

Date: November 1, 2017
To: Board of Retirement
From: Stan Conwell, Financial/Investment Officer
Subject: Preliminary Quarterly Budget Update

Introduction

Attached is the budget update report for the quarter and year-to-date ending September 30, 2017. Please note the figures in the report are preliminary and updates may occur as new data is received. Each quarterly update report is typically composed of four schedules. One exception is the first budget update of the fiscal year when the quarter and year-to-date (YTD) schedules present identical information. Because of this the YTD schedules were excluded from this report. Schedule 1A compares current quarter expenditures to the expenditures during the same period of the prior year. Schedule 2A compares current quarter expenditures to current period budgeted amounts. In the interest of space and to improve the readability of the report, personnel costs and imputed rent will be included as administrative expense for the FY 2018 budget updates. MCERA's total expenses for the quarter were below budget estimates but, exceeded prior period costs. Similarly, actual total administrative costs excluding technology and investment expense were below budget estimates, but above the prior year's quarter.

Schedule 1A:

Highlights from FY 2017 vs FY 2018 actual expense comparison for the current quarter are presented below:

- Administrative expenses were slightly higher compared to the prior period. Personnel costs increased when compared to the prior year's quarter due to merit increases and new bargaining unit agreements. Office expense was higher in FY 2018 due to the purchase of Board tablets, staff laptops and a new Board room table. Audit expense in the first quarter of FY 2017 exceeded the same period in FY 2018 because of invoice timing differences between external audit vendors. Contract expense in FY 2018 was for the building appraisal of the Kings Court asset.
- Board education and training costs increased during the first quarter of FY 2018 due to the offsite meeting and greater participation in and availability of events. Information on Board stipends was not available at the time this report was prepared.
- Disability expense increased modestly when compared to the same period in FY 2017. Sonoma County Counsel provided some services related to disability hearings during the quarter.
- Investment expense increased in FY 2018 mainly because Investec, MCERA's new emerging market equity fund, bills for investment fees directly. Custodian bank costs differed between fiscal years due to delayed invoices in FY 2017 and actuary expense decreased in FY 2018 due to timing of GASB 67 and 68 invoices.



Preliminary Quarterly Budget Update Continued

Schedule 2A:

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

- Administrative expenses were below budget for the first quarter of the fiscal year. Personnel costs were above budget for the quarter because of the bargaining unit payments that occurred in September. Legal expense was lower than expected as the need for tax compliance services did not occur during the quarter. Legal expense may pick up in subsequent quarters if the need for services increases. Office expense came in below budget due to lower than expected costs for tablets and laptops. Office expense may move closer to budgeted levels as new invoices are received and recorded. Contract expense in FY 2018 was for the building appraisal of the Kings Court asset.
- Board Expense was comparable between fiscal years. Board stipend information were not available at the time this report was prepared.
- Disability costs for the quarter came in below budget. Disability costs are difficult to predict as the expense is driven by the number of applications which can vary between periods.
- Investment fees were above budget for the first quarter. MCERA recently hired Investec which bills MCERA directly for management fees. The adopted budget included an estimate of direct fees. A budget revision may need to occur once all manager changes are fully implemented and the amount of directly billed investment fees can be reasonably estimated. The Mondrian fees were lower than expected due to changes in asset allocation from rebalancing of the portfolio to target. Actuary and custodian expenses differ from budget mainly due to invoice timing.

Conclusion

Fiscal Year 2018 began well from a budget standpoint. In aggregate, total expenditures were below budget but, above prior period actual costs. The increase in actual to actual spending was driven mainly by personnel expense and investment manager fees. Total administrative expenses excluding technology and investment costs were above the prior year's quarter as a result of higher personnel, training, and office expense. Legal, technology, and the capital improvement expense should increase as a number of projects are expected to get underway during the remainder of the fiscal year. However, these activities are anticipated to be within budget.

