

Date: September 19, 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 fiscal year ending June 30, 2018. While all the information for the fiscal year end has been recorded, figures in this report are still preliminary as there may be some minor reclassifications as a result of the external audit. 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 exceeded prior period expenditures and budget estimates. For the fiscal year expenditures were above the prior fiscal year, but below the budgeted amount.

Schedule 1A & 1B:

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

- Administrative expenses for the quarter and fiscal year exceeded the prior year periods. Personnel costs for the fiscal year were above the prior fiscal year primarily due to merit wage increases as well as the reduction of costs in FY 2017 due to the partial year vacancy in the Retirement Specialist I position. Just as in the prior quarter, office expenses were lower for the current quarter and the fiscal year due to a decline in office furnishing and electronics expenditures. IT support expenses were also lower in FY 2018. Audit costs were higher for the quarter and fiscal year due to an increase in services needed and advanced billing for the FY 2018 audit. Legal expenses increased as expected for the quarter and fiscal year as work began on a number of work plan projects. The increase in contract expense in FY 2018 was for the building appraisal of the Kings Court asset. Staff Education and Training expense decreased slightly in the fiscal year due to less attendance at conferences and other training events.
- Board Expense was higher for the fiscal year primarily because of greater attendance at education and training events including SACRS, CalAPRS, and Callan events. As mentioned in prior updates, Board training expense was abnormally low in FY 2017.
- Disability costs were well above historical levels for the quarter and fiscal year. Multiple hearings and applications occurred during the quarter. Disability activity continues to be above recent historical trends.
- Technology expense during the quarter includes change orders and a maintenance fee for the Kofax scan system. The FY 2018 expenses are lower largely because the major pension automation projects were implemented in FY 2017. No County related IT project expenses occurred in FY 2018.



Preliminary Quarterly Budget Update Continued

- As you know, MCERA added new investment managers in FY 2018. Two of the new investment managers invoice fees directly to MCERA and account for the vast majority of the cost increase to the investment category. The Mondrian fee declined in FY 2018 due to a decrease in allocation to the fund. Actuary expenses increased in FY 2018 due to the actuarial audit and an increase in additional services including the stress test project.
- The remaining FY 2018 property maintenance projects were invoiced during the quarter. Total expenses were below FY 2017 levels for the quarter and fiscal year.

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 above budget for the quarter, but below budget for the fiscal year. Personnel expenses were lower for the quarter and fiscal year due to differences in estimated compensation transactions. Legal expense increased in the quarter due to the timing of work plan projects. Legal expense was under budget for the fiscal year. Similarly, office expense surpassed the budget for the quarter, but ended the fiscal year below budget. Audit expense exceeded budget estimates mainly because of progress billing for the FY 2018 audit. Staff education and training expense fell during the quarter and came in under budget for the fiscal year.
- As mentioned in the prior budget update, 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. Board education and training came in under budget due to lower than expected offsite meeting expense offset slightly by increased attendance at training events.
- Disability activity spiked during the quarter and exceeded the budget estimates. For the fiscal year, total disability expenses also exceeded the budget. Both hearing related expenses and administrative review costs ended the fiscal year above budget. Disability expenses are difficult to predict as they are driven by the volume of applications which can vary greatly from year to year.
- Technology expense was minimal during the quarter with actual cost coming in below budget. For the fiscal year, expenses in the category were under budget due to no County IT project expenses and lower than expected change order requests.
- As previously mentioned, direct investment management fees increased in FY 2018. Additional direct fees for two managers were not included in the development of the FY 2018 budget and largely explain the total investment expense exceeding budget estimates. An increase in services from Segal offset by some savings in the actuarial audit account for the increase in fiscal year actuary expenses. The Custodian bank expense budget included possible SMA account fees that were not needed in FY 2018.



MCERA

Preliminary Quarterly Budget Update Continued

- The tree removal and the remaining break room improvement expenses were invoiced during the quarter. The total capital improvement costs for the fiscal year was below budget due to some savings in the HVAC unit replacement project.

