

State of California

Agent Multiple-Employer Defined Benefit Other Postemployment Benefits (OPEB) Plans

Schedule of OPEB Pay-As-You-Go Contributions, Schedule of OPEB Prefunding Contributions, and Schedule of OPEB Amounts

For the Fiscal Year Ended June 30, 2023



MALIA M. COHEN
California State Controller's Office

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Introductory Section

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MALIA M. COHEN
CALIFORNIA STATE CONTROLLER

September 27, 2024

To State Entities and their External Auditors:

I am pleased to submit the Report on the *Schedule of OPEB Pay-As-You-Go Contributions, Schedule of OPEB Prefunding Contributions by Valuation Group, and Schedule of OPEB Amounts by Valuation Group* (schedules) for the agent multiple-employer defined benefit Other Postemployment Benefit (OPEB) plans of the State of California as of and for the fiscal year ended June 30, 2023. This report provides certain state entities and their external auditors with supporting information related to Governmental Accounting Standards Board Statement No. 75 (GASB No. 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended.

The State Controller's Office is responsible for the preparation and fair presentation of the schedules in accordance with accounting principles generally accepted in the United States of America. The report provides users with reasonable assurance that the OPEB information presented in the schedules is fairly stated in accordance with GASB No. 75, as amended.

The information contained in this report is solely for the use of certain state entities and their external auditors and is not intended to be, and should not be, used by anyone other than those specified parties. However, under the Brown Act of 1953, the report is a matter of public record.

For inquiries related to this report, please contact the State Government Reporting Bureau at SGR@sco.ca.gov.

Sincerely,

Original signed by

Malia M. Cohen

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Independent Auditor's Opinion



Independent Auditor's Report

To the Legislature of the State of California
and the California State Controller's Office
Sacramento, California

Report on the Audit of the Schedules

Opinion

We have audited the accompanying the Schedule of other post-employment benefits (OPEB) Pay-As-You-Go Contributions, Schedule of OPEB Prefunding Contributions by Valuation Group for the OPEB plans (the plans) of the State of California (State), and the rows titled Net OPEB Liability, Total Deferred Outflows of Resources, Total Deferred Inflows of Resources, and Total OPEB Expense for the Service Employees International Union, Attorneys and Hearing Officers, Highway Patrol, Corrections, Protective Services and Public Safety, Professional Engineers, Professional Scientific, and Craft and Maintenance valuation groups on the Schedule of OPEB Amounts by Valuation Group (collectively the schedules) of the State, as of and for the year ended June 30, 2023, and the related notes to the Schedules.

In our opinion, the accompanying schedules referred to above present fairly, in all material respects, the OPEB pay-as-you-go contributions, the OPEB prefunding contributions, the rows titled Net OPEB Liability, Total Deferred Outflows of Resources, Total Deferred Inflows of Resources, and Total OPEB Expense of the Service Employees International Union, Attorney and Hearing Officers, Highway Patrol, Corrections, Protective Services and Public Safety, Professional Engineers, Professional Scientific, and Craft and Maintenance valuation groups on the Schedule of OPEB Amounts by Valuation Group as of and for the year ended June 30, 2023, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Schedules section of our report. We are required to be independent of the State of California, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Schedules

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

Auditor's Responsibilities for the Audit of the Schedules

Our objectives are to obtain reasonable assurance about whether the schedules as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the Schedules.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the Schedules, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the Schedules.
- Obtain an understanding of internal control relevant to the audit 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 State's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the Schedules.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Reporting Required Under Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2024 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an

opinion on the effectiveness of the State's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

Eide Bailly LLP

Sacramento, California
September 27, 2024

Schedule of OPEB Pay-As-You-Go Contributions

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Schedule of OPEB Pay-As-You-Go Contributions

For the Year Ended June 30, 2023
(amounts in thousands)

Total OPEB Pay-As-You-Go Contributions, excluding the California State University	<u>\$ 2,367,414</u>
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Schedules by Valuation Group

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Schedule of OPEB Prefunding Contributions by Valuation Group¹

For the Year Ended June 30, 2023

(amounts in thousands)

