



Date: August 21, 2024
To: Board of Retirement
From: F. Robert Reveles, Retirement Financial Investment Officer
Subject: Preliminary Quarterly Budget Update – Q4 FY24

Recommended Action:

Receive and File.

Fiscal and Financial Impacts:

Preliminary review of Fiscal Year 2024 expenditures.

Strategic Plan Importance and Risk Assessment:

Preliminary Budget Update Report for Fiscal Year 2024

Background and Discussion:

Introduction

Attached is the budget update report for the quarter and year-to-date ending June 30, 2024. While the major expenses through June 30, 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 lower for the quarter and greater than the prior year.

Schedule 1A & 1B:

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

- Administrative Expense is lower for the quarter but greater than the prior year. Quarterly Office Expense is greater than the prior year due to purchase of new laptops. YTD Office expense is elevated because of equipment upgrades to the conference room, increased postage expense, COLA letters, and election ballot supplies. Legal expense remains 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 lower for both periods because the prior year includes an actuarial audit and the triennial experience study,

expenses incurred every three years. Contracts are greater for the quarter due to the recent enterprise-wide risk assessment. Contracts YTD are greater because of payments to Probolsky Research (member survey) and the enterprise-wide risk assessment. Prior year YTD contracts include Brokaw's work for phase one of our building improvements and Linea Solutions for the Information Technology Master Plan. Staff Education and Training is greater for the quarter and YTD because of in person attendance to CALAPRS roundtables and the spring SACRS conference.

- Board Expense is lower for the quarter and greater YTD. Quarterly Board Stipends are lower than the prior year due to greater trustee attendance at one meeting. YTD Board Stipends are greater than the prior year primarily because of Board of Supervisors Chamber fees. The MCERA Board began meeting at the BOS Chambers in March 2023. For each meeting the Board of Retirement is charged \$75. YTD Board Education is lower than the prior year because the previous year included trustee attendance to the fall SACRS conference. Both periods include a trustee training event: the CALAPRS Principles of Pension Governance (FY23) and the SACRS Public Pension Investment Management Program (FY24).
- Disability Expense is greater for both periods. The current quarter includes one assessment. YTD there are seven disability assessments, while the prior year includes three assessments. There are no pending disability applications.
- Technology Expense is greater than both prior periods. Quarterly Pension Gold expense is lower than the prior year because the previous year includes costs for the Member Direct UI refresh. Projects in the current quarter have been more expensive than the previous year on average. YTD Pension Gold expense is greater than the prior year because of multiple updates completed this year. Updates include refinements for the output of the actuarial extract, the addition of split accounts, updates to the local check print process, Option 3 and 4 updates to retiree and beneficiary information, and updates to the retiree benefit setup report output. County IT Project Expenses are greater for the quarter due to the ISF expense. Overall, County IT expenses have increased dramatically, partly due to the increase in the ISF expense and partly due to a need for IT support. The major IT project has been the upgrade to the conference room.
- Investment Expense is greater for both periods. Investment Manager Fees, including J.P. Morgan, Mondrian, Ninety-One, RREEF, and T. Rowe are greater because Net Asset Values (NAV) upon which fees are based are greater (aside RREEF) in 2024 than 2023. The increases in YTD Investment Managers Fees are due 64% to J. P. Morgan, 23% to RREEF, 7% to T. Rowe, 3% to Mondrian, and 3% to Ninety-One. 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 \$681M while the prior year AUM average is \$634M. Investment Monitoring is greater than the prior periods because the current year includes investment monitoring software.
- Property Maintenance Plan expense is the purchase and installation of 3 sliding windows on the North side of the 625 Kings Court building, City of Ukiah permit fees and schematic and plan design fees paid to Brokaw.