Conclusion

For the fiscal year, MCERA's total administrative expenses excluding technology and investment were below budget estimates, but above the prior year. For the quarter, total administrative expenses excluding technology and investment were above both the prior year and the budget. Total expenses for the fiscal year were above prior period costs and budget estimates. Please note the increase in total expenses is largely due to a change in how two investment managers, hired in FY 2018, bill management fees. Total administrative expenses excluding technology and investment increased by 8.75% when compared to the prior fiscal year. About half of the increase can be attributed to increased disability expenses. The remainder is primarily due to increased personnel, legal, and board training expense. When compared to the budget, MCERA's total administrative expenses excluding technology and investment for the fiscal year were slightly below estimates by 2.14%. Administrative expenses excluding technology and investment for FY 2018 were below MCERA's policy limit by about \$300,000 and below the cap set by CERL by about \$980,000.

Mendocino County Employees Retirement Association				
Fiscal Year 2018 Budget Comparison				
Schedule 1A: Current Year Quarter vs Prior Year Quarter				
	FY 2017	FY 2018		
	Apr - June	Apr - June	Difference	
	Actual	Actual	\$	%
Administrative				
Personnel	\$ 151,284	\$ 153,655	2,371	1.57%
Office Expense	18,645	10,672	(7,973)	-42.76%
Legal Expense	19,858	41,305	21,447	108.00%
Audit	-	2,232	2,232	100.00%
Contracts	900	910	10	1.11%
Staff Education and Training	4,320	2,886	(1,434)	-33.19%
Membership	-	-	-	0.00%
Imputed Rent (625-B Kings Court)	13,200	13,233	33	0.25%
Subtotal	\$ 208,207	\$ 224,893	\$ 16,686	8.01%
Board Expense				
Fiduciary Insurance	\$ -	-	-	0.00%
Board Meeting Stipends	1,500	1,400	(100)	-6.67%
Board Education and Training	4,975	5,211	236	4.74%
Subtotal	\$ 6,475	\$ 6,611	\$ 136	2.10%
Administrative & Board Expense	\$ 214,682	\$ 231,504	\$ 16,822	7.84%
Disability				
Hearing Preparation	\$ -	\$ 19,600	\$ 19,600	100.00%
Hearings	3,414	28,638	25,224	738.84%
Administrative Review	10,950	19,490	8,540	77.99%
Subtotal	\$ 14,364	\$ 67,728	\$ 53,364	371.51%
Total Administrative Expenses (Total ex Technology & Investment)	\$ 229,046	\$ 299,232	\$ 70,186	30.64%
Technology				
LRS - Pension Gold	\$ 4,088	\$ 4,200	\$ 113	2.75%
Linea Solutions Consultant	-	-	-	0.00%
County IT Project Expenses	3,750	-	(3,750)	-100.00%
PCX Scan Station	3,352	3,519	168	5.00%
Subtotal	\$ 11,189	\$ 7,719	\$ (3,470)	-31.01%
Investment				
New Manager Fees	\$ -	\$ 91,798	91,798	100.00%
Mondrian Intl Value Fees	57,412	43,717	(13,695)	-23.85%
Investment Consultant - Callan	37,492	38,617	1,125	3.00%
Custodian Bank - State Street	17,573	17,869	296	1.68%
Actuary Services - Segal	39,500	31,885	(7,615)	-19.28%
Other Investment Expense	-	894	894	100.00%
Subtotal	\$ 151,977	\$ 224,780	\$ 72,803	47.90%
Property Maintenance Plan	\$ 1,375	\$ 20,702	\$ 19,327	1405.61%
Total MCERA Expenses	\$ 393,587	\$ 552,433	\$ 158,846	40.36%
Total Administrative Expenses (Total ex Technology & Investment)	\$ 229,046	\$ 299,232	\$ 70,186	30.64%

