

Date: May 15, 2024  
To: Board of Retirement  
From: F. Robert Reveles, Retirement Financial Investment Officer  
Subject: Preliminary Quarterly Budget Update – Q3 FY24

### Introduction

Attached is the budget update report for the quarter and year-to-date ending March 31, 2024. While the major expenses through March 31, 2024, 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 remains elevated in both periods primarily because of equipment upgrades to the conference room. YTD smaller Office expense contributions include 1099 reporting, printing due to member handbooks, Mailchimp, election notices and ballots, and envelopes and postage related to the member status confirmation project. Legal expense is greater for both periods due increased use of Board Counsel, the Historical Benefit Review Project, service disability research, and site improvement contract review. Audit YTD is greater because the current contract includes an increase for audit services (including ACFR review) and travel expense for the independent auditors. Quarterly Consulting – Actuary is estimated. YTD Consulting – Actuary is greater because of a contribution rate analysis requested in October 2023. Contracts are greater for both periods due to payments to Brokaw (for schematic designs and contracts related to site improvements of the Kings Court asset) and Probalsky Research (member survey). The prior YTD contract balance is primarily the Linea IT Master Plan. Staff Education and Training is lower for the quarter and YTD because staff did not attend the CALAPRS General Assembly this year, and last year included payment for the International Foundation of Employee Benefit Plans Fraud Prevention conference. Membership is lower for the quarter because of timing, but greater YTD because of our membership to National Conference of Public Employee Retirement Systems.
- Board Expense is lower for the quarter and greater YTD. Quarterly Board attendance was greater than the prior year. Meeting Stipends are greater than the prior year because of the additional \$75 monthly BOS chamber fee expense and better attendance. YTD Board Education includes a CALAPRS Principles of Pension Governance training, while the prior year includes trustee attendance to the Fall and Spring SACRS conferences and a CALAPRS Roundtable.



- Disability Expense is greater for both periods. The current quarter covers two assessments vs zero last year. YTD there are six disability assessments, while the prior year includes three assessments. There is one pending disability application.
- Technology Expense is greater than both prior periods. Quarterly Pension Gold expense is greater than the prior year because of the beginning phases of Article 8.4 Separate Account implementation. Staff are currently testing the split account functions. YTD Pension Gold expense is greater than the prior year because of updates to the actuarial extract and the addition of split accounts. County IT Project Expenses are greater than the prior quarter due to continued installation of equipment upgrades to the MCERA conference room and booking of the County Enterprise Internal Service Fund (ISF, \$14,770.50).
- Investment Expense is lower for the quarter and greater YTD. Investment Manager Fees, including J.P. Morgan, Mondrian, Ninety-One, RREEF, and T. Rowe are lower for the quarter because we have yet to receive our statement for J.P. Morgan. YTD fees are greater because Net Asset Values (NAV) upon which fees are based are greater (aside RREEF) in 2024 than 2023. Custodial Bank expenses are greater than the prior periods because MCERA's Assets Under Management (AUM) remain greater than the previous year. FY24 AUM average is \$672M while the prior year AUM average is \$622M. 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 fewer staff than budget estimates. Aside total gross pay, health care costs are significantly lower than budget estimates. There are 3.0 hours of OT in the third quarter vs zero last year. Legal Expense is lower for the quarter due to lower-than-expected use of fiduciary counsel services. Quarterly Consulting – Actuary expense is estimated for the third quarter based on historical expenses. The majority of actuarial expenses YTD have been related to work on our reserve account conversion from book value to actuarial value, the interest crediting policy, and a contribution rate analysis. The Contracts line item includes payments to Brokaw Design for phase one of the Kings Court site improvements and Probalsky Research for the member survey. The payments to Brokaw will likely be capitalized with other building costs at year-end close. Staff Education and Training are below budget for the quarter because staff did not attend the Callan National Conference or the CALAPRS General Assembly this year. 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 lower for the quarter because we were invoiced for ACFR/PAFR sooner than expected.

