISCAL YEAR ENDING	
ASC 715-60 (SFAS 106) Expense	**June 30, 2018**	**June 30, 2017**
Service cost	$ 281,723	$ 307,655
Interest cost	242,317	239,072
Expected (return) on plan Assets	(373,219)	(287,807)
Amortization of Initial APBO	153,494	153,494
Amortization of (gains) or losses	0	8,371
ASC 715-60 cost/(income)	$ 304,315	$ 420,785

Note that the ASC 715-60 expense can be reduced by the contributions made during the fiscal year. The net expense is as follows:

	FISCAL YEAR ENDING	
Net Expense	**June 30, 2018**	**June 30, 2017**
ASC 715-60 cost/(income)	$ 304,315	$ 420,785
Contributions made	(1,319,952)	(500,000)
Net expense	$ (1,015,637)	$ (79,215)

The development of the "net postretirement benefit liability" for the last two fiscal years is as follows:

	FISCAL YEAR ENDING	
Net Postretirement Benefit Liability	**June 30, 2018**	**June 30, 2017**
Beginning of year	$ (243,388)	$ (322,603)
ASC 715-60 (cost)/income	(304,315)	(420,785)
Contributions made	1,319,952	500,000
End of year	$ 772,249	$ (243,388)

If you have any questions, please call me at (415) 394-3740.

Sincerely,

John R. Botsford, FSA, MAAA

JRB/dyu

Valley Mountain Regional Center

ASC 715-60 Actuarial Valuation
for the Fiscal Year Ended June 30, 2018

Prepared by:

John R. Botsford,
FSA, MAAA

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Valley Mountain Regional Center –
ASC 715-60 Actuarial Valuation for the Fiscal Year Ended June 30, 2018

At the request of Valley Mountain Regional Center, we have completed an actuarial valuation of the net periodic postretirement benefit cost and financial statement disclosures to be reported by Valley Mountain Regional Center for the fiscal year ended June 30, 2018.

Our determinations reflect the procedures and methods prescribed in Accounting Standards Codification (ASC) 715-60.

In preparing our report, we relied without audit, on information supplied by Valley Mountain Regional Center. This information includes, but is not limited to, Plan documents and provisions, employee data, and financial information. We found this information to be reasonably consistent and comparable with information used for other purposes. The valuation results depend on the integrity of this information. If any of this information is inaccurate or incomplete our results may be different and our calculations may need to be revised.

The actuarial cost method and assumptions used as well as the supporting data and principal plan provisions upon which the valuation is based are set forth in the following report. All costs, liabilities, rates of interest, and other factors under the Plan have been determined on the basis of actuarial assumptions and methods which are reasonable and consistent with our understanding of ASC 715-60. All assumptions should represent a best estimate of anticipated experience under the Plan. We believe the assumptions are reasonable for their intended purposes.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to many factors, including: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements.

Actuarial computations under FASB ASC Topic 715 are to fulfill employer financial accounting requirements. The calculations in the enclosed report have been made on a basis consistent with our understanding of FASB ASC Topic 715. Results for other purposes may be significantly different than the results in this report; other calculations may be needed for other purposes, such as judging benefit security at plan termination.

Milliman's work is prepared solely for the internal business use of the Valley Mountain Regional Center. To the extent that Milliman's work is not subject to disclosure under applicable public records laws, Milliman's work may not be provided to third parties without Milliman's prior written consent. Milliman does not intend to benefit or create a legal duty to any third party recipient of its work product. Milliman's consent to release its work product to any third party may be conditioned on the third party signing a Release, subject to the following exceptions:

- Valley Mountain Regional Center may provide a copy of Milliman's work, in its entirety, to Valley Mountain Regional Center's professional service advisors who are subject to a duty of confidentiality and who agree to not use Milliman's work for any purpose other than to benefit the Valley Mountain Regional Center.

- Valley Mountain Regional Center may provide a copy of Milliman's work, in its entirety, to other governmental entities, as required by law.

No third party recipient of Milliman's work product should rely upon Milliman's work product. Such recipients should engage qualified professionals for advice appropriate to their own specific needs.