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 remain lower due fewer staff than budget estimates. The budget contains 6 FTEs while we've had 4 or 5 filled the during fiscal year. There are 2.0 hours of OT in the final quarter and 10.25 hours YTD, well below the 100 hours OT in the budget. Legal Expense is lower for the quarter and YTD due to lower-than-expected use of fiduciary counsel and tax counsel services. Quarterly Consulting – Actuary services are lower than expected. YTD Consulting – Actuary is greater than the budget due to increased costs for the ASOP 51 Risk report, contribution rate analysis for salary increases at plan sponsors, and work related to the interest crediting policy and reporting of the reserves. Quarterly Contracts are greater than budget due to timing, the expense includes the annual Life Status 360 death audit service and Audit & Risk Management Service's enterprise-wide risk assessment. YTD Contracts are lower due to postponement of the Strategic Plan projects. Staff Education and Training is greater than budget for the quarter because two staff, the Executive Director and Board Counsel, attended the Spring SACRS Conference; the budget includes one staff. YTD Staff Education and Training expense is lower than budget because of attendance at fewer than expected trainings. Trainings include: the CALAPRS Administrators Institute, the International Foundation of Employee Benefit Plans Fraud Prevention Conference, LRS Teaming conference, Fall and Spring SACRS conference, multiple CALAPRS Roundtables, and the Markets Group Institutional Forum. Trustees will see increases in Staff Education and Training in the future due to CALAPRS returning to in-person Roundtable events going forward. YTD Membership is greater because we joined NCPERS mid-year.
- 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 or BOS Chamber fee; additional items included are Audit Committee stipends, off-site meeting location and off-site catering. Lower first quarter trustee attendance also contributed to lower YTD Stipends. Quarterly Education and Training expense includes the SACRS Public Pension Investment Management Program. Board Education and Training budget for the quarter covers the SACRS Spring Conference for six trustees. The YTD Board Education and Training budget includes the Fall and Spring SACRS Conferences, Callan's National Conference, and CALAPRS Principles of Pension Management classes.
- Disability Expense is below budget for both periods. The Disability budget estimates about 8 cases per year. Disability expenses are difficult to estimate because realized costs are dependent on the total volume of applications and complexities of each case. The average annual administrative review expense over the last decade is approximately \$35,000.
- Technology Expense is greater than budget for both periods. Quarterly LRS – Pension Gold expense is lower than expected. As reported to the BOR at the June meeting, YTD LRS – Pension Gold is greater than budgeted. The implementation of split accounts within the Pension Gold environment, updates to the actuarial export file, and changes in our check

printing process contributed to the increase over budget. Quarterly County IT Project Expenses are greater for the quarter due to timing of the ISF expense. YTD County IT expenses are greater than budgeted due to the research and installation costs of the upgraded conference room.

- 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 budget estimates include NAV growth rates of five to seven percent. Year-over-year NAV growth rates for Mondrian, Ninety-One, and T. Rowe are 10.5%, 24.7%, and 15.8%, all greater than budget estimates. RREEF partnership fees have ranged between \$60,000 - \$67,000 per quarter, exceeding budget estimates by about \$48,000 over the course of this fiscal year. J.P. Morgan contributed the most to investment fees because of sustained performance, above its hurdle rate of 7%, over the past 12 months. As can be seen in the quarterly investment performance update the strategy returned 11.87% on a time weighted basis over the past year and 10.66% over the past three years. Investment Monitoring includes monitoring software and funds for travel and due diligence with current or prospective investment managers and the investment consultant.

Conclusion

Fiscal Year 2024 met expectations for projects and costs. Total expenses and total administrative expenses (ex-Technology and Investment) remain below budget estimates. Total expenditures are 2.74% under budget. Excluding technology and investment expense, expenditures are lower than budget estimates by \$252,033 or 14.78%. The decrease YTD is primarily due to the Property Maintenance Plan, Personnel, Disability Hearings, Legal Expense, and Board Education and Training line items, which are partially offset by increases in Investment Manager Fees and Consulting – Actuary. The increase in actual-to-actual Total spending YTD is driven by Investment Manager Fees, Property Maintenance Plan, Legal Expense, and LRS – Pension Gold, partially offset by the decrease in Consulting - Actuary.

