



MENDOCINO COUNTY EMPLOYEES
RETIREMENT ASSOCIATION

Ukiah, California



Popular Annual Financial Report
For the Fiscal Year Ended June 30, 2023

A Pension Trust Fund of the County of Mendocino, Superior Court of
Mendocino County, and the Russian River Cemetery District



Government Finance Officers Association

Award for
Outstanding
Achievement in
Popular Annual
Financial Reporting

Presented to

**Mendocino County Employees' Retirement
Association
California**

For its Annual Financial Report
For the Fiscal Year Ended

June 30, 2022

Christopher P. Morill

Executive Director/CEO



Our Plan

MCERA is a cost-sharing governmental pension plan established by the County of Mendocino on January 1, 1948. MCERA provides retirement, death and disability benefits to the employees of the County of Mendocino, Superior Court of Mendocino County, and Russian River Cemetery District.

Our Mission

Providing sustainable pensions, retirement planning education, and professional services to current and future members.

Our Vision

To be a trusted resource for a well-planned and secure retirement.

Our Guiding Principles

- We are mindful of the impacts to individual members when we fulfill our fiduciary role of making decisions in the best interests of all members.
- We value professionalism, inclusion, and collegiality in doing our work.
- We take the long term into consideration in everything we do while remaining adaptable and flexible in the short term.

Board of Retirement Trustees as of June 30, 2023

Kathryn Smith

Appointed by Board of Supervisors

Richard Shoemaker

Elected by Retired Members

Jerilyn Harris

Appointed by Board of Supervisors

Kathryn Cavness

Elected by General Members

Dan Gjerde

Appointed by Board of Supervisors

Quincy Cromer

Elected by Safety Members

James Andersen

Elected by Retired Members (Alternate)

Chamise Cubbison

Ex-Officio by Statute

Alex Land

Elected by General Members

4th Seat– Vacant

Appointed by Board of Supervisors

A Message to Members –

The Mendocino County Employees Retirement Association (MCERA) is pleased to present this Popular Annual Financial Report (PAFR) for the fiscal year ended June 30, 2023. The PAFR is a snapshot of MCERA's financial activities during the year. The information presented in the PAFR comes from MCERA's Annual Comprehensive Financial Report (ACFR). The ACFR provides more detailed information and is available on MCERA's website, <https://www.mendocinocounty.org/government/affiliated-agencies/retirement-association/reports>.

MCERA's goals are to: achieve long-term funding of the cost of benefits; seek a reasonable and equitable allocation of the costs of benefits over time; and minimize volatility of the plan sponsor's contribution to the extent reasonably possible.

As of June 30, 2023, MCERA's Funded Ratio is 72.4%. The Funded Ratio is the ratio of the actuarial value of assets (smoothed asset values) to the actuarial value of liabilities (promised benefits). If considered on a market value basis, the ratio would be 71.6%.

For the fiscal year (FY), MCERA's total portfolio outperformed its custom benchmark. MCERA's annual return was 8.29%, compared to the benchmark of 8.21%. The outperformance is primarily due to strong performance of MCERA's infrastructure and fixed income investments. However, those gains were offset by weaker performance of real estate and domestic equity holdings. MCERA remains financially strong and able to meet its obligations to plan participants and beneficiaries.

Brown Armstrong Accountancy Corp. audited the financial statements as of June 30, 2023 and stated that MCERA's financial statements fairly represent the financial position for the fiscal year.

Respectfully submitted,



Doris L. Rentschler, CFP
Executive Director

MCERA Membership Highlights

All data as of June 30, 2023

MCERA’s membership consists of full time (working at least 64 hours per pay period) employees, members who have left service and have deferred their receipt of retirement benefits, and retirees and their beneficiaries from the County of Mendocino, Superior Court of Mendocino County, and the Russian River Cemetery District.