The consultants who worked on this assignment are actuaries. Milliman's advice is not intended to be a substitute for qualified legal or accounting counsel.

On the basis of the foregoing, I hereby certify that, to the best of my knowledge and belief, the report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the applicable Actuarial Standards of Practice of the American Academy of Actuaries. I am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Sincerely,

John R. Botsford

John R. Botsford, FSA, MAAA

JRB/dyu

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Introduction

Milliman, Inc. (Milliman) has been retained by Valley Mountain Regional Center (VMRC) to provide an ASC 715-60 actuarial valuation of its postretirement benefit plans. In our valuation we:

- Calculate the present value of benefits attributable to past service (APBO).
- Determine the annual expense (NPPBC) under ASC 715-60.
- Prepare the financial statement disclosures relating to the funded status of the plan.

Background

Retirees are eligible for retiree health benefits if they meet certain requirements relating to age and service. Appendix A provides a detailed summary of benefits.

Rationale for Specific Assumptions

With any valuation of future benefits, assumptions of anticipated future events are required. If actual events differ from the assumptions made, the actual cost of the plan will vary as well. The following assumptions should be reviewed for appropriateness.

Discount Rate. For the disclosures of the obligations as of the end of the fiscal year, we have discounted future benefit payments back to the present using an interest rate of 4.20%. This rate was derived from the Above Median Citigroup Pension Discount Curve as of the end of June 2018 using the expected payouts from the Plan. The rate used as of the beginning of the fiscal year (used to calculate the expense for the year) was 3.90%.

Mortality Rates. For the disclosures of obligations as of the end of the fiscal year, we used the male and female, head-count weighted RP-2014 Mortality Tables adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year, and projected forward using MP-2018 on a generational basis, with employee rates before benefit commencement and healthy annuitant rates after benefit commencement.

For expense for the year, we used the RP-2014 Mortality Tables adjusted to reflect Mortality Improvement Scale MP-2017 from the 2006 base year, and projected forward using MP-2017 on a generational basis, with employee rates before benefit commencement and healthy annuitant rates after benefit commencement.

Termination and Retirement Rates. The termination rates were updated in the June 30, 2015 valuation based on observed plan experience. We reviewed the recent termination and retirement experience, and found that it was consistent with the termination and retirement rates being used.

Implicit Rate Subsidy. Actuarial standards of practice require measurement of an implicit rate subsidy for community rated health plans (this includes all health plans sponsored by CalPERS). Appendix B provides a more detailed summary of the implicit rate subsidy.

Long-Term Rate of Return. We recommend an expected long-term rate of return on plan assets of 6.25%. Our long-term expected returns for various asset classes are shown below and include a 2.75% long-term inflation assumption.

Asset Class	Expected Arithmetic Nominal Return	Asset Allocation
Cash	3.07%	1.00%
Fixed Income	4.97%	30.00%
Domestic Equities	7.38%	69.00%
Expected Arithmetic Return (50 years)	6.61%	
Expected Geometric Return (50 years)	6.03%	

The assumption of 6.25% is below the 50-year expected arithmetic return and above the geometric average return over a 50 year period. Therefore, we recommend the long-term assumed rate of return remains at 6.25%.

A complete summary of the actuarial assumptions is presented in Appendix B.

Valuation Results

The Accumulated Postretirement Benefit Obligation (APBO) as of June 30, 2018 is $5,837,293. Please see Exhibit 1 for a summary of the APBO. The Net Periodic Benefit Cost (NPBC) for the fiscal year ending June 30, 2018 is $304,315. Please see Exhibit 2 for a summary of the NPBC.

Exhibit 1. Accumulated Postretirement Benefit Obligation

The Accumulated Postretirement Benefit Obligation (APBO) is the actuarial present value of benefits attributed to employee service rendered prior to the valuation date. The APBO equals the EPBO multiplied by a fraction equal to service to date over service at full eligibility age (FEA). On and after FEA, the APBO will equal the EPBO.

ASC 715-60 requires the FEA to be the earliest retirement age. For VMRC, this would be age 50 with 5 years of service for employees hired on or before 12/31/2012 and age 52 with 5 years of service for employees hired on or after 1/1/2013.