Mendocino County Employees Retirement Association				
Fiscal Year 2024 Budget Comparison				
Schedule 1A: Current Year Quarter vs Prior Year Quarter				
	FY 2023	FY 2024		
	Apr-Jun	Apr-Jun	Difference	
	Actual	Actual	\$	%
Administrative				
Personnel	\$ 249,261	\$ 241,684	(7,577)	-3.04%
Office Expense	6,089	7,510	1,421	23.34%
Legal Expense	24,391	32,924	8,533	34.98%
Audit	-	-	-	0.00%
Consulting - Actuary	111,250	10,816	(100,434)	-90.28%
Contracts	24,590	25,960	1,370	5.57%
Staff Education and Training	307	4,951	4,644	1512.70%
Membership	-	-	-	0.00%
Imputed Rent (625-B Kings Court)	14,085	14,514	429	3.05%
Subtotal	\$ 429,973	\$ 338,359	\$ (91,614)	-21.31%
Board Expense				
Fiduciary Insurance	\$ -	\$ -	-	0.00%
Board Meeting Stipends	1,125	1,025	(100)	-8.89%
Board Education and Training	3,000	3,000	-	0.00%
Subtotal	\$ 4,125	\$ 4,025	\$ (100)	-2.42%
Total Administrative & Board Expense	\$ 434,098	\$ 342,384	\$ (91,714)	-21.13%
Disability				
Administrative Review	\$ -	\$ 1,800	\$ 1,800	100.00%
Hearings ¹	-	-	-	0.00%
Subtotal	\$ -	\$ 1,800	\$ 1,800	100.00%
Total Administrative, Board, and Disability Expense	\$ 434,098	\$ 344,184	\$ (89,914)	-20.71%
Technology				
LRS - Pension Gold	\$ 10,763	\$ 7,163	\$ (3,600)	-33.45%
County IT Project Expenses	1,758	17,938	16,180	920.36%
PCX Scan Station	4,196	4,406	210	5.00%
Subtotal	\$ 16,717	\$ 29,507	\$ 12,790	76.51%
Investment				
Investment Manager Fees ²	\$ 335,811	\$ 460,267	124,456	37.06%
Investment Consultant - Callan	47,114	48,292	1,178	2.50%
Custodian Bank - State Street	16,741	17,947	1,206	7.20%
Actuary Services - Valuation	-	-	-	0.00%
Investment Monitoring ³	-	3,525	3,525	100.00%
Subtotal	\$ 399,666	\$ 530,031	\$ 130,365	32.62%
Property Maintenance Plan	\$ -	\$ 19,625	\$ 19,625	100.00%
Total MCERA Expenses	\$ 850,481	\$ 923,347	\$ 72,866	8.57%
Total Administrative Expenses	\$ 434,098	\$ 344,184	\$ (89,914)	-20.71%
(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-Jun	Jul-Jun	Difference	
	Actual	Actual	\$	%
Administrative				
Personnel	\$ 844,640	\$ 837,399	(7,241)	-0.86%
Office Expense	22,711	46,833	24,122	106.21%
Legal Expense	126,497	168,527	42,030	33.23%
Audit	41,200	50,500	9,300	22.57%
Consulting - Actuary	164,044	105,897	(58,147)	-35.45%
Contracts	40,002	48,873	8,871	22.18%
Staff Education and Training	12,189	13,109	920	7.55%
Membership	6,170	6,475	305	4.94%
Imputed Rent (625-B Kings Court)	56,339	58,055	1,716	3.05%
Subtotal	\$ 1,313,792	\$ 1,335,668	\$ 21,876	1.67%
Board Expense				
Fiduciary Insurance	\$ 69,793	\$ 73,201	3,408	4.88%
Board Meeting Stipends	4,800	5,350	550	11.46%
Board Education and Training	5,788	3,365	(2,423)	-41.86%
Subtotal	\$ 80,381	\$ 81,916	\$ 1,535	1.91%
Total Administrative & Board Expense	\$ 1,394,173	\$ 1,417,584	\$ 23,411	1.68%
Disability				
Administrative Review	\$ 22,250	\$ 35,011	\$ 12,761	57.35%
Hearings ¹	353	71	(282)	-79.89%
Subtotal	\$ 22,603	\$ 35,082	\$ 12,479	55.21%
Total Administrative, Board, and Disability Expense	\$ 1,416,776	\$ 1,452,666	\$ 35,890	2.53%
Technology				
LRS - Pension Gold	\$ 177,764	\$ 217,270	\$ 39,506	22.22%
County IT Project Expenses	14,567	28,656	14,089	96.72%
PCX Scan Station	10,458	10,981	523	5.00%
Subtotal	\$ 202,789	\$ 256,907	\$ 54,118	26.69%
Investment				
Investment Manager Fees ²	\$ 1,104,102	\$ 1,678,776	574,674	52.05%
Investment Consultant - Callan	186,158	190,812	4,654	2.50%
Custodian Bank - State Street	63,493	69,253	5,760	9.07%
Actuary Services - Segal	72,000	75,000	3,000	4.17%
Investment Monitoring ³	249	14,631	14,382	5775.90%
Subtotal	\$ 1,426,002	\$ 2,028,472	\$ 602,470	42.25%
Property Maintenance Plan	\$ -	\$ 64,055	\$ 64,055	100.00%
Total MCERA Expenses	\$ 3,045,567	\$ 3,802,100	\$ 756,533	24.84%
Total Administrative Expenses	\$ 1,416,776	\$ 1,452,666	\$ 35,890	2.53%