Total Members

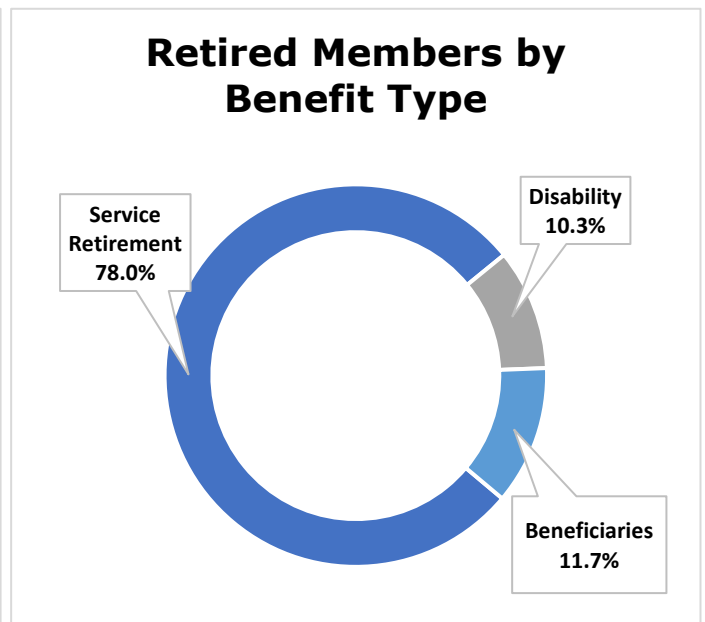
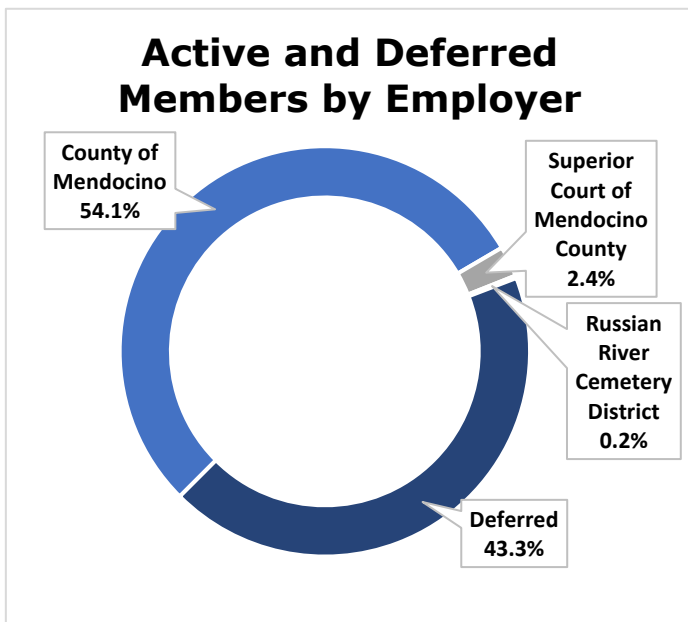
Year	Active	Retired	Deferred
2019	1,151	1,552	515
2020	1,140	1,587	546
2021	1,142	1,615	577
2022	1,123	1,650	923
2023	1,150	1,678	879

Active Members by Employer

Members	Employer
1,097	County of Mendocino
49	Superior Court of Mendocino County
4	Russian River Cemetery District