Valuation Group	Prefunding Contributions ²
Service Employees International Union (BUs 1, 3, 4, 11, 14, 15, 17, 20, & 21)	\$ 301,445
Attorneys and Hearing Officers (BU2)	\$ 12,493
Highway Patrol (BU5)	\$ 50,716
Corrections (BU6)	\$ 121,509
Protective Services and Public Safety (BU7)	\$ 26,912
Professional Engineers (BU9)	\$ 35,760
Professional Scientific (BU10)	\$ 10,628
Craft and Maintenance (BU12)	\$ 33,161

¹ This schedule includes only selected valuation groups that have accumulated prefunding assets in separate accounts by valuation group in the California Employers' Retiree Benefit Trust Fund (CERBTF), as of June 30, 2023.

² This schedule reports the employer portion only of the prefunding contributions reported by CalPERS in its audited *Schedule of Changes in Fiduciary Net Position, by Employer as of June 30, 2023*.

Schedule of OPEB Amounts by Valuation Group

As of and For the Year Ended June 30, 2023

(amounts in thousands)

	Valuation Group	
	Service Employees International Union (SEIU) ⁵	Attorneys and Hearing Officers (BU2)
Net OPEB Liability, as of June 30, 2022	\$ 27,032,496	\$ 1,084,639
Net OPEB Liability, as of June 30, 2023	27,896,072	1,124,524
Increase (decrease) in the Net OPEB Liability	\$ 863,576	\$ 39,885
Deferred Outflows of Resources: ^{1,2}		
Differences between expected and actual experience ³	\$ 826,096	\$ 66,882
Changes in assumptions ³	1,578,930	49,437
Net differences between projected and actual earnings on OPEB plan investments ⁴	127,713	8,327
Total Deferred Outflows of Resources	\$ 2,532,739	\$ 124,646
Deferred Inflows of Resources: ²		
Differences between expected and actual experience ³	\$ 2,375,377	\$ 86,065
Changes in assumptions ³	4,741,109	178,469
Total Deferred Inflows of Resources	\$ 7,116,486	\$ 264,534
Total OPEB Expense	\$ 98,686	\$ 18,658
Average Expected Remaining Service Life ³	7.52	7.70
Blended Discount Rate, as of June 30, 2023	4.259 %	4.345 %

¹ This schedule does not include deferred outflows of resources for employer contributions made subsequent to the measurement date.

² This schedule does not include deferred outflows and inflows of resources for changes in the employers' proportionate share based on OPEB contributions.

³ Deferred outflows and inflows of resources related to differences between expected and actual experience and changes in assumptions are amortized over closed periods equal to the average expected remaining service lives for members of each valuation group.

⁴ Deferred outflows and inflows of resources related to differences between projected and actual earnings on OPEB plan investments are netted and amortized over a closed five-year period.

⁵ SEIU includes Bargaining Units 1, 3, 4, 11, 14, 15, 17, 20, & 21.

Highway Patrol (BU5)	Corrections (BU6)	Protective Services and Public Safety (BU7)	Professional Engineers (BU9)	Professional Scientific (BU10)	Craft and Maintenance (BU12)
\$ 4,182,632	\$ 14,941,762	\$ 2,825,571	\$ 3,893,304	\$ 954,063	\$ 3,558,805
4,314,469	15,365,485	2,901,496	4,076,971	1,022,947	3,597,300
\$ 131,837	\$ 423,723	\$ 75,925	\$ 183,667	\$ 68,884	\$ 38,495
\$ 10,618	\$ 608,239	\$ 118,235	\$ 211,233	\$ 98,540	\$ 159,317
525,289	1,269,972	207,344	193,116	55,319	171,825
45,122	98,826	16,975	21,072	6,349	19,122
\$ 581,029	\$ 1,977,037	\$ 342,554	\$ 425,421	\$ 160,208	\$ 350,264
\$ 455,564	\$ 983,056	\$ 218,962	\$ 227,086	\$ 69,952	\$ 318,832
920,965	2,398,799	479,137	633,933	182,003	537,016
\$ 1,376,529	\$ 3,381,855	\$ 698,099	\$ 861,019	\$ 251,955	\$ 855,848
\$ 43,905	\$ 354,241	\$ 53,767	\$ 83,140	\$ 34,542	\$ 21,596
5.86	5.89	6.43	7.03	9.49	6.77
4.368 %	4.290 %	4.284 %	4.283 %	4.375 %	4.303 %