- 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 Callan National Conference for five trustees.
- Disability Expense is below budget for both periods. Administrative Review is greater than budget YTD due to an increased number of disability cases reviewed in the second and third quarter. The average annual administrative review expense over the last decade is approximately \$33,000.
- Technology Expense is greater than budget for both periods. For both periods, LRS – Pension Gold expenses are elevated due to the beginning stages of Article 8.4 Separate Account implementation. The budget includes 42 hours of LRS work per month for the quarter. As we near the end of the year, it is likely staff will bring a budget adjustment to move unspent funds out of the administrative or disability categories into the technology category.
- Investment Expense is lower than the budget for the quarter and nearly flat YTD. Investment Manager Fees include fees billed from the following managers: J. P. Morgan, Mondrian, Ninety One, RREEF and T. Rowe. The budget estimates include NAV growth rates of five to seven percent. Mondrian, Ninety One, and T. Rowe YTD have returned 8.54%, 8.24%, and 10.98% net of fees, all greater than budget estimates. As mentioned in the previous update, RREEF fee are greater than budget estimates because when the budget was advanced staff had very little history on which to base fee estimates. RREEF performance fees appear to have stabilized around 17 basis points, approximately \$60,000 - \$67,000 per quarter. Fees for J.P. Morgan are not known at the time of this narrative. Investment Monitoring is lower than budget because the budget contains funds for on-site due diligence meetings.

### Conclusion

Three quarters of the way through Fiscal Year 2024 total expenses and total administrative expenses remain below budget estimates. Total expenditures are 5.60% under budget. Excluding technology and investment expense, expenditures are lower than budget estimates by \$178,605 or 14.06%. The decrease YTD is primarily due to the Personnel, Disability Hearings, Legal Expense, and Board Education and Training line items, which are partially offset by increases in Contracts, LRS – Pension Gold, and Investment Manager Fees. The increase in actual-to-actual Total spending YTD is driven by Investment Manager Fees, Contracts, LRS – Pension Gold, and Legal Expense.

Mendocino County Employees Retirement Association				
Fiscal Year 2024 Budget Comparison				
Schedule 1A: Current Year Quarter vs Prior Year Quarter				
	FY 2023	FY 2024	Difference	
	Jan-Mar	Jan-Mar		
	Actual	Actual	\$	%
<b>Administrative</b>				
Personnel	\$ 198,548	\$ 189,396	(9,152)	-4.61%
Office Expense	6,432	7,868	1,436	22.33%
Legal Expense	25,247	31,764	6,517	25.81%
Audit	-	-	-	0.00%
Consulting - Actuary	32,953	16,500	(16,453)	-49.93%
Contracts	15,000	52,520	37,520	250.13%
Staff Education and Training	4,286	270	(4,016)	-93.70%
Membership	1,860	1,000	(860)	-46.24%
Imputed Rent (625-B Kings Court)	14,085	14,514	429	3.05%
<b>Subtotal</b>	<b>\$ 298,411</b>	<b>\$ 313,832</b>	<b>\$ 15,421</b>	<b>5.17%</b>
<b>Board Expense</b>				
Fiduciary Insurance	\$ (29)	\$ (45)	(16)	55.17%
Board Meeting Stipends	875	1,425	550	62.86%
Board Education and Training	945	-	(945)	-100.00%
<b>Subtotal</b>	<b>\$ 1,791</b>	<b>\$ 1,380</b>	<b>\$ (411)</b>	<b>-22.95%</b>
<b>Total Administrative &amp; Board Expense</b>	<b>\$ 300,202</b>	<b>\$ 315,212</b>	<b>\$ 15,010</b>	<b>5.00%</b>
<b>Disability</b>				
Administrative Review	\$ -	\$ 8,611	\$ 8,611	100.00%
Hearings <sup>1</sup>	-	-	-	0.00%
<b>Subtotal</b>	<b>\$ -</b>	<b>\$ 8,611</b>	<b>\$ 8,611</b>	<b>100.00%</b>
<b>Total Administrative, Board, and Disability Expense</b>	<b>\$ 300,202</b>	<b>\$ 323,823</b>	<b>\$ 23,621</b>	<b>7.87%</b>
<b>Technology</b>				
LRS - Pension Gold	\$ 8,138	\$ 33,450	\$ 25,312	311.03%
County IT Project Expenses	2,180	17,898	15,718	721.00%
PCX Scan Station	6,262	6,575	313	5.00%
<b>Subtotal</b>	<b>\$ 16,580</b>	<b>\$ 57,923</b>	<b>\$ 41,343</b>	<b>249.35%</b>
<b>Investment</b>				
Investment Manager Fees <sup>2</sup>	\$ 311,453	\$ 213,868	(97,585)	-31.33%
Investment Consultant - Callan	47,114	48,292	1,178	2.50%
Custodian Bank - State Street	16,566	17,756	1,190	7.18%
Actuary Services - Valuation	-	-	-	0.00%
Investment Monitoring <sup>3</sup>	-	3,673	3,673	100.00%
<b>Subtotal</b>	<b>\$ 375,133</b>	<b>\$ 283,589</b>	<b>\$ (91,544)</b>	<b>-24.40%</b>
<b>Property Maintenance Plan</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Total MCERA Expenses</b>	<b>\$ 691,915</b>	<b>\$ 665,335</b>	<b>\$ (26,580)</b>	<b>-3.84%</b>
<b>Total Administrative Expenses</b>	<b>\$ 300,202</b>	<b>\$ 323,823</b>	<b>\$ 23,621</b>	<b>7.87%</b>
<b>(Total ex Technology &amp; Investment)</b>				