Active Members by Membership Group

Members	Membership Group
992	General
158	Safety/Probation



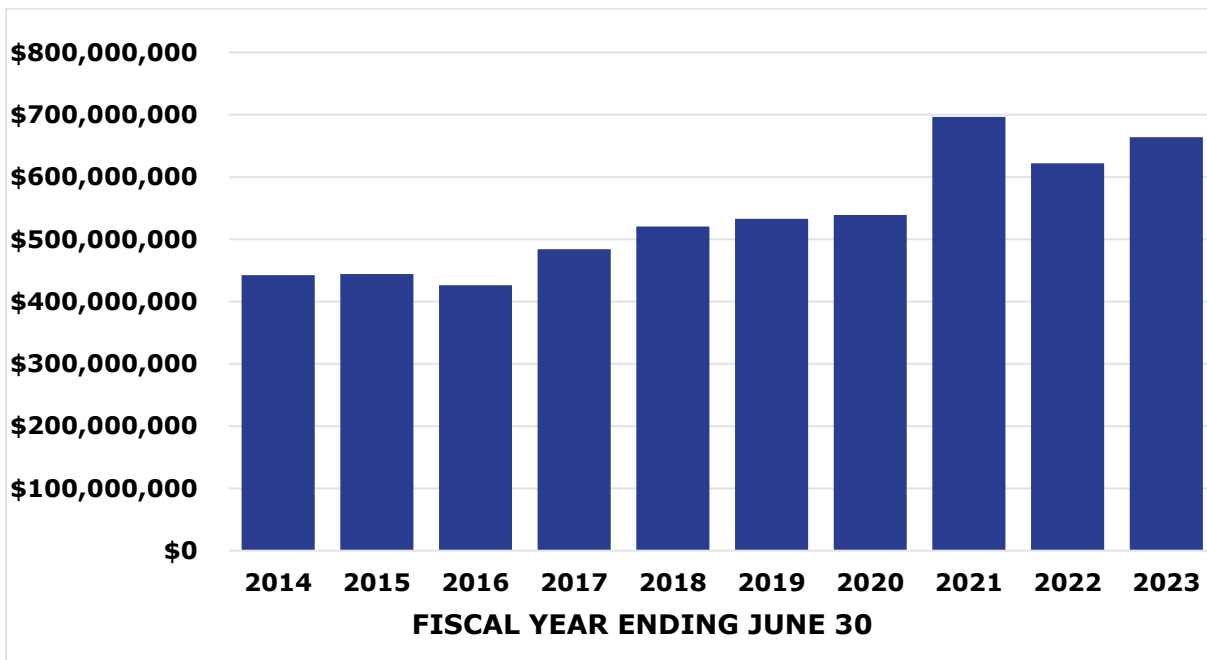
Summary of Fiduciary Net Position

Fiduciary Net Position is a snapshot of account balances at fiscal year-end. It presents major categories of assets and liabilities at fiscal year-end. The difference between assets and liabilities, Fiduciary Net Position, represents funds available to pay benefits.

(Dollars in Thousands)	2023	2022	Dollar Change	Percent Change
Cash Equivalents	\$ 677	\$ 1,615	\$ (938)	(58.08%)
Receivables	1,575	1,142	433	37.92%
Capital Assets, Net				
Software Equipment	79	159	(80)	(50.31%)
Investments, at Fair Value	663,165	620,437	42,728	6.89%
Total Assets	665,496	623,353	42,143	6.76%
Total Liabilities	1,586	1,419	167	11.77%
Fiduciary Net Position	\$ 663,910	\$ 621,934	\$ 41,976	6.75%

Total net position increased from \$621.9 million in fiscal year 2022 to \$663.9 million in fiscal year 2023. Increases and decreases in Fiduciary Net Position, when analyzed over time, may serve as an indicator of whether MCERA’s financial position is improving or deteriorating. Management believes MCERA remains in a strong position to meet promised benefits.

Net Position Over Time



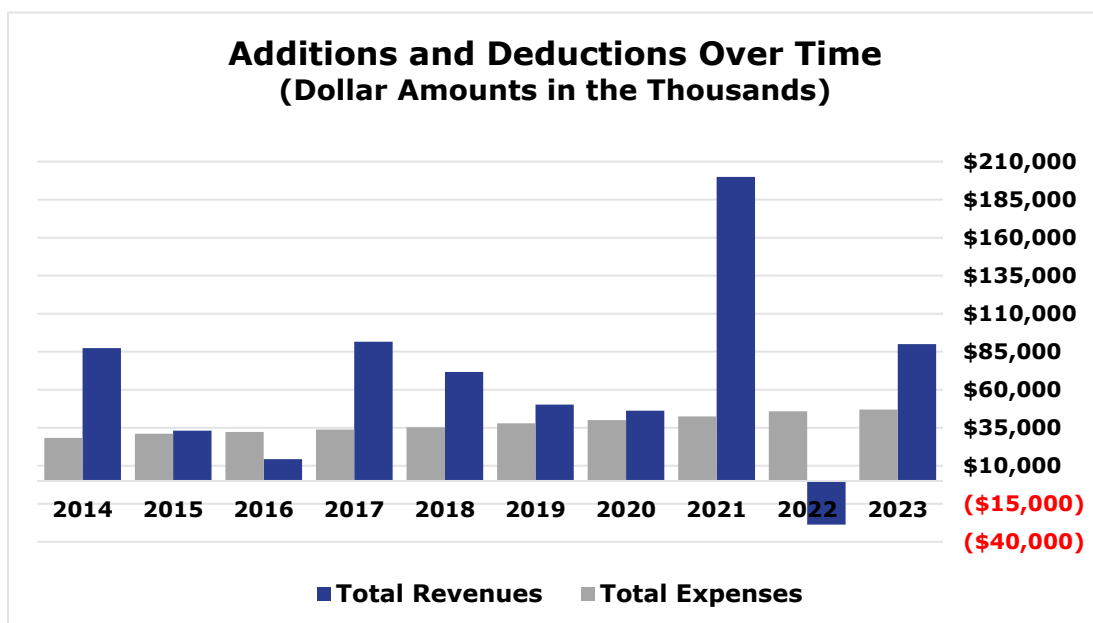
Changes in Net Position

Benefits to MCERA members are provided through income on investments and the collection of employee and employer contributions. These income sources for the fiscal years ending June 30, 2023 and 2022 totaled \$89.9 million and \$(28.7) million, respectively. The increase in additions from 2022 to 2023 can be attributed primarily to an increase in net investment income.

