

Date: February 21, 2018  
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 December 31, 2017. 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 items for the quarter and fiscal year were below budget estimates but above prior period expenditures.

### Schedule 1A & 1B:

Highlights from FY 2017 vs FY 2018 actual expense comparison for the current quarter and fiscal year-to-date (YTD) are presented below:

- Administrative expenses for the quarter and YTD were above prior period expenditures. Personnel costs for the current quarter were slightly lower than the prior year's quarter due to new bargaining agreement compensation adjustments which were partially offset by merit wage increases. For the YTD, personnel costs were higher due primarily to merit and longevity wage increases. FY 2017 costs were also lower than normal due to a partial year vacancy in the Retirement Specialist I position. Office expenses were lower for the quarter, but elevated for the fiscal year due to electronic device and office furnishing expenditures. Audit expense differs for the quarter due to the timing of invoices. Audit and Legal costs were higher YTD in FY 2018 due to an increase in services needed. Contract expense in FY 2018 was for the building appraisal of the Kings Court asset.
- Board Expense was higher for the quarter and YTD primarily because of greater attendance at education and training events including the fall SACRS. Board training expense was abnormally low in FY 2017.
- Disability expense increased substantially for the quarter and YTD. Disability activity including new applications and hearings are above recent historical trends.
- The annual LRS payment was received and paid earlier in FY 2018 and largely explains the difference in technology expense between the quarter and YTD. The scan station was completed in FY 2017 and was the last major project scheduled for the pension automation system.



## Preliminary Quarterly Budget Update Continued

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- Total investment expense was higher for the quarter and YTD. The addition of new investment managers that invoice direct investment management fees accounts for the vast majority of the cost increase. Year-to-date actuary fees were elevated in FY 17 due to expenses related to the UAAL research project.

### 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 expenses were below budget primarily due to lower than expected personnel, legal, and office expense costs. Personnel expenses were lower for the quarter and YTD primarily because of bargaining unit agreement, PEPRA limit, and other compensation adjustments that in aggregate reduced overall costs. Office expense came in under budget for the YTD because of savings from electronic device and office furnishings. Legal expense was under budget, but may increase this fiscal year if tax counsel related services are needed. Staff education expense could also increase, but is likely to remain under budget.
- Board stipends were lower primarily due to fewer committee meetings and less Board meeting attendance. Board education and training came in under budget due to lower than expected offsite meeting expense.
- The administrative review costs of disability applications were above budget for the quarter and YTD. However, with little disability hearings activity so far this fiscal year, total disability expenditures were below budget.
- Technology expense came in under budget because of fewer change order expenses and the timing of maintenance invoices.
- As mentioned above, direct investment management fees increased in FY 2018 after the addition of new managers in MCERA's portfolio. The additional fees were not included in the development of the FY 2018 budget and largely explain the total investment expense exceeding budget estimates. Actuary services did exceed the budget due to the timing of invoices.

### Conclusion

MCERA's total administrative expenses excluding technology and investment were below budget estimates, but above actual costs from prior periods. Total expenses for the first half of the fiscal year were above budget and prior period costs. However, when total expenses are adjusted for new direct investment manager fees, MCERA's total expense falls below budget. As the fiscal year continues, total expenses could increase slightly as there are invoices, including capital maintenance expenses, that remain outstanding from the County. Technology expenses are expected remain at or below budget estimates for the second half of the year. Investment expense will likely stabilize at current levels as MCERA has completed on boarding all new investment managers as of December 31<sup>st</sup>, 2017.

