

Date: May 9, 2018  
To: Board of Retirement  
From: Stan Conwell, CAIA, Financial/Investment Officer  
Subject: Preliminary Quarterly Budget Update

### Introduction

Attached is the budget update report for the quarter and year-to-date ending March 31, 2018. 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-to-date (YTD) 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 are presented below:

- Administrative expenses for the quarter and YTD were above prior period expenditures. Personnel costs for the current quarter exceeded the prior year's quarter due to merit wage increases as well as vacation cash out transactions. For the YTD, personnel costs were higher due primarily to merit and longevity wage increases. As you may recall, 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 and the YTD due to a decline in office furnishing and electronics expenditures. 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. Staff Education and Training expense was up for the quarter due to greater attendance at conferences and roundtable events.
- Board Expense was higher for the quarter and YTD primarily because of greater attendance at education and training events including the fall SACRS and CalAPRS training. As mentioned in the Q2 update, Board training expense was abnormally low in FY 2017.
- Disability expense was in line with the prior year's quarter, but exceeded FY 2017 on a YTD basis. Disability activity including new applications and hearings continue to be above recent historical trends.
- Technology expense during the quarter includes a change order and the annual fee for the PCX scan station. The timing of the annual Pension Gold payment explains the difference the FY 2017 and FY 2018 quarters. For the YTD, FY 2018 expenses are lower because the major pension automation projects were completed and charged in FY 2017.
- As you know, MCERA added new investment managers in FY 2018. The addition of these new investment managers that invoice fees directly to MCERA account for the vast majority of the cost increase. Paying investment management fees directly increases transparency as they are reported quarterly in the budget update. Progress billing for the actuarial audit was received during the quarter and accounts for much of the increase in actuary expenses over the prior fiscal year.



- The majority of the planned FY 2018 property maintenance projects were billed during the quarter. Total expenses were below FY 2017 levels for the quarter and year-to-date.

### 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 for the quarter and YTD were below budget. The primary driver was lower than expected legal expenses for tax counsel projects. Personnel expenses were higher for the quarter due to the timing of compensation transactions. Office expense came in under budget for the YTD because of savings from electronic device and office furnishings. Staff education and training expense increased during the quarter, but is under budget on a YTD basis.
- Board stipends were lower primarily due to fewer committee meetings and less Board meeting attendance. The budget for Board stipends is built with the assumption of perfect attendance and additional committee meetings as a contingency. As mentioned in the prior budget update, Board education and training came in under budget due to lower than expected offsite meeting expense.
- Disability hearings saw increased activity during the quarter. However, disability administrative review costs were below budget for the quarter. On a YTD basis, total disability expense is below estimates despite higher than budgeted administrative review costs.
- There was minimal technology expense activity during the quarter. For the YTD, expenses in the category are slightly under budget due to fewer change order requests.
- As previously mentioned, direct investment management fees increased in FY 2018. Additional direct fees for a couple managers were not included in the development of the FY 2018 budget and largely explain the total investment expense exceeding budget estimates. The timing of invoices explain divergences from the budget in actuary and custodian bank services.
- A number of property maintenance plan expenses, including the HVAC unit upgrades, parking lot repavement, and break room improvements were billed during the quarter. The majority of the projects for the fiscal year are complete and total costs are expected to be below budget.

### Conclusion

MCERA's total administrative expenses excluding technology and investment were below budget estimates, but above comparable prior period costs. Total expenses for the fiscal year-to-date were above prior period costs and budget estimates. However, when total YTD expenses are adjusted for new direct investment manager fees, MCERA's total expense comes in slightly below the prior year. The majority of the fiscal year is complete and with it most of the major projects and expenses are now recognized on the books. It is possible some unexpected expenses could arise during the final quarter of the fiscal year, but it's likely that budget overages in some administrative categories will be offset by savings in other categories and in aggregate will not exceed the total budget.