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Notes to the Schedules

Notes to the Schedules

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The State of California provides medical and prescription drug benefits to retired state employees and dependents through CalPERS under the Public Employees' Medical and Hospital Care Act, and dental benefits under the State Employees' Dental Care Act. The State, and certain bargaining units and judicial employees (valuation groups), and the Exempt, Excluded, and Executive valuation group, have agreed to prefund retiree healthcare benefits. Assets are held in separate accounts by valuation group within the California Employers' Retiree Benefit Trust (CERBT), an agent multiple-employer defined benefit other postemployment benefits plan administered by CalPERS. Assets within each valuation group benefit retirees and dependents associated with that valuation group.

The Schedule of OPEB Pay-As-You-Go Contributions presents the State's total pay-as-you-go costs, excluding the California State University valuation group. The Schedule of OPEB Prefunding Contributions by Valuation Group and the Schedule of OPEB Amounts by Valuation Group, which together with the Schedule of OPEB Pay-As-You-Go Contributions are referred to hereafter as schedules, present selected information for some of the State's 17 valuation groups. Accordingly, the information contained in the schedules does not purport to be a complete presentation of the fiduciary net position or the changes in fiduciary net position of all valuation groups. The schedules are prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Such preparation requires the California State Controller's Office to make a number of estimates and assumptions related to the reported amounts and disclosures. Due to the inherent nature of these estimates, actual results could differ.

The Schedule of OPEB Amounts by Valuation Group does not include the following entity-specific OPEB amounts that may need to be recognized in accordance with GASB Statement No. 75: (1) deferred outflows of resources for employer contributions made subsequent to the measurement date, and (2) deferred outflows and inflows of resources for changes in the employers' proportionate share based on OPEB contributions.

NOTE 2: OPEB CONTRIBUTIONS

The Schedule of OPEB Pay-As-You-Go Contributions and the Schedule of OPEB Prefunding Contributions by Valuation Group are prepared to provide state entities with information on OPEB employer contribution amounts. This information is used to calculate each state entity's proportionate share of OPEB amounts.

NOTE 3: NET OPEB LIABILITY

The following table shows the components of the net OPEB liability by valuation group as of June 30, 2023 (amounts in thousands):

Valuation Group	Total OPEB Liability	Less: Fiduciary Net Position	Net OPEB Liability
Service Employees International Union (BUs 1, 3, 4, 11, 14, 15, 17, 20, & 21)	\$ 30,131,230	\$ (2,235,158)	\$ 27,896,072
Attorneys and Hearing Officers (BU2)	1,267,443	(142,919)	1,124,524
Highway Patrol (BU5)	5,085,218	(770,749)	4,314,469
Corrections (BU6)	17,069,118	(1,703,633)	15,365,485
Protective Services and Public Safety (BU7)	3,195,408	(293,912)	2,901,496
Professional Engineers (BU9)	4,447,783	(370,812)	4,076,971
Professional Scientific (BU10)	1,134,426	(111,479)	1,022,947
Craft and Maintenance (BU12)	3,926,042	(328,742)	3,597,300

Detailed information about the state plans' fiduciary net position is available in a separate report issued by the California Public Employees' Retirement System (CalPERS) at www.CalPERS.ca.gov.

NOTE 4: ACTUARIAL METHODS AND ASSUMPTIONS

For the measurement period ended June 30, 2023 (the measurement date), the total OPEB liability was based on the following actuarial methods and assumptions:

