

Date: February 21, 2024
 To: Board of Retirement
 From: F. Robert Reveles, Retirement Financial Investment Officer
 Subject: Preliminary Quarterly Budget Update – Q2 FY24

Introduction

Attached is the budget update report for the quarter and year-to-date ending December 31, 2023. While the major expenses through December 31, 2023, are recorded, please note the figures in the report are preliminary and minor updates may occur as new data is received. The report is divided into four schedules. Schedule 1A compares current quarter expenditures to the expenditures during the same quarter of the prior year. Schedule 1B compares fiscal year expenditures to prior fiscal year expenditures. Schedule 2A compares current quarter expenditures to current quarter budgeted amounts. Schedule 2B compares fiscal year expenditures to fiscal year budgeted amounts. MCERA's total administrative expenses excluding technology and investment categories for the quarter and fiscal year are below budget estimates. Actual administrative expenses excluding technology and investment categories are greater than both prior periods.

Schedule 1A & 1B:

Highlights from FY 2023 vs FY 2024 actual expense comparison for the current quarter are presented below:

- Administrative Expense is greater than both prior periods. Office expense is elevated in both periods because of upgrades to the conference room, election ballots, and postage. Legal expense is greater for both periods due increased use of Board Counsel, service disability research, and site improvement contract review. Audit expense is greater for both periods due to a new contract that covers travel expenses for the independent auditor. YTD Consulting – Actuary is greater because we have yet to invoice plan sponsors for the June 30, 2023, GAS 68 report expenses. Contracts are greater because of payments for schematic designs and contracts related to site improvements of the Kings Court asset. Staff Education and Training is lower for the quarter due to payment timing. Staff's Fall SACRS hotel and travel expenses were paid in September (on credit card). In addition to SACRS, staff attended the LRS annual conference, CALAPRS benefit and investment roundtables, and a Markets Group Institutional Forum. Membership is greater for both periods because we paid ACFR/PAFR invoices earlier than the prior year and an additional membership in the current year. (National Conference of Public Employee Retirement Systems)
- Board Expense is greater for both periods. As has been the trend since calendar year 2020, fiduciary insurance premiums continue to rise in response to market conditions. This increase is partly offset by lower Meeting Stipends and Board Education. Meeting Stipends are lower for the quarter because of trustee changes in December. YTD Stipends are lower than the previous year because of lower trustee attendance during the September 2023 quarter. YTD Board Education includes a CALAPRS Principles of Pension Governance training, while the prior year includes one trustee's attendance to the Fall SACRS conference and a CALAPRS Roundtable.



- Disability Expense is greater for both periods. The current quarter covers three assessments vs two last year. The assessment fee per case also increased per claim. Current year disability hearings are one hour lower than the prior year. YTD there are four disability assessments. There are two pending disability applications.
- Technology Expense is greater than both prior periods. YTD Pension Gold expense is greater than the prior year because of updates to the actuarial extract. County IT Project Expenses are greater than the prior quarter due to research and installation of equipment upgrades to the MCERA conference room. Prior YTD IT expense is greater due to payment of the County Enterprise Internal Service Fund (ISF) expense in September 2022. (\$7,630.24)
- Investment Expense is greater than both prior periods. Investment Manager Fees, including J.P. Morgan, Mondrian, Ninety-One, RREEF, and T. Rowe are greater than the prior fiscal year partly because the Net Asset Values (NAV) upon which fees are based are greater in 2023 than 2022. In addition to the greater NAVs of these investments, the current year fees balance now incorporates RREEF management fees. RREEF fees are not included in the year 2022 balance. Custodial Bank expenses are greater than the prior periods because MCERA's Assets Under Management (AUM) are greater than the previous year. FY24 AUM average is \$659M while the prior year AUM average is \$618M. Investment Monitoring is greater than the prior periods because the current year includes an investment monitoring subscription.
- Property Maintenance Plan expense is the purchase and installation of 3 sliding windows on the North side of the 625 Kings Court building.