	June 30, 2018	June 30, 2017
Retired participants	$ 1,848,512	$ 1,938,335
Fully eligible active participants	2,085,062	2,335,787
Other active participants	1,903,719	2,301,784
Total	$ 5,837,293	$ 6,575,906

Exhibit 2. Reconciliation of Assets

In January 1, 2010, VMRC established an irrevocable trust (OPEB Trust) to fund its Postretirement Benefits Other Than Pensions. The Market Value of Plan assets is as follows:

	FOR THE FISCAL YEAR ENDING	
	June 30, 2018	June 30, 2017
Change in Plan Assets		
Market Value at beginning of year	$ 5,366,507	$ 4,407,805
Actual return on plan assets	473,849	564,502
Employer contributions	1,210,000	500,000
Benefits paid	0	(105,800)
Market Value at end of year	$ 7,050,356	$ 5,366,507

The allocation of plan assets is as follows:

	AS OF THE FISCAL YEAR ENDING	
	June 30, 2018	June 30, 2017
Cash/Money Market Accounts	1.0%	1.2%
Equity Accounts (U.S. Growth)	69.0%	68.0%
Fixed Income Accounts (U.S. Core)	30.0%	30.8%
Total	100.0%	100.0%

Exhibit 3. Net Periodic Postretirement Benefit Cost

The Net Periodic Postretirement Benefit Cost (NPPBC) is defined by ASC 715-60 as the cost of a postretirement benefit plan for a fiscal year.

	NPBC FOR THE FISCAL YEAR ENDING	
	June 30, 2018	June 30, 2017
Service cost	$ 281,723	$ 307,655
Interest cost	242,317	239,072
Expected (return) on plan assets	(373,219)	(287,807)
Transition amount	153,494	153,494
Amortization of prior service cost	0	0
Recognized net actuarial (gains) and losses	0	8,371
Net periodic benefit cost/(income)	$ 304,315	$ 420,785

Exhibit 4. Financial Statement Disclosures

ASC 715-60 requires disclosures about the funded status of the plan. The following schedule reconciles the funded status of the plan with the net postretirement benefit liability recognized in the statement of financial position.

	FOR THE FISCAL YEAR ENDING	
	June 30, 2018	**June 30, 2017**
Change in benefit obligation		
Beginning of year	$ 6,575,906	$ 7,004,749
Service cost	281,723	307,655
Interest cost	242,317	239,072
Assumption change (gain) or loss	(845,015)	(379,331)
Experience (gain) or loss	(307,686)	(490,439)
Benefits paid *	(109,952)	(105,800)
End of year	$ 5,837,293	$ 6,575,906
Plan assets	$ 7,050,356	$ 5,366,507
Amounts recognized		
Funded status	$ 1,213,063	$ (1,209,399)
Unrecognized actuarial (gain) or loss	(1,146,890)	106,441
Unrecognized prior service cost	0	0
Unrecognized net initial (asset)/obligation	706,076	859,570
Prepaid/(accrued) benefit cost	$ 772,249	$ (243,388)
Less accumulated other comprehensive income	(440,814)	966,011
Net amount recognized	$ 1,213,063	$ (1,209,399)

* *Retiree benefit payments for the fiscal year ending 6/30/2018 were paid directly by VMRC and not from the Trust.*

Exhibit 5. Reconciliation of Financial Statement Disclosures

The items in the financial statement disclosure have been reconciled with the prior year's values as follows:

		Fiscal Year Ending June 30, 2018
Unrecognized transition obligation		
Beginning of year	$	859,570
Amortization amount		(153,494)
End of year	$	706,076
Unrecognized prior service cost		
Beginning of year	$	0
Amortization amount		0
End of year	$	0
Unrecognized net (gain) or loss		
Beginning of year	$	106,441
Experience (gain) or loss		(307,686)
Asset (gain) or loss		(100,630)
Amortization amount		0
Assumption change		(845,015)
End of year	$	(1,146,890)
Net postretirement benefit asset or (liability)		
Beginning of year	$	(243,388)
Net periodic postretirement benefit (cost) / income		(304,315)
Employer contribution *		1,319,952
End of year	$	772,249
Accumulated other comprehensive income (AOCI)		
Beginning of year	$	966,011
Increase / (decrease) in AOCI		(1,406,825)
End of year	$	(440,814)