Valuation Date:	June 30, 2023
Actuarial Cost Method:	Entry age normal in accordance with the requirements of GASB Statement No. 75
Actuarial Assumptions	
Discount Rate:	Blended rate for each valuation group, consisting of 6.00% when assets are available to pay benefits, otherwise 20-year Municipal G.O. Bond AA Index rate of 3.86%
Inflation:	2.30%
Salary Increases:	Varies by entry age and service
Investment Rate of Return:	6.00%, net of OPEB plan investment expenses but without reduction for OPEB plan administrative expenses
Healthcare Cost Trend Rates:	<i>Pre-Medicare coverage:</i> Actual rates for 2024, increasing to 7.00% in 2025, grading down to 4.50% from 2030 to 2038, and 4.25% for 2039 and later years <i>Post-Medicare coverage:</i> Actual rates for 2024, increasing to rates ranging from 7.00% to 7.66% in 2025, grading down to 4.50% from 2035 to 2038, and 4.25% for 2039 and later years <i>Dental coverage:</i> 0.23% for 2024, 2.00% for 2025, 3.00% for 2026, 4.00% for 2027, and 4.25% for 2028 and later years
Mortality Rate Table:	Derived using CalPERS' membership data for all members

The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using the Society of Actuaries 80% Scale MP-2020. For more details on this table, refer to the 2021 *CalPERS Experience Study and Review of Actuarial Assumptions* report (2021 Experience Study) for the period from 2000 to 2019. Other demographic assumptions used in the June 30, 2023 valuation were also based on the results of the 2021 Experience Study, including updates to termination, disability, and retirement rates. The 2021 Experience Study is available at www.CalPERS.ca.gov.

Healthcare related assumptions such as plan participation, aging factors, adjustments for disabled members, and adjustments for children of current retirees and survivors are based on the *State of California Retiree Health Benefits Program* (2022 Experience Review) performed by Gabriel, Roeder, Smith and Company (GRS) for the period from 2018 to 2022. Other healthcare assumptions such as member healthcare plan selection, coverage and continuance, select and ultimate healthcare cost trend rates, and per capita claim costs and expenses, are based on the most current information available. The GRS 2022 Experience Review is available at www.sco.ca.gov.

NOTE 5: DISCOUNT RATE

The blended rates used to measure the June 30, 2023 total OPEB liability consist of the 20-year Municipal G.O. Bond AA Index rate of 3.86% as of June 30, 2023, as reported by Fidelity, when prefunding assets are not available to pay benefits, and 6.00% when prefunding assets are available to pay benefits. The cash flow projections used to calculate the blended discount rates were developed assuming that prefunding agreements in which actuarial determined normal costs are shared between employees and the State will continue and that the required contributions will be made on time and as scheduled in future years. The prefunding agreements are subject to collective bargaining and legislative approval. Detailed information on the blended discount rates by valuation group is available in the *State of California Retiree Health Benefits Program GASB Nos. 74 and 75 Actuarial Valuation Report as of June 30, 2023*, on the State Controller's Office website, at www.SCO.ca.gov.

The long-term expected rate of return on OPEB plan investments was determined by Gabriel, Roeder, Smith & Company using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. Expected compound (geometric) real returns were calculated over a closed period. Based on separate expected real returns for the short-term (first 5 years) and the long-term (6-20) years, and an average inflation assumption of 2.30%, a single expected nominal return rate of 6.00% was calculated for the combined short-term and long-term periods. If applied to expected cash flows during that period, the resulting present value of benefits is expected to be consistent with the present value of benefits that would be determined by applying the short and long-term expected rates to the same cash flows.

The following table reflects the long-term expected real rate of return by asset class.

Asset Class	Target Asset Allocation	Real Return Years 1-5	Real Return Years 6-20
Global Equity	49.0 %	4.40 %	4.50 %
Fixed Income	23.0	(1.00)	2.20
Treasury Inflation-Protected Securities	5.0	(1.80)	1.30
Real Estate Investment Trusts	20.0	3.00	3.90
Commodities	3.0	0.80	1.20

Source: CalPERS

In the fiscal year ended June 30, 2023, the blended discount rates used in the actuarial assumptions changed from the prior year. Please refer to the prior year report on the State Controller's Office website.