<sup>1</sup> All Hearing related expenses including any hearing preparations.

<sup>2</sup> Investment fees paid directly to managers.

<sup>3</sup> 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-Mar	Jul-Mar	Difference	
	Actual	Actual	\$	%
<b>Administrative</b>				
Personnel	\$ 595,379	\$ 572,961	(22,418)	-3.77%
Office Expense	16,621	38,916	22,295	134.14%
Legal Expense	102,106	129,134	27,028	26.47%
Audit	41,200	50,500	9,300	22.57%
Consulting - Actuary	52,794	63,712	10,918	20.68%
Contracts	15,412	67,343	51,931	336.95%
Staff Education and Training	11,882	7,895	(3,987)	-33.55%
Membership	6,170	6,475	305	4.94%
Imputed Rent (625-B Kings Court)	42,254	43,541	1,287	3.05%
<b>Subtotal</b>	<b>\$ 883,818</b>	<b>\$ 980,477</b>	<b>\$ 96,659</b>	<b>10.94%</b>
<b>Board Expense</b>				
Fiduciary Insurance	\$ 69,793	\$ 73,201	3,408	4.88%
Board Meeting Stipends	3,675	3,950	275	7.48%
Board Education and Training	2,788	365	(2,423)	-86.91%
<b>Subtotal</b>	<b>\$ 76,256</b>	<b>\$ 77,516</b>	<b>\$ 1,260</b>	<b>1.65%</b>
<b>Total Administrative &amp; Board Expense</b>	<b>\$ 960,074</b>	<b>\$ 1,057,993</b>	<b>\$ 97,919</b>	<b>10.20%</b>
<b>Disability</b>				
Administrative Review	\$ 22,250	\$ 33,211	\$ 10,961	49.26%
Hearings <sup>1</sup>	353	71	(282)	-79.89%
<b>Subtotal</b>	<b>\$ 22,603</b>	<b>\$ 33,282</b>	<b>\$ 10,679</b>	<b>47.25%</b>
<b>Total Administrative, Board, and Disability Expense</b>	<b>\$ 982,677</b>	<b>\$ 1,091,275</b>	<b>\$ 108,598</b>	<b>11.05%</b>
<b>Technology</b>				
LRS - Pension Gold	\$ 167,002	\$ 210,107	\$ 43,105	25.81%
County IT Project Expenses	12,809	23,072	10,263	80.12%
PCX Scan Station	6,262	6,575	313	5.00%
<b>Subtotal</b>	<b>\$ 186,073</b>	<b>\$ 239,754</b>	<b>\$ 53,681</b>	<b>28.85%</b>
<b>Investment</b>				
Investment Manager Fees <sup>2</sup>	\$ 768,291	\$ 998,020	229,729	29.90%
Investment Consultant - Callan	139,044	142,520	3,476	2.50%
Custodian Bank - State Street	46,752	51,331	4,579	9.79%
Actuary Services - Segal	72,000	75,000	3,000	4.17%
Investment Monitoring <sup>3</sup>	249	10,972	10,723	4306.43%
<b>Subtotal</b>	<b>\$ 1,026,336</b>	<b>\$ 1,277,843</b>	<b>\$ 251,507</b>	<b>24.51%</b>
<b>Property Maintenance Plan</b>	<b>\$ -</b>	<b>\$ 2,743</b>	<b>\$ 2,743</b>	<b>100.00%</b>
<b>Total MCERA Expenses</b>	<b>\$ 2,195,086</b>	<b>\$ 2,611,615</b>	<b>\$ 413,786</b>	<b>18.98%</b>
<b>Total Administrative Expenses</b>	<b>\$ 982,677</b>	<b>\$ 1,091,275</b>	<b>\$ 108,598</b>	<b>11.05%</b>
<b>(Total ex Technology &amp; Investment)</b>				