* *Retiree benefit payments (estimated to be $109,952) for the fiscal year ending 6/30/2018 were paid directly by VMRC and not from the Trust. An employer contribution of $1,210,000 was also contributed by VMRC to the Trust. For this purpose, employer contribution is equal to the amount contributed to the Trust, plus the pay-as-you-go retiree benefit payment for the fiscal year.*

Exhibit 6. 10 Year Projection of Expected Benefit Payments

The following table shows annual expected benefit payments for the next 10 years.

Fiscal Year	Expected Payment
2018-2019	$ 155,653
2019-2020	166,966
2020-2021	192,144
2021-2022	208,534
2022-2023	215,426
2023/24 – 2027/28 Aggregate	$ 1,289,432

Appendix A. Summary of Benefits

The following description of retiree health benefits is intended to be only a brief summary. For details, reference should be made to Summary Plan Descriptions, Plan Documents, and employee booklets.

Eligibility

Employees hired on and before December 31, 2012 are eligible if they retire on or after age 50 with 5 years of service with the Valley Mountain Regional Center. Employees hired after December 31, 2012 are eligible if they retire on or after age 52 with 5 years of service with the Valley Mountain Regional Center.

Benefits

Retirees are eligible to receive coverage under CalPERS medical plans for life. Surviving spouses of retirees continue coverage for the life of the surviving spouse.

VMRC contributes a portion of the CalPERS monthly health premium for the retirees according to the following schedule:

Calendar Year	BARGAINING UNIT RETIREES		NON- BARGAINING RETIREES	
	Retiree	Retiree +1	Retirees	Retiree +1
2009	$92.00	$153.75	$218.75	$218.75
2010	$98.00	$164.50	$218.75	$218.75
2011	$105.00	$176.25	$251.25	$251.25
2012	$126.00	$211.50	$268.00	$268.00
2013	$119.00	$199.75	$261.32	$261.32
2014	$126.00	$211.50	$301.50	$301.50
2015	$133.00	$223.25	$318.25	$318.25
2016	$140.00	$235.00	$335.00	$335.00
2017	$140.00	$235.00	$335.00	$335.00
2018	$140.00	$235.00	$335.00	$335.00

Future annual increases (per year):
We have assumed that the above VMRC paid benefits will increase each year at the same rate as medical CPI. We have assumed that medical CPI will increase by 3.25% per year.

Appendix B. Actuarial Cost Method and Assumptions

The actuarial cost method used for determining the benefit obligations is the Projected Unit Benefit Cost Method. The actuarial assumptions are summarized below.

Measurement Date June 30

Economic Assumptions

Discount Rate

3.90% per year (expense for FYE June 30, 2018)
4.20% per year (disclosures for FYE June 30, 2018)

Long Term Asset Return

6.25% per year (expense for FYE June 30, 2018)
6.25% per year (disclosure for FYE June 30, 2018)

Annual Benefit Increases

VMRC contributions toward medical premiums are assumed to increase at 3.25% per year.

Demographic Assumptions

Below is a summary of the assumed rates for retirement, turnover and disability.

Retirement

Age	Males / Females
50	1.65%
51	1.13%
52	1.78%
53	2.00%
54	2.11%
55	3.83%
56	3.48%
57	4.00%
58	5.05%
59	6.46%
60	11.87%
61	12.12%
62	24.26%
63	24.36%
64	18.75%
65	33.39%
70	23.25%
75	100.00%

Demographic Assumptions (continued)

Withdrawal

Sample probabilities of terminating within one year:

Service	Males / Females
0-2	12.00%
3-5	10.00%
6	9.00%
7	8.00%
8	7.00%
9	6.00%
10+	5.00%

Mortality

We used the male and female, head-count weighted RP-2014 Mortality Tables adjusted to reflect Mortality Improvement Scale MP-2018 from the 2006 base year, and projected forward using MP-2018 on a generational basis, with employee rates before benefit commencement and healthy annuitant rates after benefit commencement.