Mendocino County Employees Retirement Association				
Fiscal Year 2018 Budget Comparison				
Schedule 1A: Current Year Quarter vs Prior Year Quarter				
	FY 2017	FY 2018		
	Oct - Dec	Oct - Dec	Difference	
	Actual	Actual	\$	%
<b>Administrative</b>				
Personnel	\$ 126,242	\$ 122,648	(3,594)	-2.85%
Office Expense	10,676	8,997	(1,679)	-15.73%
Legal Expense	22,673	27,796	5,123	22.60%
Audit	3,900	33,896	29,996	769.13%
Contracts	-	-	-	0.00%
Staff Education and Training	4,742	1,945	(2,797)	-58.98%
Membership	160	160	-	0.00%
Imputed Rent (625-B Kings Court)	13,200	13,233	33	0.25%
<b>Subtotal</b>	<b>\$ 181,593</b>	<b>\$ 208,675</b>	<b>\$ 27,082</b>	<b>14.91%</b>
<b>Board Expense</b>				
Fiduciary Insurance	\$ 41,374	41,346	(28)	-0.07%
Board Meeting Stipends	1,500	2,500	1,000	66.67%
Board Education and Training	417	5,233	4,816	1154.92%
<b>Subtotal</b>	<b>\$ 43,291</b>	<b>\$ 49,079</b>	<b>\$ 5,788</b>	<b>13.37%</b>
<b>Total Administrative &amp; Board Expense</b>	<b>\$ 224,884</b>	<b>\$ 257,754</b>	<b>\$ 32,870</b>	<b>14.62%</b>
<b>Disability</b>				
Hearing Preparation	\$ -	\$ -	\$ -	0.00%
Hearings	-	1,216	1,216	100.00%
Administrative Review	7,295	21,925	14,630	200.55%
<b>Subtotal</b>	<b>\$ 7,295</b>	<b>\$ 23,141</b>	<b>\$ 15,846</b>	<b>217.22%</b>
<b>Total Administrative Expenses (Total ex Technology &amp; Investment)</b>	<b>\$ 232,179</b>	<b>\$ 280,895</b>	<b>\$ 48,716</b>	<b>20.98%</b>
<b>Technology</b>				
LRS - Pension Gold	\$ 1,582	\$ 138,627	\$ 137,045	8662.77%
Linea Solutions Consultant	371	-	(371)	-100.00%
County IT Project Expenses	799	-	(799)	-100.00%
PCX Scan Station	83,110	8,500	(74,610)	-89.77%
<b>Subtotal</b>	<b>\$ 85,863</b>	<b>\$ 147,127</b>	<b>\$ 61,264</b>	<b>71.35%</b>
<b>Investment</b>				
New Manager Fees	\$ -	\$ 95,729	95,729	100.00%
Mondrian Intl Value Fees	51,492	50,173	(1,319)	-2.56%
Investment Consultant - Callan	36,400	37,492	1,092	3.00%
Custodian Bank - State Street	26,909	13,454	(13,455)	-50.00%
Actuary Services - Segal	74,244	78,227	3,983	5.36%
Other Investment Expense	-	-	-	0.00%
<b>Subtotal</b>	<b>\$ 189,045</b>	<b>\$ 275,075</b>	<b>\$ 86,030</b>	<b>45.51%</b>
<b>Property Maintenance Plan</b>	<b>\$ 3,286</b>	<b>\$ 2,136</b>	<b>\$ (1,150)</b>	<b>-35.00%</b>
<b>Total MCERA Expenses</b>	<b>\$ 510,373</b>	<b>\$ 705,233</b>	<b>\$ 196,010</b>	<b>38.18%</b>
<b>Total Administrative Expenses (Total ex Technology &amp; Investment)</b>	<b>\$ 232,179</b>	<b>\$ 280,895</b>	<b>\$ 48,716</b>	<b>20.98%</b>

Mendocino County Employees Retirement Association				
Fiscal Year 2018 Budget Comparison				
Schedule 1B: Current Year To Date vs Prior Year To Date				
	FY 2017	FY 2018		
	July - Dec	July - Dec	Difference	
	Actual	Actual	\$	%
<b>Administrative</b>				
Personnel	\$ 247,416	\$ 270,235	22,819	9.22%
Office Expense	16,292	20,962	4,670	28.66%
Legal Expense	34,840	39,922	5,082	14.59%
Audit	38,500	41,200	2,700	7.01%
Contracts	-	2,600	2,600	100.00%
Staff Education and Training	6,222	3,328	(2,894)	-46.51%
Membership	4,160	4,160	-	0.00%
Imputed Rent (625-B Kings Court)	26,400	26,466	66	0.25%
<b>Subtotal</b>	<b>\$ 373,830</b>	<b>\$ 408,873</b>	<b>\$ 35,043</b>	<b>9.37%</b>
<b>Board Expense</b>				
Fiduciary Insurance	41,374	41,346	(28)	-0.07%
Board Meeting Stipends	2,800	2,500	(300)	-10.71%
Board Education and Training	417	14,347	13,930	3340.53%
<b>Subtotal</b>	<b>\$ 44,591</b>	<b>\$ 58,193</b>	<b>\$ 13,602</b>	<b>30.50%</b>
<b>Total Administrative &amp; Board Expense</b>	<b>\$ 418,421</b>	<b>\$ 467,066</b>	<b>\$ 48,645</b>	<b>11.63%</b>
<b>Disability</b>				
Hearing Preparation	\$ -	\$ -	\$ -	0.00%
Hearings	-	2,496	2,496	100.00%
Administrative Review	10,480	26,312	15,832	151.07%
<b>Subtotal</b>	<b>\$ 10,480</b>	<b>\$ 28,808</b>	<b>\$ 18,328</b>	<b>174.89%</b>
<b>Total Administrative Expenses (Total ex Technology &amp; Investment)</b>	<b>\$ 428,901</b>	<b>\$ 495,874</b>	<b>\$ 66,973</b>	<b>15.62%</b>
<b>Technology</b>				
LRS - Pension Gold	\$ 1,620	\$ 139,265	\$ 137,646	8499.26%
Linea Solutions Consultant	3,341	-	(3,341)	-100.00%
County IT Project Expenses	4,275	-	(4,275)	-100.00%
PCX Scan Station	83,110	8,500	(74,610)	-89.77%
<b>Subtotal</b>	<b>\$ 92,346</b>	<b>\$ 147,765</b>	<b>\$ 55,419</b>	<b>60.01%</b>
<b>Investment</b>				
New Manager Fees	\$ -	\$ 121,261	121,261	100.00%
Mondrian Intl Value Fees	96,130	102,461	6,331	6.59%
Investment Consultant - Callan	72,800	74,984	2,184	3.00%
Custodian Bank - State Street	26,909	22,424	(4,485)	-16.67%
Actuary Services - Segal	100,269	86,491	(13,778)	-13.74%
Other Investment Expense	-	-	-	0.00%
<b>Subtotal</b>	<b>\$ 296,108</b>	<b>\$ 407,621</b>	<b>\$ 111,513</b>	<b>37.66%</b>
<b>Property Maintenance Plan</b>	<b>\$ 3,286</b>	<b>\$ 2,136</b>	<b>\$ (1,150)</b>	<b>-35.00%</b>
<b>Total MCERA Expenses</b>	<b>\$ 820,641</b>	<b>\$ 1,053,396</b>	<b>\$ 233,905</b>	<b>28.36%</b>
<b>Total Administrative Expenses (Total ex Technology &amp; Investment)</b>	<b>\$ 428,901</b>	<b>\$ 495,874</b>	<b>\$ 66,973</b>	<b>15.62%</b>