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 - June	July - June	Difference	
	Actual	Actual	\$	%
Administrative				
Personnel	\$ 551,253	\$ 592,996	41,743	7.57%
Office Expense	54,777	40,374	(14,403)	-26.29%
Legal Expense	70,320	94,281	23,961	34.07%
Audit	38,500	43,432	4,932	12.81%
Contracts	905	3,510	2,605	287.85%
Staff Education and Training	12,142	10,043	(2,099)	-17.29%
Membership	5,095	5,165	70	1.37%
Imputed Rent (625-B Kings Court)	52,800	52,932	132	0.25%
Subtotal	\$ 785,792	\$ 842,733	\$ 56,941	7.25%
Board Expense				
Fiduciary Insurance	41,344	41,346	2	0.00%
Board Meeting Stipends	5,600	5,200	(400)	-7.14%
Board Education and Training	7,209	24,127	16,918	234.68%
Subtotal	\$ 54,153	\$ 70,673	\$ 16,520	30.51%
Administrative & Board Expense	\$ 839,945	\$ 913,406	\$ 73,461	8.75%
Disability				
Hearing Preparation	\$ -	\$ 19,600	\$ 19,600	100.00%
Hearings	3,414	37,462	34,048	997.31%
Administrative Review	32,150	49,607	17,457	54.30%
Subtotal	\$ 35,564	\$ 106,669	\$ 71,105	199.94%
Total Administrative Expenses (Total ex Technology & Investment)	\$ 875,509	\$ 1,020,075	\$ 144,566	16.51%
Technology				
LRS - Pension Gold	\$ 148,697	\$ 154,946	\$ 6,249	4.20%
Linea Solutions Consultant	3,341	-	(3,341)	-100.00%
County IT Project Expenses	8,025	-	(8,025)	-100.00%
PCX Scan Station	91,861	8,500	(83,361)	-90.75%
Subtotal	\$ 251,924	\$ 163,446	\$ (88,478)	-35.12%
Investment				
New Manager Fees	\$ -	\$ 306,480	306,480	100.00%
Mondrian Intl Value Fees	208,932	191,353	(17,579)	-8.41%
Investment Consultant - Callan	147,784	152,218	4,434	3.00%
Custodian Bank - State Street	62,421	54,076	(8,345)	-13.37%
Actuary Services - Segal	157,431	178,474	21,043	13.37%
Other Investment Expense	-	894	894	100.00%
Subtotal	\$ 576,568	\$ 883,495	\$ 306,927	53.23%
Property Maintenance Plan	\$ 141,380	\$ 102,617	\$ (38,763)	-27.42%
Total MCERA Expenses	\$ 1,845,381	\$ 2,169,633	\$ 324,252	17.57%
Total Administrative Expenses (Total ex Technology & Investment)	\$ 875,509	\$ 1,020,075	\$ 144,566	16.51%

Mendocino County Employees Retirement Association				
Fiscal Year 2018 Budget Comparison				
Schedule 2A: Current Year Quarter vs Current Quarter Budget				
	FY 2018	FY 2018		
	Apr - June	Apr - June	Difference	
	Budget	Actual	\$	%
Administrative				
Personnel	\$ 165,159	\$ 153,655	(11,504)	-6.97%
Office Expense	6,126	10,672	4,546	74.22%
Legal Expense	29,500	41,305	11,805	40.02%
Audit	-	2,232	2,232	100.00%
Contracts	900	910	10	1.11%
Staff Education and Training	4,126	2,886	(1,240)	-30.05%
Membership	155	-	(155)	-100.00%
Imputed Rent (625-B Kings Court)	13,233	13,233	-	0.00%
Subtotal	\$ 219,199	\$ 224,893	\$ 5,694	2.60%
Board Expense				
Fiduciary Insurance	\$ -	\$ -	-	0.00%
Board Meeting Stipends	1,700	1,400	(300)	-17.65%
Board Education and Training	4,950	5,211	261	5.27%
Subtotal	\$ 6,650	\$ 6,611	\$ (39)	-0.59%
Administrative & Board Expense	\$ 225,849	\$ 231,504	\$ 5,655	2.50%
Disability				
Hearing Preparation	\$ 7,500	\$ 19,600	\$ 12,100	161.33%
Hearings	3,750	28,638	24,888	663.68%
Administrative Review	7,600	19,490	11,890	156.45%
Subtotal	\$ 18,850	\$ 67,728	\$ 48,878	259.30%
Total Administrative Expenses (Total ex Technology & Investment)	\$ 244,699	\$ 299,232	\$ 54,533	22.29%
Technology				
LRS - Pension Gold	\$ 5,000	\$ 4,200	\$ (800)	-16.00%
County IT Project Expenses	1,250	-	(1,250)	-100.00%
PCX Scan Station	5,000	3,519	(1,481)	-29.62%
Subtotal	\$ 11,250	\$ 7,719	\$ (3,531)	-31.38%
Investment				
New Manager Fees	\$ 8,810	\$ 91,798	82,988	941.98%
Mondrian Intl Value Fees	57,500	43,717	(13,783)	-23.97%
Investment Consultant - Callan	37,492	38,617	1,125	3.00%
Custodian Bank - State Street	15,150	17,869	2,719	17.95%
Actuary Services - Segal	5,500	31,885	26,385	479.73%
Other Investment Expense	1,000	894	(106)	-10.60%
Subtotal	\$ 125,452	\$ 224,780	\$ 99,328	79.18%
Property Maintenance Plan	\$ 15,000	\$ 20,702	\$ 5,702	38.01%
Total MCERA Expenses	\$ 396,401	\$ 552,433	\$ 156,032	39.36%
Total Administrative Expenses (Total ex Technology & Investment)	\$ 244,699	\$ 299,232	\$ 54,533	22.29%