Schedule 2A & 2B:

Schedule 2A compares actual expenditures vs budgeted amounts. Highlights from the budget vs actual comparison for the current quarter are presented below:

- Administrative Expense is below budget for both periods. Personnel costs for the quarter and YTD are lower due to lower-than-expected base pay (new hires), retirement, and healthcare costs. There are 4.25 hours of OT this quarter vs 1.25 OT last year. Office Expense is lower for both periods because 1099 reporting expenses haven't been booked (will be in January) and all conference room equipment hasn't been purchased/booked yet (entire budget is in December). Audit expense is greater for the quarter due to invoice timing. Quarterly Consulting – Actuary expense is estimated based on historical expenses. (Aside the GAS67 report) The majority of actuarial expenses YTD have been related to work on our reserve account conversion from book value to actuarial value and the interest crediting policy. The Contracts line item includes payments to Brokaw Design for phase one of the Kings Court site improvements, while the budget includes funds for an internal audit assessment. Board members may remember the January budget amendment to the contract line item to cover the costs of the internal audit assessment and member survey. Staff Education and



Preliminary Quarterly Budget Update Continued

Training are below budget for the quarter because the budget has funds for attendance of two staff to the LRS Teaming conference (one staff attended) and three staff to attend the Fall SACRS conference (two attended). YTD Staff Education and Training expense covers the CALAPRS Administrators Institute, the International Foundation of Employee Benefit Plans Fraud Prevention Conference, LRS Teaming conference, Fall SACRS conference, multiple CALAPRS Roundtables, and the Markets Group Institutional Forum. Membership is greater for both periods due to timing (invoiced for ACFR/PAFR sooner than expected) and an additional membership to the National Conference of Public Employee Retirement Systems.

- Board Expense is below budget for both periods. Board Meeting Stipends are lower for both periods because the budget contains additional funds that are not the trustee meeting stipend; included are Audit Committee stipends, BOS Chamber fees, off-site meeting location and off-site catering. There are no Trustee training expenses for the quarter, and one training YTD. Board Education and Training budget for the quarter covers the SACRS Fall Conference for five trustees.
- Disability Expense is below budget for both periods. Administrative Review is greater than budget due to an increased number of disability cases reviewed in the second quarter. The average annual Disability Subtotal expense since 2013 is just under \$60,000. Total Disability Expense budget has not changed since fiscal year 2019.
- Technology Expense is below budget for both periods. For the quarter, LRS – Pension Gold expenses are low because of a 10-hour credit received for staff attendance to the LRS Teaming Conference and most of our change requests being non-billable “Base Action” items. We still expect a large expense for implementation of the Article 8.4 Separate Account benefit currently in the works. (The reason for the technology budget amendment in January.) The budget includes 18 hours of LRS work per month for the quarter. Quarterly County IT expense is elevated because of research for, and installation of, upgraded conference room equipment. The upgrades to the MCERA conference room and building (Slider windows) should allow Trustees to be comfortable returning to meetings at the Kings Court location in the fourth quarter.
- Investment Expense is greater than budget for both periods. Investment Manager Fees include fees billed from the following managers: J. P. Morgan, Mondrian, Ninety One, RREEF and T. Rowe. The Mondrian, Ninety One, and T. Rowe average NAVs are just below budget estimates. The budget estimates include NAV growth rates of five to seven percent. RREEF and J.P. Morgan management fees (including incentive fees) are greater than the budget. When the budget was built the RREEF fund had just restructured and changed the way management fees are paid. In the budget RREEF fees are estimated at approximately 12 basis points per quarter, but these fees have since stabilized at 17 basis points per quarter. The J.P. Morgan investment is performing well since our initial investment in April 2021 (+11.0% net return) and as such MCERA is accruing incentive fees on outperformance. Staff closely watch the Investment Manager Fees line item and may need to bring back a budget amendment in the fourth quarter. Investment Monitoring is lower than budget because the budget contains funds for on-site due diligence meetings. Staff have had due diligence meetings with Callan in January and these costs should show up on the next quarterly report.



MCERA

Preliminary Quarterly Budget Update Continued

Conclusion

Halfway through Fiscal Year 2024 total expenses and total administrative expenses are below budget estimates. Total expenditures are 0.38% under budget. Excluding technology and investment expense, expenditures are lower than budget estimates by \$132,974 or 14.91%. The decrease YTD is primarily due to the Personnel, Disability Hearings, and Board Education and Training line items, which are partially offset by increased Investment Manager Fees. The increase in actual-to-actual Total spending YTD is driven by Investment Manager Fees, Legal Expense, Consulting – Actuary, Office Expense (Conference Room), and LRS – Pension Gold.