Mendocino County Employees Retirement Association				
Fiscal Year 2018 Budget Comparison				
Schedule 2A: Current Year Quarter vs Current Quarter Budget				
	FY 2018	FY 2018		
	Oct - Dec	Oct - Dec	Difference	
	Budget	Actual	\$	%
<b>Administrative</b>				
Personnel	\$ 142,165	\$ 122,648	(19,517)	-13.73%
Office Expense	6,700	8,997	2,297	34.29%
Legal Expense	29,500	27,796	(1,704)	-5.78%
Audit	32,600	33,896	1,296	3.98%
Contracts	-	-	-	0.00%
Staff Education and Training	4,734	1,945	(2,789)	-58.91%
Membership	160	160	-	0.00%
Imputed Rent (625-B Kings Court)	13,233	13,233	-	0.00%
<b>Subtotal</b>	<b>\$ 229,092</b>	<b>\$ 208,675</b>	<b>\$ (20,417)</b>	<b>-8.91%</b>
<b>Board Expense</b>				
Fiduciary Insurance	\$ 42,000	41,346	(654)	-1.56%
Board Meeting Stipends	1,700	2,500	800	47.06%
Board Education and Training	10,160	5,233	(4,927)	-48.49%
<b>Subtotal</b>	<b>\$ 53,860</b>	<b>\$ 49,079</b>	<b>\$ (4,781)</b>	<b>-8.88%</b>
<b>Total Administrative &amp; Board Expense</b>	<b>\$ 282,952</b>	<b>\$ 257,754</b>	<b>\$ (25,198)</b>	<b>-8.91%</b>
<b>Disability</b>				
Hearing Preparation	\$ 7,500	\$ -	\$ (7,500)	-100.00%
Hearings	3,750	1,216	(2,534)	-67.57%
Administrative Review	7,600	21,925	14,325	188.49%
<b>Subtotal</b>	<b>\$ 18,850</b>	<b>\$ 23,141</b>	<b>\$ 4,291</b>	<b>22.76%</b>
<b>Total Administrative Expenses (Total ex Technology &amp; Investment)</b>	<b>\$ 301,802</b>	<b>\$ 280,895</b>	<b>\$ (20,907)</b>	<b>-6.93%</b>
<b>Technology</b>				
LRS - Pension Gold	\$ 143,177	\$ 138,627	\$ (4,550)	-3.18%
County IT Project Expenses	1,250	-	(1,250)	-100.00%
PCX Scan Station	10,000	8,500	(1,500)	-15.00%
<b>Subtotal</b>	<b>\$ 154,427</b>	<b>\$ 147,127</b>	<b>\$ (7,300)</b>	<b>-4.73%</b>
<b>Investment</b>				
New Manager Fees	\$ 6,230	\$ 95,729	89,499	1436.59%
Mondrian Intl Value Fees	57,500	50,173	(7,327)	-12.74%
Investment Consultant - Callan	37,492	37,492	-	0.00%
Custodian Bank - State Street	15,150	13,454	(1,696)	-11.19%
Actuary Services - Segal	74,500	78,227	3,727	5.00%
Other Investment Expense	-	-	-	0.00%
<b>Subtotal</b>	<b>\$ 190,872</b>	<b>\$ 275,075</b>	<b>\$ 84,203</b>	<b>44.11%</b>
<b>Property Maintenance Plan</b>	<b>\$ 5,000</b>	<b>\$ 2,136</b>	<b>\$ (2,864)</b>	<b>-57.28%</b>
<b>Total MCERA Expenses</b>	<b>\$ 652,101</b>	<b>\$ 705,233</b>	<b>\$ 55,996</b>	<b>8.15%</b>
<b>Total Administrative Expenses (Total ex Technology &amp; Investment)</b>	<b>\$ 301,802</b>	<b>\$ 280,895</b>	<b>\$ (20,907)</b>	<b>-6.93%</b>