<sup>1</sup> All Hearing related expenses including any hearing preparations.				
<sup>2</sup> Investment fees paid directly to managers.				
<sup>3</sup> 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	
	Jan-Mar	Jan-Mar		
	Budget	Actual	\$	%
<b>Administrative</b>				
Personnel	\$ 210,799	\$ 189,396	(21,403)	-10.15%
Office Expense	7,694	7,868	174	2.26%
Legal Expense	65,875	31,764	(34,111)	-51.78%
Audit	-	-	-	0.00%
Consulting - Actuary	14,835	16,500	1,665	11.22%
Contracts	17,700	52,520	34,820	196.72%
Staff Education and Training	6,562	270	(6,292)	-95.89%
Membership	1,860	1,000	(860)	-46.24%
Imputed Rent (625-B Kings Court)	14,514	14,514	0	0.00%
<b>Subtotal</b>	<b>\$ 339,839</b>	<b>\$ 313,832</b>	<b>\$ (26,007)</b>	<b>-7.65%</b>
<b>Board Expense</b>				
Fiduciary Insurance	\$ -	\$ (45)	(45)	-100.00%
Board Meeting Stipends	2,025	1,425	(600)	-29.63%
Board Education and Training	6,265	-	(6,265)	-100.00%
<b>Subtotal</b>	<b>\$ 8,290</b>	<b>\$ 1,380</b>	<b>\$ (6,910)</b>	<b>-83.35%</b>
<b>Total Administrative &amp; Board Expense</b>	<b>\$ 348,129</b>	<b>\$ 315,212</b>	<b>\$ (32,917)</b>	<b>-9.46%</b>
<b>Disability</b>				
Administrative Review	\$ 10,000	\$ 8,611	\$ (1,389)	-13.89%
Hearings <sup>1</sup>	20,000	-	(20,000)	-100.00%
<b>Subtotal</b>	<b>\$ 30,000</b>	<b>\$ 8,611</b>	<b>\$ (21,389)</b>	<b>-71.30%</b>
<b>Total Administrative, Board, and Disability Expense</b>	<b>\$ 378,129</b>	<b>\$ 323,823</b>	<b>\$ (54,306)</b>	<b>-14.36%</b>
<b>Technology</b>				
LRS - Pension Gold	\$ 19,000	\$ 33,450	\$ 14,450	76.05%
County IT Project Expenses	17,337	17,898	561	3.24%
PCX Scan Station	6,513	6,575	62	0.96%
<b>Subtotal</b>	<b>\$ 42,849</b>	<b>\$ 57,923</b>	<b>\$ 15,074</b>	<b>35.18%</b>
<b>Investment</b>				
Investment Manager Fees <sup>2</sup>	\$ 328,914	\$ 213,868	(115,047)	-34.98%
Investment Consultant - Callan	48,292	48,292	0	0.00%
Custodian Bank - State Street	18,000	17,756	(244)	-1.36%
Actuary Services - Valuation	-	-	-	0.00%
Investment Monitoring <sup>3</sup>	4,525	3,673	(852)	-18.83%
<b>Subtotal</b>	<b>\$ 399,731</b>	<b>\$ 283,589</b>	<b>\$ (116,142)</b>	<b>-29.06%</b>
<b>Property Maintenance Plan</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Total MCERA Expenses</b>	<b>\$ 820,709</b>	<b>\$ 665,335</b>	<b>\$ (155,375)</b>	<b>-18.93%</b>
<b>Total Administrative Expenses</b>	<b>\$ 378,129</b>	<b>\$ 323,823</b>	<b>\$ (54,306)</b>	<b>-14.36%</b>
<b>(Total ex Technology &amp; Investment)</b>				

<sup>1</sup> All Hearing related expenses including any hearing preparations.