NOTE 6: OPEB EXPENSE, DEFERRED OUTFLOWS OF RESOURCES, AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB

The table below presents deferred outflows and inflows of resources related to valuation groups as of June 30, 2023. Deferred outflows and inflows of resources are recognized for changes in assumptions and the difference between expected and actual experience. Net deferred outflows and inflows of resources are recognized for the aggregate difference (positive and negative) between projected and actual earnings on OPEB plan investments arising in different measurement periods. Deferred outflows of resources due to employer contributions made subsequent to the measurement date, and deferred outflows and inflows of resources for changes in the employers' proportionate share are not presented in the table below (amounts in thousands):

Description	Service Employees International Union (SEIU) ¹	Attorneys and Hearing Officers (BU2)	Highway Patrol (BU5)	Corrections (BU6)
Deferred Outflows of Resources	\$ 2,532,739	\$ 124,646	\$ 581,029	\$ 1,977,037
Deferred Inflows of Resources	7,116,486	264,534	1,376,529	3,381,855

Amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as either a debit or a (credit) in the future as follows (amounts in thousands):

Measurement Periods	Service Employees International Union (SEIU) ¹	Attorneys and Hearing Officers (BU2)	Highway Patrol (BU5)	Corrections (BU6)
Year Ended June 30,				
2024	\$ (1,255,719)	\$ (40,485)	\$ (181,962)	\$ (348,801)
2025	(742,664)	(25,235)	(165,411)	(298,268)
2026	(764,006)	(22,189)	(214,717)	(324,876)
2027	(821,803)	(24,771)	(232,280)	(430,813)
2028	(720,813)	(19,300)	(1,130)	(2,060)
Thereafter	(278,742)	(7,908)	—	—
Total	\$ (4,583,747)	\$ (139,888)	\$ (795,500)	\$ (1,404,818)

¹ SEIU includes Bargaining Units 1, 3, 4, 11, 14, 15, 17, 20, & 21.

Protective Services and Public Safety (BU7)	Professional Engineers (BU9)	Professional Scientific (BU10)	Craft and Maintenance (BU12)
\$ 342,554	\$ 425,421	\$ 160,208	\$ 350,264
698,099	861,019	251,955	855,848

Protective Services and Public Safety (BU7)	Professional Engineers (BU9)	Professional Scientific (BU10)	Craft and Maintenance (BU12)
\$ (92,151)	\$ (107,167)	\$ (26,600)	\$ (127,907)
(78,538)	(87,304)	(20,772)	(122,972)
(75,581)	(88,479)	(5,936)	(105,972)
(80,246)	(95,877)	(11,538)	(91,573)
(30,037)	(71,457)	(12,213)	(56,174)
1,008	14,686	(14,688)	(986)
<u>\$ (355,545)</u>	<u>\$ (435,598)</u>	<u>\$ (91,747)</u>	<u>\$ (505,584)</u>

For the fiscal year ended June 30, 2023, the amounts recognized as components of OPEB expense for each valuation group were as follows (amounts in thousands):

Description	Service Employees International Union (SEIU) ¹	Attorneys and Hearing Officers (BU2)	Highway Patrol (BU5)	Corrections (BU6)
Service Cost	\$ 951,313	\$ 42,683	\$ 136,920	\$ 485,501
Interest on the Total OPEB Liability	1,193,663	50,823	207,924	683,945
Recognized Differences between Expected and Actual Experience	(748,127)	(17,781)	(156,633)	(364,016)
Recognized Changes of Assumptions	(925,240)	(39,413)	(96,735)	(264,855)
Employee Contributions	(301,445)	(12,494)	(16,905)	(121,510)
Projected Earnings on OPEB Plan Investments	(108,426)	(7,329)	(41,480)	(88,961)
Recognized Differences between Projected and Actual Earnings on Plan Investments	36,432	2,134	10,614	23,710
Administrative Expense	516	35	200	427
Total OPEB Expense	\$ 98,686	\$ 18,658	\$ 43,905	\$ 354,241

¹ SEIU includes Bargaining Units 1, 3, 4, 11, 14, 15, 17, 20, & 21.