Employer contributions decreased from fiscal year 2022 as a result of lower safety covered payroll. Member contributions increased in fiscal year 2023 as a result of higher non-safety covered payroll.

MCERA's assets are primarily used for benefit payments to retirees and their beneficiaries, refunds of contributions to terminated employees, and the cost of administering MCERA. These deductions for the fiscal years ending June 30, 2023 and 2022 were \$47.0 million and \$45.8 million, respectively. The primary reason for this change was an increase in benefits paid to retirees.

(Dollars in Thousands)	2023	2022	Dollar Change	Percent Change
<i>Additions</i>				
Employer Contributions	\$ 30,309	\$ 30,485	\$ (176)	(0.58%)
Member Contributions	8,493	8,186	307	3.75%
Net Investment Income	51,150	(67,540)	118,690	175.73%
Insurance Reimbursement	27	171	(144)	(84.21%)
Total Additions	89,979	(28,698)	118,677	413.54%
<i>Deductions</i>				
Retirement Benefits	44,310	42,750	1,560	3.65%
Refund of Contributions	1,144	1,596	(452)	(28.32%)
Administrative Expenses	1,550	1,463	87	5.95%
Total Deductions	47,004	45,809	1,195	2.61%
Net Additions	42,975	(74,507)	117,482	157.68%



Fund Revenues and Expenses

The uses of assets of the system are the payment of pension benefits to retirees and their beneficiaries, refund of contributions to former employees, and the cost of administering the system. Benefits paid is greater in fiscal year 2023 due to the increasing number of retirees. Refunds decreased due to fewer inactive member interest refunds. Administrative costs increased due to personnel expenses, contracts, and IT expenses.

Revenues

Fiscal Year Ended 6/30	Employee Contributions	Employer Contributions	Investment Net Income	Total Revenues
2023	\$ 8,493	\$ 30,309	\$ 51,177	\$ 89,979
2022	8,186	30,485	(67,369)	(28,698)
2021	7,054	26,334	166,513	199,901
2020	6,820	24,647	14,799	46,266
2019	6,544	23,702	19,959	50,205
2018	5,996	20,431	45,272	71,699
2017	5,754	19,116	66,670	91,540
2016	5,545	19,129	(10,352)	14,322
2015	4,652	15,164	13,201	33,017
2014	4,576	14,325	68,495	87,396

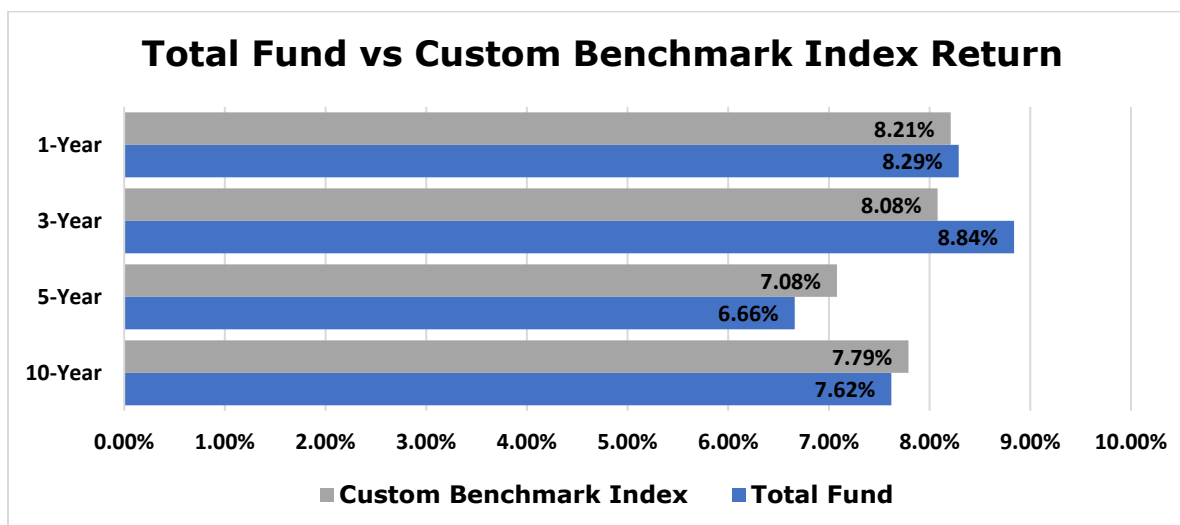
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Expenses