(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	
	Apr-Jun	Apr-Jun		
	Budget	Actual	\$	%
Administrative				
Personnel	\$ 270,894	\$ 241,684	(29,210)	-10.78%
Office Expense	6,220	7,510	1,290	20.73%
Legal Expense	65,875	32,924	(32,951)	-50.02%
Audit	-	-	-	0.00%
Consulting - Actuary	14,835	10,816	(4,019)	-27.09%
Contracts	20,528	25,960	5,432	26.46%
Staff Education and Training	2,399	4,951	2,552	106.38%
Membership	-	-	-	0.00%
Imputed Rent (625-B Kings Court)	14,514	14,514	0	0.00%
Subtotal	\$ 395,265	\$ 338,359	\$ (56,906)	-14.40%
Board Expense				
Fiduciary Insurance	\$ -	\$ -	-	0.00%
Board Meeting Stipends	2,025	1,025	(1,000)	-49.38%
Board Education and Training	12,294	3,000	(9,294)	-75.60%
Subtotal	\$ 14,319	\$ 4,025	\$ (10,294)	-71.89%
Total Administrative & Board Expense	\$ 409,584	\$ 342,384	\$ (67,200)	-16.41%
Disability				
Administrative Review	\$ 10,000	\$ 1,800	\$ (8,200)	-82.00%
Hearings ¹	20,000	-	(20,000)	-100.00%
Subtotal	\$ 30,000	\$ 1,800	\$ (28,200)	-94.00%
Total Administrative, Board, and Disability Expense	\$ 439,584	\$ 344,184	\$ (95,400)	-21.70%
Technology				
LRS - Pension Gold	\$ 9,000	\$ 7,163	\$ (1,837)	-20.41%
County IT Project Expenses	2,566	17,938	15,372	599.03%
PCX Scan Station	4,159	4,406	247	5.95%
Subtotal	\$ 15,725	\$ 29,507	\$ 13,782	87.65%
Investment				
Investment Manager Fees ²	\$ 328,914	\$ 460,267	131,353	39.94%
Investment Consultant - Callan	48,292	48,292	0	0.00%
Custodian Bank - State Street	18,000	17,947	(53)	-0.29%
Actuary Services - Valuation	-	-	-	0.00%
Investment Monitoring ³	4,525	3,525	(1,000)	-22.10%
Subtotal	\$ 399,731	\$ 530,031	\$ 130,300	32.60%
Property Maintenance Plan	\$ 292,690	\$ 19,625	\$ (273,066)	-93.30%
Total MCERA Expenses	\$ 1,147,730	\$ 923,347	\$ (224,384)	-19.55%
Total Administrative Expenses	\$ 439,584	\$ 344,184	\$ (95,400)	-21.70%
(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-Jun	Jul-Jun		
	Budget	Actual	\$	%
Administrative				
Personnel	\$ 922,174	\$ 837,399	(84,775)	-9.19%
Office Expense	46,989	46,833	(156)	-0.33%
Legal Expense	225,500	168,527	(56,973)	-25.27%
Audit	50,500	50,500	-	0.00%
Consulting - Actuary	68,341	105,897	37,556	54.95%
Contracts	63,908	48,873	(15,035)	-23.53%
Staff Education and Training	22,502	13,109	(9,393)	-41.74%
Membership	6,170	6,475	305	4.94%
Imputed Rent (625-B Kings Court)	58,055	58,055	(0)	0.00%
Subtotal	\$ 1,464,139	\$ 1,335,668	\$ (128,471)	-8.77%
Board Expense				
Fiduciary Insurance	\$ 77,116	\$ 73,201	(3,915)	-5.08%
Board Meeting Stipends	8,100	5,350	(2,750)	-33.95%
Board Education and Training	35,344	3,365	(31,979)	-90.48%
Subtotal	\$ 120,560	\$ 81,916	\$ (38,644)	-32.05%
Total Administrative & Board Expense	\$ 1,584,699	\$ 1,417,584	\$ (167,115)	-10.55%
Disability				
Administrative Review	\$ 40,000	\$ 35,011	\$ (4,989)	-12.47%
Hearings ¹	80,000	71	(79,929)	-99.91%
Subtotal	\$ 120,000	\$ 35,082	\$ (84,918)	-70.77%
Total Administrative, Board, and Disability Expense	\$ 1,704,699	\$ 1,452,666	\$ (252,033)	-14.78%
Technology				
LRS - Pension Gold	\$ 206,535	\$ 217,270	\$ 10,735	5.20%
County IT Project Expenses	25,035	28,656	3,621	14.46%
PCX Scan Station	10,671	10,981	310	2.90%
Subtotal	\$ 242,241	\$ 256,907	\$ 14,666	6.05%
Investment				
Investment Manager Fees ²	\$ 1,315,657	\$ 1,678,776	363,119	27.60%
Investment Consultant - Callan	190,812	190,812	0	0.00%
Custodian Bank - State Street	70,200	69,253	(947)	-1.35%
Actuary Services - Segal	75,000	75,000	-	0.00%
Investment Monitoring ³	18,100	14,631	(3,469)	-19.17%
Subtotal	\$ 1,669,769	\$ 2,028,472	\$ 358,703	21.48%
Property Maintenance Plan	\$ 292,690	\$ 64,055	\$ (228,636)	-78.12%
Total MCERA Expenses	\$ 3,909,399	\$ 3,802,100	\$ (107,299)	-2.74%
Total Administrative Expenses	\$ 1,704,699	\$ 1,452,666	\$ (252,033)	-14.78%
(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.