Mendocino County Employees Retirement Association				
Fiscal Year 2018 Budget Comparison				
Schedule 1A: Current Year Quarter vs Prior Year Quarter				
	FY 2017	FY 2018		
	July - Sept	July - Sept	Difference	
	Actual	Actual	\$	%
Administrative				
Personnel	\$ 121,174	\$ 147,587	26,413	21.80%
Office Expense	5,617	11,095	5,478	97.53%
Legal Expense	12,167	12,127	(40)	-0.33%
Audit	34,600	7,304	(27,296)	-78.89%
Contracts		2,600	2,600	100.00%
Staff Education and Training	1,480	1,383	(97)	-6.55%
Membership	4,000	4,000	-	0.00%
Imputed Rent (625-B Kings Court)	13,200	13,233	33	0.25%
Subtotal	\$ 192,238	\$ 199,329	\$ 7,091	3.69%
Board Expense				
Fiduciary Insurance	-	-	-	0.00%
Board Meeting Stipends	1,300	-	(1,300)	-100.00%
Board Education and Training	-	9,114	9,114	100.00%
Subtotal	\$ 1,300	\$ 9,114	\$ 7,814	601.08%
Total Administrative & Board Expense	\$ 193,538	\$ 208,443	\$ 14,905	7.70%
Disability				
Hearing Preparation	\$ -	\$ -	\$ -	0.00%
Hearings	-	1,280	1,280	100.00%
Administrative Review	3,185	4,387	1,202	37.74%
Subtotal	\$ 3,185	\$ 5,667	\$ 2,482	77.93%
Total Administrative Expenses (Total ex Technology & Investment)	\$ 196,723	\$ 214,110	\$ 17,387	8.84%
Technology				
LRS - Pension Gold	\$ 38	\$ 638	\$ 600	1578.95%
Linea Solutions Consultant	2,970	-	(2,970)	-100.00%
County IT Project Expenses	3,476	-	(3,476)	-100.00%
PCX Scan Station	-	-	-	0.00%
Subtotal	\$ 6,484	\$ 638	\$ (5,846)	-90.16%
Investment				
New Manager Fees	\$ -	\$ 25,532	25,532	100.00%
Mondrian Intl Value Fees	44,638	52,288	7,650	17.14%
Investment Consultant - Callan	36,400	37,492	1,092	3.00%
Custodian Bank - State Street	-	8,970	8,970	100.00%
Actuary Services - Segal	26,025	8,264	(17,761)	-68.25%
Other Investment Expense	-	-	-	0.00%
Subtotal	\$ 107,063	\$ 132,547	\$ 25,484	23.80%
Property Maintenance Plan	\$ -	\$ -	\$ -	0.00%
Total MCERA Expenses	\$ 310,270	\$ 347,295	\$ 37,025	11.93%
Total Administrative Expenses (Total ex Technology & Investment)	\$ 196,723	\$ 214,110	\$ 17,387	8.84%

Mendocino County Employees Retirement Association				
Fiscal Year 2018 Budget Comparison				
Schedule 2A: Current Year Quarter vs Current Quarter Budget				
	FY 2018	FY 2018		
	Jul - Sept	Jul - Sept	Difference	
	Budget	Actual	\$	%
Administrative				
Personnel	\$ 141,565	\$ 147,587	6,022	4.25%
Office Expense	22,255	11,095	(11,160)	-50.15%
Legal Expense	29,500	12,127	(17,373)	-58.89%
Audit	7,400	7,304	(96)	-1.30%
Contracts	-	2,600	2,600	100.00%
Staff Education and Training	2,614	1,383	(1,231)	-47.09%
Membership	4,000	4,000	-	0.00%
Imputed Rent (625-B Kings Court)	13,233	13,233	-	0.00%
Subtotal	\$ 220,567	\$ 199,329	\$ (21,238)	-9.63%
Board Expense				
Fiduciary Insurance	-	-	-	0.00%
Board Meeting Stipends	2,000	-	(2,000)	-100.00%
Board Education and Training	6,870	9,114	2,244	32.66%
Subtotal	\$ 8,870	\$ 9,114	\$ 244	2.75%
Total Administrative & Board Expense	\$ 229,437	\$ 208,443	\$ (20,994)	-9.15%
Disability				
Hearing Preparation	\$ 7,500	\$ -	\$ (7,500)	-100.00%
Hearings	3,750	1,280	(2,470)	-65.87%
Administrative Review	7,600	4,387	(3,213)	-42.28%
Subtotal	\$ 18,850	\$ 5,667	\$ (13,183)	-69.94%
Total Administrative Expenses (Total ex Technology & Investment)	\$ 248,287	\$ 214,110	\$ (34,177)	-13.77%
Technology				
LRS - Pension Gold	\$ 5,000	\$ 638	\$ (4,362)	-87.24%
Linea Solutions Consultant	-	-	-	0.00%
County IT Project Expenses	1,250	-	(1,250)	-100.00%
PCX Scan Station	-	-	-	0.00%
Subtotal	\$ 6,250	\$ 638	\$ (5,612)	-89.79%
Investment				
New Manager Fees	\$ 6,230	\$ 25,532	19,302	309.83%
Mondrian Intl Value Fees	57,500	52,288	(5,212)	-9.06%
Investment Consultant - Callan	37,492	37,492	-	0.00%
Custodian Bank - State Street	15,150	8,970	(6,180)	-40.79%
Actuary Services - Segal	1,500	8,264	6,764	450.93%
Other Investment Expense	-	-	-	0.00%
Subtotal	\$ 117,872	\$ 132,547	\$ 14,675	12.45%
Property Maintenance Plan	\$ -	\$ -	\$ -	0.00%
Total MCERA Expenses	\$ 372,409	\$ 347,295	\$ (25,114)	-6.74%
Total Administrative Expenses (Total ex Technology & Investment)	\$ 248,287	\$ 214,110	\$ (34,177)	-13.77%