Fiscal Year Ended 6/30	Benefits	Administrative	Refunds	Total Expenses
2023	\$ 44,310	\$ 1,550	\$ 1,144	\$ 47,004
2022	42,750	1,463	1,596	45,809
2021	40,230	1,372	847	42,449
2020	38,036	1,226	742	40,004
2019	35,650	1,233	1,025	37,908
2018	33,332	1,142	822	35,296
2017	31,617	1,086	1,148	33,851
2016	30,435	1,142	624	32,201
2015	29,225	1,059	824	31,108
2014	26,702	930	652	28,284

Investments - Asset Values and Returns

Longer term annualized Total Fund returns are roughly in-line with the Custom Benchmark Index.



As of June 30, 2023, the assets of MCERA were valued at \$663.8 million, up from the total asset value of \$622.0 million at the start of the fiscal year, July 1, 2022.

June 30, 2023 Investment Portfolio	Fair Value
Fixed income	\$ 129,681,011
International equities	158,805,421
Domestic equities – small cap	38,129,703
Domestic equities – mid cap	36,465,584
Domestic equities – large cap	166,967,587
Real estate partnerships	79,347,431
Infrastructure	52,421,473
Real estate – 625 Kings Court, Ukiah, CA	1,347,000
Cash	677,082
Total Cash and Investments	\$663,842,292

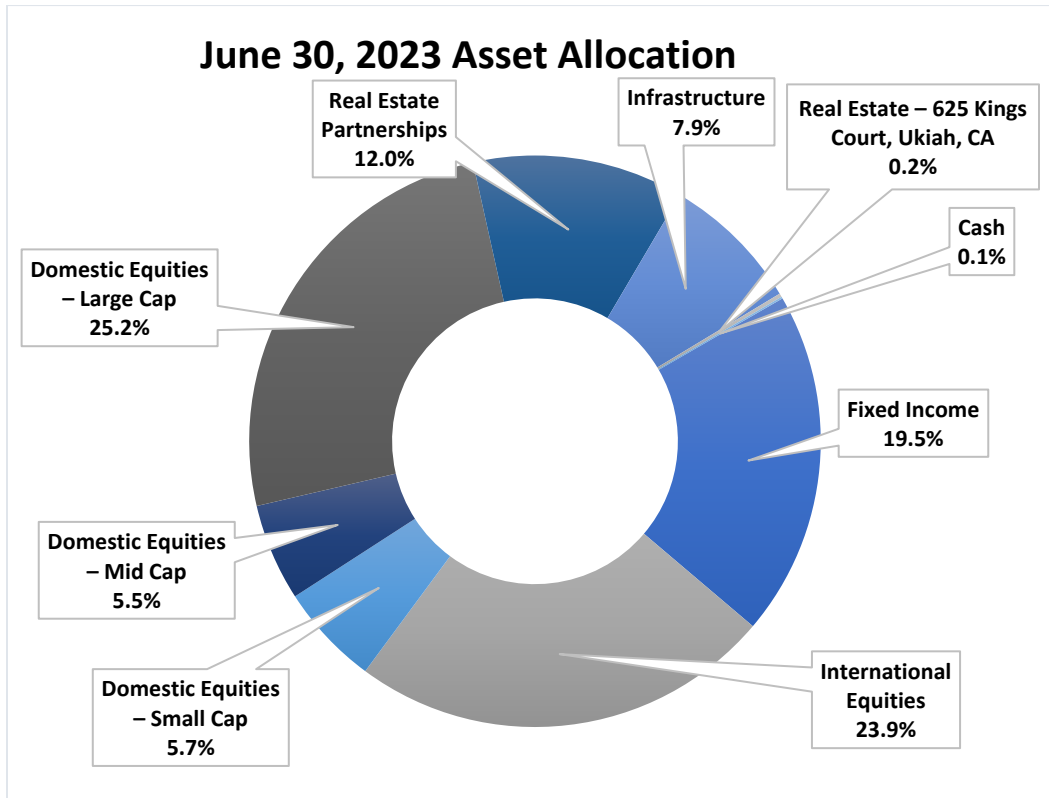
MCERA's Total Fund gained 8.29% for the fiscal year ending June 30, 2023, outperforming the Policy Index's 8.21% return.