Protective Services and Public Safety (BU7)	Professional Engineers (BU9)	Professional Scientific (BU10)	Craft and Maintenance (BU12)
\$ 96,734	\$ 130,885	\$ 41,338	\$ 115,098
128,558	174,009	44,495	158,792
(81,057)	(80,607)	(5,386)	(128,201)
(52,987)	(92,106)	(31,264)	(79,430)
(26,912)	(35,761)	(10,627)	(33,161)
(15,000)	(18,821)	(5,666)	(16,600)
4,359	5,451	1,625	5,019
72	90	27	79
<u>\$ 53,767</u>	<u>\$ 83,140</u>	<u>\$ 34,542</u>	<u>\$ 21,596</u>

NOTE 7: SENSITIVITY OF THE NET OPEB LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following table presents the net OPEB liability of the valuation groups as of the measurement date, calculated using the blended discount rate for each valuation group as presented in the Schedule of OPEB Amounts by Valuation Group, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current rate (amounts in thousands):

Valuation Group	Net OPEB Liability		
	Blended Discount Rate -1%	Blended Discount Rate	Blended Discount Rate +1%
Service Employees International Union (BUs 1, 3, 4, 11, 14, 15, 17, 20, & 21)	\$ 32,698,607	\$ 27,896,072	\$ 23,989,954
Attorneys and Hearing Officers (BU2)	1,318,966	1,124,524	965,217
Highway Patrol (BU5)	5,256,931	4,314,469	3,576,804
Corrections (BU6)	18,364,263	15,365,485	12,996,313
Protective Services and Public Safety (BU7)	3,434,762	2,901,496	2,474,496
Professional Engineers (BU9)	4,780,552	4,076,971	3,504,388
Professional Scientific (BU10)	1,211,700	1,022,947	870,044
Craft and Maintenance (BU12)	4,194,151	3,597,300	3,111,092

NOTE 8: SENSITIVITY OF THE NET OPEB LIABILITY TO CHANGES IN THE HEALTHCARE COST TREND RATES

The following table presents the net OPEB liability of the valuation groups as of the measurement date, calculated using the select and ultimate healthcare cost trend rates presented in Note 4, Actuarial Methods and Assumptions, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the healthcare cost trend rates presented in Note 4 (amounts in thousands):

Valuation Group	Net OPEB Liability		
	Healthcare Cost Trend Rates -1%	Healthcare Cost Trend Rates	Healthcare Cost Trend Rates +1%
Service Employees International Union (BUs 1, 3, 4, 11, 14, 15, 17, 20, & 21)	\$ 24,519,879	\$ 27,896,072	\$ 32,182,770
Attorneys and Hearing Officers (BU2)	984,902	1,124,524	1,325,980
Highway Patrol (BU5)	3,668,724	4,314,469	5,145,585
Corrections (BU6)	13,325,714	15,365,485	17,964,399
Protective Services and Public Safety (BU7)	2,528,764	2,901,496	3,375,477
Professional Engineers (BU9)	3,586,832	4,076,971	4,695,128
Professional Scientific (BU10)	886,467	1,022,947	1,198,843
Craft and Maintenance (BU12)	3,178,269	3,597,300	4,123,199

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Audit Report on Internal Controls



Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Schedules Performed in Accordance with *Government Auditing Standards*

To the Legislature of the State of California
and the California State Controller’s Office
Sacramento, California

We have audited the accompanying the Schedule of other post-employment benefits (OPEB) Pay-As-You-Go Contributions, Schedule of OPEB Prefunding Contributions by Valuation Group for the OPEB plans (the plans) of the State of California (State), and the rows titled Net OPEB Liability, Total Deferred Outflows of Resources, Total Deferred Inflows of Resources, and Total OPEB Expense for the Service Employees International Union, Attorneys and Hearing Officers, Highway Patrol, Corrections, Protective Services and Public Safety, Professional Engineers, Professional Scientific, and Craft and Maintenance valuation groups on the Schedule of OPEB Amounts by Valuation Group (collectively the schedules) of the State, as of and for the year ended June 30, 2023, and the related notes to the Schedules, and have issued our report thereon dated September 27, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the Schedules, we considered the State’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Schedules, but not for the purpose of expressing an opinion on the effectiveness of the State’s internal control. Accordingly, we do not express an opinion on the effectiveness of the State’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the State’s Schedules will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's Schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the Schedules. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Sacramento, California
September 27, 2024



Malia M. Cohen

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