Mendocino County Employees Retirement Association				
Fiscal Year 2018 Budget Comparison				
Schedule 1A: Current Year Quarter vs Prior Year Quarter				
	FY 2017	FY 2018		
	Jan - Mar	Jan - Mar	Difference	
	Actual	Actual	\$	%
<b>Administrative</b>				
Personnel	\$ 152,553	\$ 169,106	16,553	10.85%
Office Expense	19,837	7,760	(12,077)	-60.88%
Legal Expense	15,621	12,428	(3,193)	-20.44%
Audit	-	-	-	0.00%
Contracts	5	-	(5)	-100.00%
Staff Education and Training	1,600	3,830	2,230	139.38%
Membership	935	500	(435)	-46.52%
Imputed Rent (625-B Kings Court)	13,200	13,233	33	0.25%
<b>Subtotal</b>	<b>\$ 203,751</b>	<b>\$ 206,857</b>	<b>\$ 3,106</b>	<b>1.52%</b>
<b>Board Expense</b>				
Fiduciary Insurance	\$ (30)	-	30	-100.00%
Board Meeting Stipends	1,300	1,300	-	0.00%
Board Education and Training	1,817	4,569	2,752	151.46%
<b>Subtotal</b>	<b>\$ 3,087</b>	<b>\$ 5,869</b>	<b>\$ 2,782</b>	<b>90.12%</b>
<b>Administrative &amp; Board Expense</b>	<b>\$ 206,838</b>	<b>\$ 212,726</b>	<b>\$ 5,888</b>	<b>2.85%</b>
<b>Disability</b>				
Hearing Preparation	\$ -	\$ -	\$ -	0.00%
Hearings	-	6,328	6,328	100.00%
Administrative Review	10,720	3,805	(6,915)	-64.51%
<b>Subtotal</b>	<b>\$ 10,720</b>	<b>\$ 10,133</b>	<b>\$ (587)</b>	<b>-5.48%</b>
<b>Total Administrative Expenses (Total ex Technology &amp; Investment)</b>	<b>\$ 217,558</b>	<b>\$ 222,859</b>	<b>\$ 5,301</b>	<b>2.44%</b>
<b>Technology</b>				
LRS - Pension Gold	\$ 142,990	\$ 2,400	\$ (140,590)	-98.32%
Linea Solutions Consultant	-	-	-	0.00%
County IT Project Expenses	-	-	-	0.00%
PCX Scan Station	5,400	5,562	162	3.00%
<b>Subtotal</b>	<b>\$ 148,390</b>	<b>\$ 7,962</b>	<b>\$ (140,428)</b>	<b>-94.63%</b>
<b>Investment</b>				
New Manager Fees	\$ -	\$ 93,421	93,421	100.00%
Mondrian Intl Value Fees	55,389	49,616	(5,773)	-10.42%
Investment Consultant - Callan	37,492	38,617	1,125	3.00%
Custodian Bank - State Street	17,939	13,783	(4,156)	-23.17%
Actuary Services - Segal	17,662	60,099	42,437	240.27%
Other Investment Expense	-	-	-	0.00%
<b>Subtotal</b>	<b>\$ 128,482</b>	<b>\$ 255,536</b>	<b>\$ 127,054</b>	<b>98.89%</b>
<b>Property Maintenance Plan</b>	<b>\$ 136,719</b>	<b>\$ 79,779</b>	<b>\$ (56,940)</b>	<b>-41.65%</b>
<b>Total MCERA Expenses</b>	<b>\$ 631,149</b>	<b>\$ 566,136</b>	<b>\$ (65,013)</b>	<b>-10.30%</b>
<b>Total Administrative Expenses (Total ex Technology &amp; Investment)</b>	<b>\$ 217,558</b>	<b>\$ 222,859</b>	<b>\$ 5,301</b>	<b>2.44%</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	\$ 399,969	\$ 439,341	39,372	9.84%
Office Expense	36,130	28,815	(7,315)	-20.25%
Legal Expense	50,461	52,976	2,515	4.98%
Audit	38,500	41,200	2,700	7.01%
Contracts	5	2,600	2,595	51900.00%
Staff Education and Training	7,822	7,158	(664)	-8.49%
Membership	5,095	4,660	(435)	-8.54%
Imputed Rent (625-B Kings Court)	39,600	39,699	99	0.25%
<b>Subtotal</b>	<b>\$ 577,582</b>	<b>\$ 616,449</b>	<b>\$ 38,867</b>	<b>6.73%</b>
<b>Board Expense</b>				
Fiduciary Insurance	41,344	41,346	2	0.00%
Board Meeting Stipends	4,100	3,800	(300)	-7.32%
Board Education and Training	2,234	18,916	16,682	746.73%
<b>Subtotal</b>	<b>\$ 47,678</b>	<b>\$ 64,062</b>	<b>\$ 16,384</b>	<b>34.36%</b>
<b>Administrative &amp; Board Expense</b>	<b>\$ 625,260</b>	<b>\$ 680,511</b>	<b>\$ 55,251</b>	<b>8.84%</b>
<b>Disability</b>				
Hearing Preparation	\$ -	\$ -	\$ -	0.00%
Hearings	-	8,824	8,824	100.00%
Administrative Review	21,200	30,117	8,917	42.06%
<b>Subtotal</b>	<b>\$ 21,200</b>	<b>\$ 38,941</b>	<b>\$ 17,741</b>	<b>83.68%</b>
<b>Total Administrative Expenses (Total ex Technology &amp; Investment)</b>	<b>\$ 646,460</b>	<b>\$ 719,452</b>	<b>\$ 72,992</b>	<b>11.29%</b>
<b>Technology</b>				
LRS - Pension Gold	\$ 144,610	\$ 147,227	\$ 2,618	1.81%
Linea Solutions Consultant	3,341	-	(3,341)	-100.00%
County IT Project Expenses	4,275	-	(4,275)	-100.00%
PCX Scan Station	88,510	8,500	(80,010)	-90.40%
<b>Subtotal</b>	<b>\$ 240,736</b>	<b>\$ 155,727</b>	<b>\$ (85,009)</b>	<b>-35.31%</b>
<b>Investment</b>				
New Manager Fees	\$ -	\$ 214,682	214,682	100.00%
Mondrian Intl Value Fees	151,520	152,077	557	0.37%
Investment Consultant - Callan	110,292	113,601	3,309	3.00%
Custodian Bank - State Street	44,848	36,207	(8,641)	-19.27%
Actuary Services - Segal	117,931	146,590	28,659	24.30%
Other Investment Expense	-	-	-	0.00%
<b>Subtotal</b>	<b>\$ 424,591</b>	<b>\$ 663,157</b>	<b>\$ 238,566</b>	<b>56.19%</b>
<b>Property Maintenance Plan</b>	<b>\$ 140,005</b>	<b>\$ 81,915</b>	<b>\$ (58,090)</b>	<b>-41.49%</b>
<b>Total MCERA Expenses</b>	<b>\$ 1,451,792</b>	<b>\$ 1,620,251</b>	<b>\$ 168,459</b>	<b>11.60%</b>
<b>Total Administrative Expenses (Total ex Technology &amp; Investment)</b>	<b>\$ 646,460</b>	<b>\$ 719,452</b>	<b>\$ 72,992</b>	<b>11.29%</b>