<sup>2</sup> Investment fees paid directly to managers.

<sup>3</sup> 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-Mar	Jul-Mar		
	Budget	Actual	\$	%
<b>Administrative</b>				
Personnel	\$ 651,281	\$ 572,961	(78,320)	-12.03%
Office Expense	40,768	38,916	(1,852)	-4.54%
Legal Expense	159,625	129,134	(30,491)	-19.10%
Audit	50,500	50,500	-	0.00%
Consulting - Actuary	53,506	63,712	10,206	19.07%
Contracts	43,380	67,343	23,963	55.24%
Staff Education and Training	20,103	7,895	(12,208)	-60.73%
Membership	6,170	6,475	305	4.94%
Imputed Rent (625-B Kings Court)	43,541	43,541	(0)	0.00%
<b>Subtotal</b>	<b>\$ 1,068,874</b>	<b>\$ 980,477</b>	<b>\$ (88,397)</b>	<b>-8.27%</b>
<b>Board Expense</b>				
Fiduciary Insurance	\$ 77,116	\$ 73,201	(3,915)	-5.08%
Board Meeting Stipends	6,075	3,950	(2,125)	-34.98%
Board Education and Training	27,815	365	(27,450)	-98.69%
<b>Subtotal</b>	<b>\$ 111,006</b>	<b>\$ 77,516</b>	<b>\$ (33,490)</b>	<b>-30.17%</b>
<b>Total Administrative &amp; Board Expense</b>	<b>\$ 1,179,880</b>	<b>\$ 1,057,993</b>	<b>\$ (121,887)</b>	<b>-10.33%</b>
<b>Disability</b>				
Administrative Review	\$ 30,000	\$ 33,211	\$ 3,211	10.70%
Hearings <sup>1</sup>	60,000	71	(59,929)	-99.88%
<b>Subtotal</b>	<b>\$ 90,000</b>	<b>\$ 33,282</b>	<b>\$ (56,718)</b>	<b>-63.02%</b>
<b>Total Administrative, Board, and Disability Expense</b>	<b>\$ 1,269,880</b>	<b>\$ 1,091,275</b>	<b>\$ (178,605)</b>	<b>-14.06%</b>
<b>Technology</b>				
LRS - Pension Gold	\$ 197,535	\$ 210,107	\$ 12,572	6.36%
County IT Project Expenses	22,469	23,072	603	2.68%
PCX Scan Station	6,513	6,575	62	0.96%
<b>Subtotal</b>	<b>\$ 226,516</b>	<b>\$ 239,754</b>	<b>\$ 13,238</b>	<b>5.84%</b>
<b>Investment</b>				
Investment Manager Fees <sup>2</sup>	\$ 986,743	\$ 998,020	11,277	1.14%
Investment Consultant - Callan	142,520	142,520	0	0.00%
Custodian Bank - State Street	52,200	51,331	(869)	-1.66%
Actuary Services - Segal	75,000	75,000	-	0.00%
Investment Monitoring <sup>3</sup>	13,575	10,972	(2,603)	-19.17%
<b>Subtotal</b>	<b>\$ 1,270,038</b>	<b>\$ 1,277,843</b>	<b>\$ 7,805</b>	<b>0.61%</b>
<b>Property Maintenance Plan</b>	<b>\$ -</b>	<b>\$ 2,743</b>	<b>\$ 2,743</b>	<b>100.00%</b>
<b>Total MCERA Expenses</b>	<b>\$ 2,766,433</b>	<b>\$ 2,611,615</b>	<b>\$ (157,562)</b>	<b>-5.60%</b>
<b>Total Administrative Expenses</b>	<b>\$ 1,269,880</b>	<b>\$ 1,091,275</b>	<b>\$ (178,605)</b>	<b>-14.06%</b>
<b>(Total ex Technology &amp; Investment)</b>				
<sup>1</sup> All Hearing related expenses including any hearing preparations.				
<sup>2</sup> Investment fees paid directly to managers.				
<sup>3</sup> Investment manager monitoring, consultant RFP due diligence, investment data.				