Mendocino County Employees Retirement Association				
Fiscal Year 2024 Budget Comparison				
Schedule 1A: Current Year Quarter vs Prior Year Quarter				
	FY 2023	FY 2024		
	Oct-Dec	Oct-Dec	Difference	
	Actual	Actual	\$	%
Administrative				
Personnel	\$ 227,538	\$ 225,749	(1,789)	-0.79%
Office Expense	6,106	21,261	15,155	248.20%
Legal Expense	13,924	45,344	31,420	225.65%
Audit	8,200	17,524	9,324	113.71%
Consulting - Actuary	19,848	18,276	(1,572)	-7.92%
Contracts	-	4,443	4,443	100.00%
Staff Education and Training	4,220	2,933	(1,287)	-30.50%
Membership	310	1,475	1,165	375.81%
Imputed Rent (625-B Kings Court)	14,085	14,514	429	3.05%
Subtotal	\$ 294,231	\$ 351,519	\$ 57,288	19.47%
Board Expense				
Fiduciary Insurance	\$ 69,822	\$ 73,246	3,424	4.90%
Board Meeting Stipends	1,300	1,200	(100)	-7.69%
Board Education and Training	1,792	-	(1,792)	-100.00%
Subtotal	\$ 72,914	\$ 74,446	\$ 1,532	2.10%
Total Administrative & Board Expense	\$ 367,145	\$ 425,965	\$ 58,820	16.02%
Disability				
Administrative Review	\$ 15,950	\$ 22,800	\$ 6,850	42.95%
Hearings ¹	353	71	(282)	-79.89%
Subtotal	\$ 16,303	\$ 22,871	\$ 6,568	40.29%
Total Administrative, Board, and Disability Expense	\$ 383,448	\$ 448,836	\$ 65,388	17.05%
Technology				
LRS - Pension Gold	\$ 148,211	\$ 149,579	\$ 1,368	0.92%
County IT Project Expenses	1,399	2,797	1,398	99.93%
PCX Scan Station	-	-	-	0.00%
Subtotal	\$ 149,610	\$ 152,376	\$ 2,766	1.85%
Investment				
Investment Manager Fees ²	\$ 255,849	\$ 424,638	168,789	65.97%
Investment Consultant - Callan	45,965	47,114	1,149	2.50%
Custodian Bank - State Street	15,116	16,853	1,737	11.49%
Actuary Services - Valuation	72,000	75,000	3,000	4.17%
Investment Monitoring ³	-	3,525	3,525	100.00%
Subtotal	\$ 388,930	\$ 567,130	\$ 178,200	45.82%
Property Maintenance Plan	\$ -	\$ 900	\$ 900	100.00%
Total MCERA Expenses	\$ 921,988	\$ 1,169,242	\$ 246,354	26.82%
Total Administrative Expenses	\$ 383,448	\$ 448,836	\$ 65,388	17.05%
(Total ex Technology & Investment)				

¹ All Hearing related expenses including any hearing preparations.

² Investment fees paid directly to managers.

³ Investment manager monitoring, consultant RFP due diligence, investment data.