Mendocino County Employees Retirement Association				
Fiscal Year 2018 Budget Comparison				
Schedule 2A: Current Year Quarter vs Current Quarter Budget				
	FY 2018	FY 2018		
	Jan - Mar	Jan - Mar	Difference	
	Budget	Actual	\$	%
<b>Administrative</b>				
Personnel	\$ 165,159	\$ 169,106	3,947	2.39%
Office Expense	6,770	7,760	990	14.62%
Legal Expense	29,500	12,428	(17,072)	-57.87%
Audit	-	-	-	0.00%
Contracts	-	-	-	0.00%
Staff Education and Training	3,526	3,830	304	8.62%
Membership	935	500	(435)	-46.52%
Imputed Rent (625-B Kings Court)	13,233	13,233	-	0.00%
<b>Subtotal</b>	<b>\$ 219,123</b>	<b>\$ 206,857</b>	<b>\$ (12,266)</b>	<b>-5.60%</b>
<b>Board Expense</b>				
Fiduciary Insurance	\$ -	\$ -	-	0.00%
Board Meeting Stipends	1,700	1,300	(400)	-23.53%
Board Education and Training	4,750	4,569	(181)	-3.81%
<b>Subtotal</b>	<b>\$ 6,450</b>	<b>\$ 5,869</b>	<b>\$ (581)</b>	<b>-9.01%</b>
<b>Administrative &amp; Board Expense</b>	<b>\$ 225,573</b>	<b>\$ 212,726</b>	<b>\$ (12,847)</b>	<b>-5.70%</b>
<b>Disability</b>				
Hearing Preparation	\$ 7,500	\$ -	\$ (7,500)	-100.00%
Hearings	3,750	6,328	2,578	68.75%
Administrative Review	10,725	3,805	(6,920)	-64.52%
<b>Subtotal</b>	<b>\$ 21,975</b>	<b>\$ 10,133</b>	<b>\$ (11,842)</b>	<b>-53.89%</b>
<b>Total Administrative Expenses (Total ex Technology &amp; Investment)</b>	<b>\$ 247,548</b>	<b>\$ 222,859</b>	<b>\$ (24,689)</b>	<b>-9.97%</b>
<b>Technology</b>				
LRS - Pension Gold	\$ 5,000	\$ 2,400	\$ (2,600)	-52.00%
County IT Project Expenses	1,250	-	(1,250)	-100.00%
PCX Scan Station	-	5,562	5,562	100.00%
<b>Subtotal</b>	<b>\$ 6,250</b>	<b>\$ 7,962</b>	<b>\$ 1,712</b>	<b>27.39%</b>
<b>Investment</b>				
New Manager Fees	\$ 8,730	\$ 93,421	84,691	970.12%
Mondrian Intl Value Fees	57,500	49,616	(7,884)	-13.71%
Investment Consultant - Callan	37,492	38,617	1,125	3.00%
Custodian Bank - State Street	15,150	13,783	(1,367)	-9.02%
Actuary Services - Segal	77,500	60,099	(17,401)	-22.45%
Other Investment Expense	-	-	-	0.00%
<b>Subtotal</b>	<b>\$ 196,372</b>	<b>\$ 255,536</b>	<b>\$ 59,164</b>	<b>30.13%</b>
<b>Property Maintenance Plan</b>	<b>\$ 97,000</b>	<b>\$ 79,779</b>	<b>\$ (17,221)</b>	<b>-17.75%</b>
<b>Total MCERA Expenses</b>	<b>\$ 547,170</b>	<b>\$ 566,136</b>	<b>\$ 18,966</b>	<b>3.47%</b>
<b>Total Administrative Expenses (Total ex Technology &amp; Investment)</b>	<b>\$ 247,548</b>	<b>\$ 222,859</b>	<b>\$ (24,689)</b>	<b>-9.97%</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 - Mar	Jul - Mar	Difference	