Disability

Sample probabilities of active employees becoming disabled for selected ages:

Age	Male	Female
25	0.02%	0.02%
30	0.02%	0.04%
35	0.08%	0.10%
40	0.15%	0.16%
45	0.24%	0.23%
50	0.37%	0.35%

Other Assumptions

Election Upon Retirement

50% of non-bargained employees are assumed to elect CalPERS Health Plan coverage at retirement. 50% of bargained employees are assumed to elect CalPERS Health Plan coverage at retirement.

Spouse Coverage Election

60% of active employees are assumed to be married at retirement and 50% of these employees who are married at retirement are assumed to elect spouse coverage. For current retirees, actual spouse enrollment was valued.

Spouse Age

Female spouses are assumed to be three years younger than male spouses.

Implicit Rate Subsidy

California PERS (PEMHCA) health plans charge the same premiums for retirees who are not yet eligible for Medicare as for active employees. Therefore, the retiree premium rates are being subsidized by the inclusion of active lives in setting rates. (Premiums calculated only based on retiree health claims experience would have resulted in higher retiree premiums.) ASC-715-60 requires that the value of this subsidy be recognized as a liability in valuations of OPEB costs.

Since retirees eligible for Medicare (age 65 and beyond) are enrolled in Medicare supplemental plans, the premiums for retirees with Medicare are determined without regard to active employee claims experience. Therefore, in aggregate, no such subsidy exists for medical costs in these plans.

To account for the fact that per member health costs vary depending on age (higher health costs at older ages), we calculated equivalent PMPM costs that vary by age based on the age distribution of covered members enrolled in the Bay Area, Sacramento Area, Out of State, and Other Northern California PEMHCA plans, and based on relative cost factors by age.

The relative cost factors were developed from the Milliman Health Cost Guidelines. Based on the carrier premium rates and relative age cost factors assumptions, we developed age adjusted monthly PMPM health costs for 2018-19 to be used in valuing the implicit rate subsidy. The following table shows the sample combined PMPM health costs (medical) for males and females enrolled in the PEMHCA Plans:

Age Adjusted Medical PMPM Costs - July 1, 2018 to June 30, 2019

	Retirees		Spouses	
Age	Male	Female	Male	Female
50	$ 695	$ 856	$ 618	$ 758
55	853	933	783	870
60	1,075	1,072	996	1,006
64	1,351	1,232	1,256	1,151

Medical Inflation

The following table shows the trend rates used to value the implicit rate subsidy in this valuation:

Fiscal Year	Medical Trend	Fiscal Year	Medical Trend
2018 – 2019	5.00%	2036 – 2039	6.50%
2019 – 2020	6.75%	2039 – 2044	6.25%
2020 – 2027	5.25%	2044 – 2048	6.00%
2027 – 2030	5.50%	2048 – 2056	5.75%
2030 – 2031	5.75%	2056 – 2065	5.50%
2031 – 2032	6.00%	2065 – 2067	5.25%
2032 – 2033	6.25%	2067 – 2070	5.00%
2033 – 2035	6.50%	2070 – 2073	4.75%
2035 – 2036	6.25%	2073 +	4.50%

Appendix C. Summary of Participant Data

The following census of participants as of June 30, 2017, was used in the actuarial valuation and provided by the Valley Mountain Regional Center.

Covered Active Employees

Age	Males	Females	Total
Under 25	0	7	7
25 – 29	9	34	43
30 – 34	7	24	31
35 – 39	6	41	47
40 – 44	7	34	41
45 – 49	9	38	47
50 – 54	6	13	19
55 – 59	6	27	33
60 – 64	2	12	14
65 – 69	1	8	9
70 & Over	1	2	3
Total	54	240	294

Current Retirees

Age	Total
Under 55	1
55 – 59	0
60 – 64	5
65 – 69	13
70 – 74	9
75 – 79	5
80 – 84	2
85 & Over	2
Total	37