Mendocino County Employees Retirement Association					
Fiscal Year 2024 Budget Comparison					
Schedule 1B: Current Year To Date vs Prior Year To Date					
	FY 2023	FY 2024			
	Jul-Dec	Jul-Dec	Difference		
	Actual	Actual	\$	%	
Administrative					
Personnel	\$ 396,831	\$ 383,565	(13,266)	-3.34%	
Office Expense	10,188	29,688	19,500	191.40%	
Legal Expense	76,859	97,370	20,511	26.69%	
Audit	41,200	50,500	9,300	22.57%	
Consulting - Actuary	19,841	40,121	20,280	102.21%	
Contracts	412	14,823	14,411	3497.82%	
Staff Education and Training	7,596	7,625	29	0.38%	
Membership	4,310	5,475	1,165	27.03%	
Imputed Rent (625-B Kings Court)	28,169	29,028	859	3.05%	
Subtotal	\$ 585,406	\$ 658,195	\$ 72,789	12.43%	
Board Expense					
Fiduciary Insurance	\$ 69,822	\$ 73,246	3,424	4.90%	
Board Meeting Stipends	2,800	2,300	(500)	-17.86%	
Board Education and Training	1,842	365	(1,477)	-80.18%	
Subtotal	\$ 74,464	\$ 75,911	\$ 1,447	1.94%	
Total Administrative & Board Expense	\$ 659,870	\$ 734,106	\$ 74,236	11.25%	
Disability					
Administrative Review	\$ 22,250	\$ 24,600	\$ 2,350	10.56%	
Hearings ¹	353	71	(282)	-79.89%	
Subtotal	\$ 22,603	\$ 24,671	\$ 2,068	9.15%	
Total Administrative, Board, and Disability Expense	\$ 682,473	\$ 758,777	\$ 76,304	11.18%	
Technology					
LRS - Pension Gold	\$ 158,864	\$ 176,657	\$ 17,793	11.20%	
County IT Project Expenses	10,629	5,174	(5,455)	-51.32%	
PCX Scan Station	-	-	-	0.00%	
Subtotal	\$ 169,493	\$ 181,831	\$ 12,338	7.28%	
Investment					
Investment Manager Fees ²	\$ 456,837	\$ 784,750	327,913	71.78%	
Investment Consultant - Callan	91,930	94,228	2,298	2.50%	
Custodian Bank - State Street	30,187	33,634	3,447	11.42%	
Actuary Services - Segal	72,000	75,000	3,000	4.17%	
Investment Monitoring ³	249	7,299	7,050	2831.33%	
Subtotal	\$ 651,203	\$ 994,911	\$ 343,708	52.78%	
Property Maintenance Plan	\$ -	\$ 2,743	\$ 2,743	100.00%	
Total MCERA Expenses	\$ 1,503,169	\$ 1,938,262	\$ 432,350	28.95%	
Total Administrative Expenses	\$ 682,473	\$ 758,777	\$ 76,304	11.18%	
(Total ex Technology & Investment)					
¹ All Hearing related expenses including any hearing preparations.					
² Investment fees paid directly to managers.					
³ Investment manager monitoring, consultant RFP due diligence, investment data.					

Mendocino County Employees Retirement Association				
Fiscal Year 2024 Budget Comparison				
Schedule 2A: Current Year Quarter vs Current Quarter Budget				
	FY 2024	FY 2024	Difference	
	Oct-Dec	Oct-Dec		
	Budget	Actual	\$	%
Administrative				
Personnel	\$ 247,249	\$ 225,749	(21,500)	-8.70%
Office Expense	26,545	21,261	(5,284)	-19.91%
Legal Expense	46,875	45,344	(1,531)	-3.27%
Audit	37,500	17,524	(19,976)	-53.27%
Consulting - Actuary	23,835	18,276	(5,559)	-23.32%
Contracts	12,840	4,443	(8,397)	-65.40%
Staff Education and Training	10,494	2,933	(7,561)	-72.05%
Membership	310	1,475	1,165	375.81%
Imputed Rent (625-B Kings Court)	14,514	14,514	0	0.00%
Subtotal	\$ 420,162	\$ 351,519	\$ (68,643)	-16.34%
Board Expense				
Fiduciary Insurance	\$ 77,116	\$ 73,246	(3,870)	-5.02%
Board Meeting Stipends	2,025	1,200	(825)	-40.74%
Board Education and Training	9,985	-	(9,985)	-100.00%
Subtotal	\$ 89,126	\$ 74,446	\$ (14,680)	-16.47%
Total Administrative & Board Expense	\$ 509,288	\$ 425,965	\$ (83,323)	-16.36%
Disability				
Administrative Review	\$ 10,000	\$ 22,800	\$ 12,800	128.00%
Hearings ¹	20,000	71	(19,929)	-99.65%
Subtotal	\$ 30,000	\$ 22,871	\$ (7,129)	-23.76%
Total Administrative, Board, and Disability Expense	\$ 539,288	\$ 448,836	\$ (90,452)	-16.77%
Technology				
LRS - Pension Gold	\$ 164,535	\$ 149,579	\$ (14,956)	-9.09%
County IT Project Expenses	2,566	2,797	231	9.00%
PCX Scan Station	-	-	-	0.00%
Subtotal	\$ 167,101	\$ 152,376	\$ (14,725)	-8.81%
Investment				
Investment Manager Fees ²	\$ 328,914	\$ 424,638	95,724	29.10%
Investment Consultant - Callan	47,114	47,114	0	0.00%
Custodian Bank - State Street	17,100	16,853	(247)	-1.44%
Actuary Services - Valuation	75,000	75,000	-	0.00%
Investment Monitoring ³	4,525	3,525	(1,000)	-22.10%
Subtotal	\$ 472,653	\$ 567,130	\$ 94,477	19.99%
Property Maintenance Plan	\$ -	\$ 900	\$ 900	100.00%
Total MCERA Expenses	\$ 1,179,042	\$ 1,169,242	\$ (9,800)	-0.83%
Total Administrative Expenses	\$ 539,288	\$ 448,836	\$ (90,452)	-16.77%
(Total ex Technology & Investment)				