	Budget	Actual	\$	%
<b>Administrative</b>				
Personnel	\$ 448,890	\$ 439,341	(9,549)	-2.13%
Office Expense	35,724	28,815	(6,909)	-19.34%
Legal Expense	88,500	52,976	(35,524)	-40.14%
Audit	40,000	41,200	1,200	3.00%
Contracts	-	2,600	2,600	100.00%
Staff Education and Training	10,874	7,158	(3,716)	-34.17%
Membership	5,095	4,660	(435)	-8.54%
Imputed Rent (625-B Kings Court)	39,699	39,699	-	0.00%
<b>Subtotal</b>	<b>\$ 668,782</b>	<b>\$ 616,449</b>	<b>\$ (52,333)</b>	<b>-7.83%</b>
<b>Board Expense</b>				
Fiduciary Insurance	\$ 42,000	\$ 41,346	(654)	-1.56%
Board Meeting Stipends	5,400	3,800	(1,600)	-29.63%
Board Education and Training	21,780	18,916	(2,864)	-13.15%
<b>Subtotal</b>	<b>\$ 69,180</b>	<b>\$ 64,062</b>	<b>\$ (5,118)</b>	<b>-7.40%</b>
<b>Administrative &amp; Board Expense</b>	<b>\$ 737,962</b>	<b>\$ 680,511</b>	<b>\$ (57,451)</b>	<b>-7.79%</b>
<b>Disability</b>				
Hearing Preparation	\$ 22,500	\$ -	\$ (22,500)	-100.00%
Hearings	11,250	8,824	(2,426)	-21.56%
Administrative Review	25,925	30,117	4,192	16.17%
<b>Subtotal</b>	<b>\$ 59,675</b>	<b>\$ 38,941</b>	<b>\$ (20,734)</b>	<b>-34.74%</b>
<b>Total Administrative Expenses (Total ex Technology &amp; Investment)</b>	<b>\$ 797,637</b>	<b>\$ 719,452</b>	<b>\$ (78,185)</b>	<b>-9.80%</b>
<b>Technology</b>				
LRS - Pension Gold	\$ 153,177	\$ 147,227	\$ (5,950)	-3.88%
County IT Project Expenses	3,750	-	(3,750)	-100.00%
PCX Scan Station	5,000	8,500	3,500	70.00%
<b>Subtotal</b>	<b>\$ 161,927</b>	<b>\$ 155,727</b>	<b>\$ (6,200)</b>	<b>-3.83%</b>
<b>Investment</b>				
New Manager Fees	\$ 21,190	\$ 214,682	193,492	913.13%
Mondrian Intl Value Fees	172,500	152,077	(20,423)	-11.84%
Investment Consultant - Callan	112,476	113,601	1,125	1.00%
Custodian Bank - State Street	45,450	36,207	(9,243)	-20.34%
Actuary Services - Segal	153,500	146,590	(6,910)	-4.50%
Other Investment Expense		-	-	0.00%
<b>Subtotal</b>	<b>\$ 505,116</b>	<b>\$ 663,157</b>	<b>\$ 158,041</b>	<b>31.29%</b>
<b>Property Maintenance Plan</b>	<b>\$ 102,000</b>	<b>\$ 81,915</b>	<b>\$ (20,085)</b>	<b>-19.69%</b>
<b>Total MCERA Expenses</b>	<b>\$ 1,566,680</b>	<b>\$ 1,620,251</b>	<b>\$ 53,571</b>	<b>3.42%</b>
<b>Total Administrative Expenses (Total ex Technology &amp; Investment)</b>	<b>\$ 797,637</b>	<b>\$ 719,452</b>	<b>\$ (78,185)</b>	<b>-9.80%</b>