Mendocino County Employees Retirement Association				
Fiscal Year 2018 Budget Comparison				
Schedule 2B: Current Year To Date vs Current Budget Year To Date				
	FY 2018	FY 2018		
	Jul - Dec	Jul - Dec	Difference	
	Budget	Actual	\$	%
<b>Administrative</b>				
Personnel	\$ 283,730	\$ 270,235	(13,495)	-4.76%
Office Expense	28,955	20,962	(7,993)	-27.60%
Legal Expense	59,000	39,922	(19,078)	-32.34%
Audit	40,000	41,200	1,200	3.00%
Contracts	-	2,600	2,600	100.00%
Staff Education and Training	7,348	3,328	(4,020)	-54.71%
Membership	4,160	4,160	-	0.00%
Imputed Rent (625-B Kings Court)	26,466	26,466	-	0.00%
<b>Subtotal</b>	<b>\$ 449,659</b>	<b>\$ 408,873</b>	<b>\$ (40,786)</b>	<b>-9.07%</b>
<b>Board Expense</b>				
Fiduciary Insurance	42,000	41,346	(654)	-1.56%
Board Meeting Stipends	3,700	2,500	(1,200)	-32.43%
Board Education and Training	17,030	14,347	(2,683)	-15.75%
<b>Subtotal</b>	<b>\$ 62,730</b>	<b>\$ 58,193</b>	<b>\$ (4,537)</b>	<b>-7.23%</b>
<b>Total Administrative &amp; Board Expense</b>	<b>\$ 512,389</b>	<b>\$ 467,066</b>	<b>\$ (45,323)</b>	<b>-8.85%</b>
<b>Disability</b>				
Hearing Preparation	\$ 15,000	\$ -	\$ (15,000)	-100.00%
Hearings	7,500	2,496	(5,004)	-66.72%
Administrative Review	15,200	26,312	11,112	73.11%
<b>Subtotal</b>	<b>\$ 37,700</b>	<b>\$ 28,808</b>	<b>\$ (8,892)</b>	<b>-23.59%</b>
<b>Total Administrative Expenses (Total ex Technology &amp; Investment)</b>	<b>\$ 550,089</b>	<b>\$ 495,874</b>	<b>\$ (54,215)</b>	<b>-9.86%</b>
<b>Technology</b>				
LRS - Pension Gold	\$ 148,177	\$ 139,265	\$ (8,912)	-6.01%
County IT Project Expenses	2,500	-	(2,500)	-100.00%
PCX Scan Station	10,000	8,500	(1,500)	-15.00%
<b>Subtotal</b>	<b>\$ 160,677</b>	<b>\$ 147,765</b>	<b>\$ (12,912)</b>	<b>-8.04%</b>
<b>Investment</b>				
New Manager Fees	\$ 12,460	\$ 121,261	108,801	873.20%
Mondrian Intl Value Fees	115,000	102,461	(12,539)	-10.90%
Investment Consultant - Callan	74,984	74,984	-	0.00%
Custodian Bank - State Street	30,300	22,424	(7,876)	-25.99%
Actuary Services - Segal	76,000	86,491	10,491	13.80%
Other Investment Expense	-	-	-	0.00%
<b>Subtotal</b>	<b>\$ 308,744</b>	<b>\$ 407,621</b>	<b>\$ 98,877</b>	<b>32.03%</b>
<b>Property Maintenance Plan</b>	<b>\$ 5,000</b>	<b>\$ 2,136</b>	<b>\$ (2,864)</b>	<b>-57.28%</b>
<b>Total MCERA Expenses</b>	<b>\$ 1,024,510</b>	<b>\$ 1,053,396</b>	<b>\$ 31,750</b>	<b>2.82%</b>
<b>Total Administrative Expenses (Total ex Technology &amp; Investment)</b>	<b>\$ 550,089</b>	<b>\$ 495,874</b>	<b>\$ (54,215)</b>	<b>-9.86%</b>