¹ All Hearing related expenses including any hearing preparations.

² Investment fees paid directly to managers.

³ Investment manager monitoring, consultant RFP due diligence, investment data.

Mendocino County Employees Retirement Association				
Fiscal Year 2024 Budget Comparison				
Schedule 2B: Current Year To Date vs Current Budget Year To Date				
	FY 2024	FY 2024	Difference	
	Jul-Dec	Jul-Dec		
	Budget	Actual	\$	%
Administrative				
Personnel	\$ 440,481	\$ 383,565	(56,916)	-12.92%
Office Expense	33,074	29,688	(3,386)	-10.24%
Legal Expense	93,750	97,370	3,620	3.86%
Audit	50,500	50,500	-	0.00%
Consulting - Actuary	38,671	40,121	1,450	3.75%
Contracts	25,680	14,823	(10,857)	-42.28%
Staff Education and Training	13,541	7,625	(5,916)	-43.69%
Membership	4,310	5,475	1,165	27.03%
Imputed Rent (625-B Kings Court)	29,028	29,028	0	0.00%
Subtotal	\$ 729,035	\$ 658,195	\$ (70,840)	-9.72%
Board Expense				
Fiduciary Insurance	\$ 77,116	\$ 73,246	(3,870)	-5.02%
Board Meeting Stipends	4,050	2,300	(1,750)	-43.21%
Board Education and Training	21,550	365	(21,185)	-98.31%
Subtotal	\$ 102,716	\$ 75,911	\$ (26,805)	-26.10%
Total Administrative & Board Expense	\$ 831,751	\$ 734,106	\$ (97,645)	-11.74%
Disability				
Administrative Review	\$ 20,000	\$ 24,600	\$ 4,600	23.00%
Hearings ¹	40,000	71	(39,929)	-99.82%
Subtotal	\$ 60,000	\$ 24,671	\$ (35,329)	-58.88%
Total Administrative, Board, and Disability Expense	\$ 891,751	\$ 758,777	\$ (132,974)	-14.91%
Technology				
LRS - Pension Gold	\$ 178,535	\$ 176,657	\$ (1,878)	-1.05%
County IT Project Expenses	5,132	5,174	42	0.81%
PCX Scan Station	-	-	-	0.00%
Subtotal	\$ 183,667	\$ 181,831	\$ (1,836)	-1.00%
Investment				
Investment Manager Fees ²	\$ 657,829	\$ 784,750	126,921	19.29%
Investment Consultant - Callan	94,228	94,228	0	0.00%
Custodian Bank - State Street	34,200	33,634	(566)	-1.65%
Actuary Services - Segal	75,000	75,000	-	0.00%
Investment Monitoring ³	9,050	7,299	(1,751)	-19.35%
Subtotal	\$ 870,306	\$ 994,911	\$ 124,605	14.32%
Property Maintenance Plan	\$ -	\$ 2,743	\$ 2,743	100.00%
Total MCERA Expenses	\$ 1,945,724	\$ 1,938,262	\$ (10,205)	-0.38%
Total Administrative Expenses	\$ 891,751	\$ 758,777	\$ (132,974)	-14.91%
(Total ex Technology & Investment)				
¹ All Hearing related expenses including any hearing preparations.				
² Investment fees paid directly to managers.				
³ Investment manager monitoring, consultant RFP due diligence, investment data.				