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 - June	Jul - June	Difference	
	Budget	Actual	\$	%
Administrative				
Personnel	\$ 614,049	\$ 592,996	(21,053)	-3.43%
Office Expense	41,850	40,374	(1,476)	-3.53%
Legal Expense	118,000	94,281	(23,719)	-20.10%
Audit	40,000	43,432	3,432	8.58%
Contracts	900	3,510	2,610	290.00%
Staff Education and Training	15,000	10,043	(4,957)	-33.05%
Membership	5,250	5,165	(85)	-1.62%
Imputed Rent (625-B Kings Court)	52,932	52,932	-	0.00%
Subtotal	\$ 887,981	\$ 842,733	\$ (45,248)	-5.10%
Board Expense				
Fiduciary Insurance	\$ 42,000	\$ 41,346	(654)	-1.56%
Board Meeting Stipends	7,100	5,200	(1,900)	-26.76%
Board Education and Training	26,730	24,127	(2,603)	-9.74%
Subtotal	\$ 75,830	\$ 70,673	\$ (5,157)	-6.80%
Administrative & Board Expense	\$ 963,811	\$ 913,406	\$ (50,405)	-5.23%
Disability				
Hearing Preparation	\$ 30,000	\$ 19,600	\$ (10,400)	-34.67%
Hearings	15,000	37,462	22,462	149.75%
Administrative Review	33,525	49,607	16,082	47.97%
Subtotal	\$ 78,525	\$ 106,669	\$ 28,144	35.84%
Total Administrative Expenses (Total ex Technology & Investment)	\$ 1,042,336	\$ 1,020,075	\$ (22,261)	-2.14%
Technology				
LRS - Pension Gold	\$ 158,177	\$ 154,946	\$ (3,231)	-2.04%
County IT Project Expenses	5,000	-	(5,000)	-100.00%
PCX Scan Station	10,500	8,500	(2,000)	-19.05%
Subtotal	\$ 173,677	\$ 163,446	\$ (10,231)	-5.89%
Investment				
New Manager Fees	\$ 30,000	\$ 306,480	276,480	921.60%
Mondrian Intl Value Fees	230,000	191,353	(38,647)	-16.80%
Investment Consultant - Callan	149,968	152,218	2,250	1.50%
Custodian Bank - State Street	60,600	54,076	(6,524)	-10.77%
Actuary Services - Segal	159,000	178,474	19,474	12.25%
Other Investment Expense	1,000	894	(106)	-10.60%
Subtotal	\$ 630,568	\$ 883,495	\$ 252,927	40.11%
Property Maintenance Plan	\$ 112,000	\$ 102,617	\$ (9,383)	-8.38%
Total MCERA Expenses	\$ 1,958,581	\$ 2,169,633	\$ 211,052	10.78%
Total Administrative Expenses (Total ex Technology & Investment)	\$ 1,042,336	\$ 1,020,075	\$ (22,261)	-2.14%