Investment Returns for Period Ended June 30, 2023

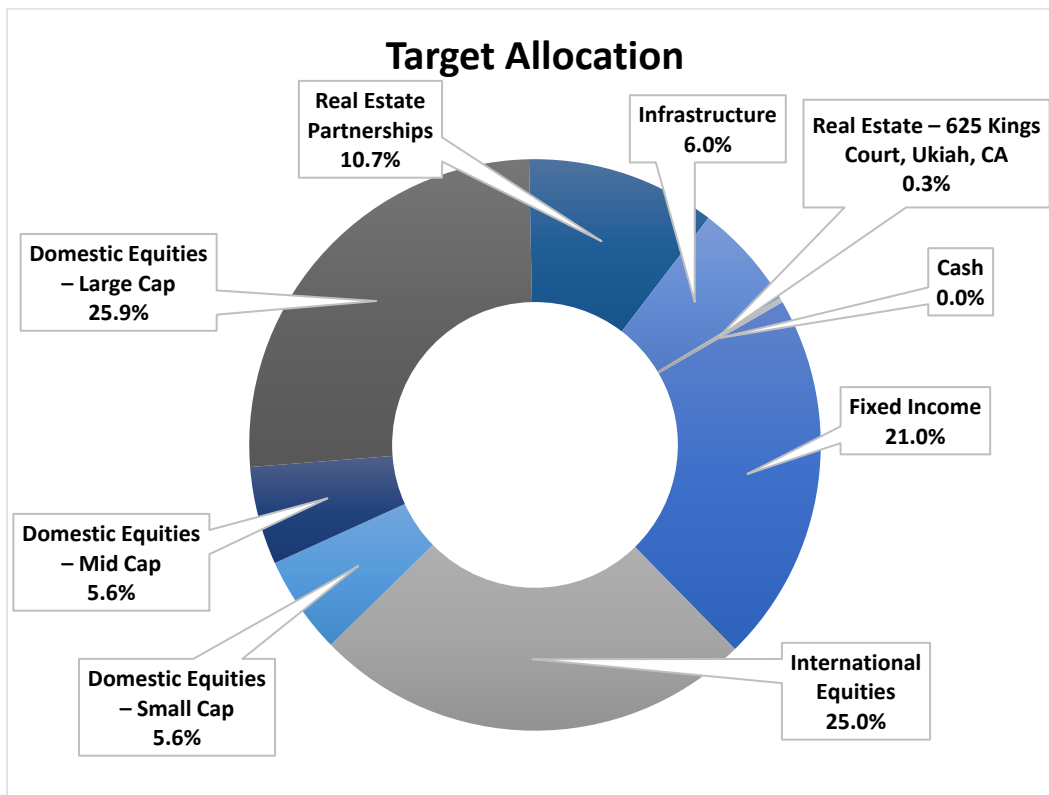
	1-Year	3-Year	5-Year	10-Year
Fixed income	0.44%	-2.73%	1.44%	2.11%
International equities	14.15%	8.15%	3.26%	4.59%
Domestic equities – small cap	9.95%	12.99%	7.21%	10.45%
Domestic equities – mid cap	16.35%	14.47%	9.81%	10.51%
Domestic equities – large cap	19.57%	15.42%	11.80%	12.85%
Real estate	(13.05%)	5.56%	5.35%	7.47%
Infrastructure	10.49%	0.00%	0.00%	0.00%
Total Fund	8.29%	8.84%	6.66%	7.62%
Custom Benchmark Index*	8.21%	8.08%	7.08%	7.79%

*Custom Benchmark Index = 37.0% Russell 3000 Index, 25.0% MSCI ACWI xUS GD, 21.0% Blmbg Aggregate, 11.0% NCREIF NFI-ODCE Eq Wt Net and 6.0% NCREIF NFI-ODCE Eq Wt Net.

Investments - Asset Allocation

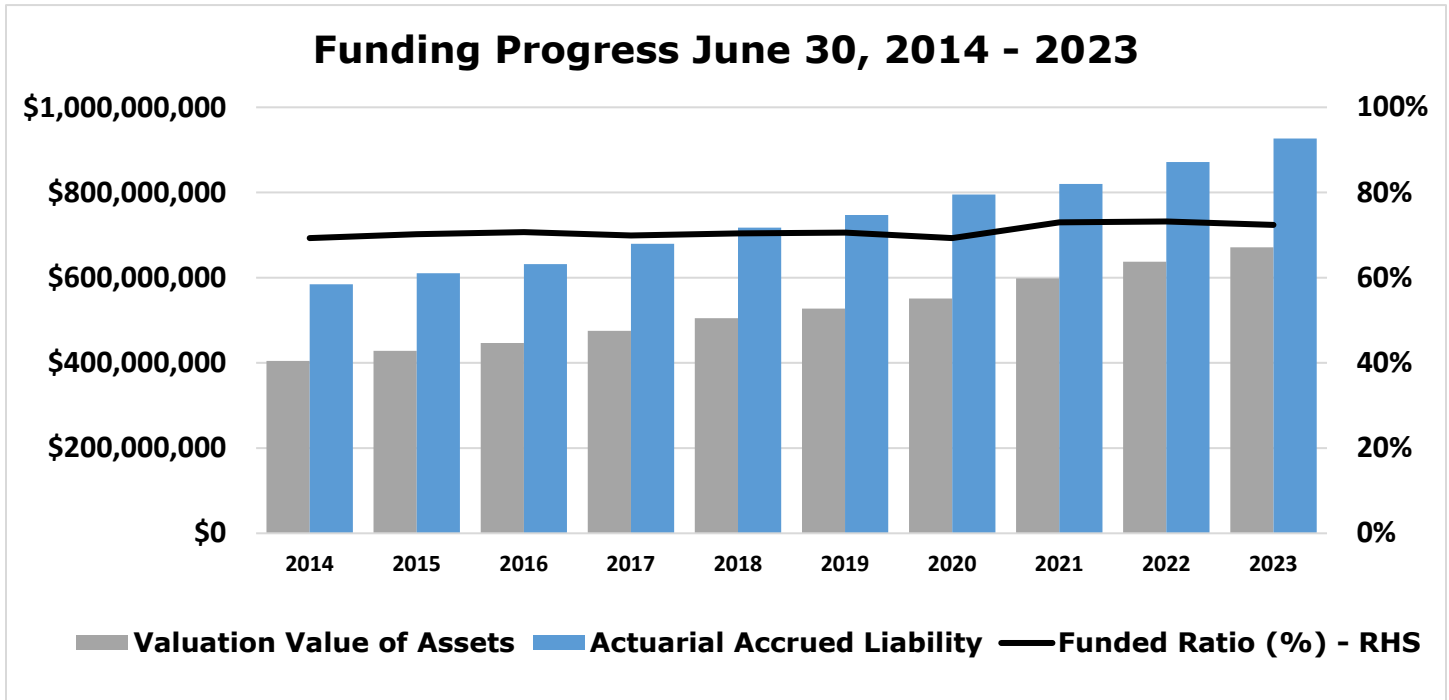


Actual allocations to domestic equity, international equity, and domestic fixed income were relatively underweight to that of the target and were offset by a relative overweight to domestic real estate and infrastructure. All asset classes remain within their permitted ranges.



Funded Status

MCERA maintains a funding goal to establish contributions that fully fund MCERA’s liabilities. Those contributions, as a percentage of payroll, remain as level as possible for each generation of active members.



The Actuarial Accrued Liability is the present dollar value of all current and future promised benefits. The Valuation Value of Assets is the Actuarial Value of Assets reduced by the value of MCERA’s Contingency Reserve. The Actuarial Value of Assets is a smoothed value of assets used to establish employer contribution rates. The funded ratio is the ratio of the Valuation Value of Assets to the Actuarial Accrued Liability.

Some of the important estimates used to calculate the cost of the retirement plan are found below. The investment rate of return is the rate of investment yield the plan will earn over the long-term. The inflation rate is the long-term assumed rate of inflation. The Salary increase assumption is the rates of salary increases due to inflation, real wage growth and merit and promotion increases.

Major Actuarial Assumptions

Investment rate of return: 6.50%

Inflation rate: 2.50%

Salary increase assumptions: 4.00% to 8.25%

June 30, 2023

Funded Ratio

72.4%