

Date: December 12, 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 September 30, 2018. Please note the figures in the report are preliminary and updates may occur if any new accruals are 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. As this report is the first of the fiscal year, the YTD schedules were excluded. 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. For FY 2019 all disability hearing and hearing preparation expenses are reported as hearing expenses. Similarly, investment manager fees are aggregated in one line item. Also, investment monitoring replaces other investment expense this fiscal year. The details of each expense category are discussed in the accompanying narrative. MCERA's total expenses for the quarter were slightly below budget estimates but, above prior period expenses. Actual total administrative costs excluding technology and investment expense were above budget estimates as well as the prior period.

Schedule 1A:

Highlights from FY 2018 vs FY 2019 actual expense comparison for the current quarter are presented below:

- Administrative expenses were higher when compared to the prior period. Personnel costs ended the quarter slightly higher than the prior year's quarter due to merit increases and new bargaining unit agreements. The increase was offset by LWOP for paternity leave. Office expense decreased in FY 2019 as FY 2018 expenditures were elevated by various office equipment and furniture purchases. Audit expense differs from the prior year due to timing of progress billing. Legal expense was elevated as work continues on various work plan projects. In addition, legal services from Sonoma County Counsel also increased. The FY 2018 contract expense was for the building appraisal of the Kings Court asset.
- Board education and training costs decreased in FY 2019 due to no off site meeting in the quarter and less attendance at training events. Board stipends differ between quarters due to timing.
- Disability and technology expense increased during the first quarter of FY 2019. Multiple disability hearings occurred during the quarter. Technology expense increased due to work orders related to the actuarial extract process in Pension Gold.
- Investment expense increased in FY 2019 mainly because the, Investec, T Rowe, and SSGA invoice fees directly and were only partially funded in the prior period. Actuary expense differs due to the timing of GASB 67 and 68 invoices.



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 above budget for the first quarter of the fiscal year. The primary drivers being increased legal services and the timing of the external audit progress billings. Legal expense exceeded budget estimates as services from outside vendors, including Sonoma County Counsel, increased due mainly to work plan projects. Office expense came in below budget due to lower than expected costs for office equipment, less office supplies expense and the timing of County IT invoices. Audit expense exceeded the budget due to the timing of progress billing.
- Board Expense came in well below budget as attendance to training events was lower than expected.
- Disability expense in total was above budget for the quarter. Disability hearing activity was elevated at the close of FY 2018 and activity remained elevated through September 30. No administrative review expense occurred during the quarter somewhat offsetting the increase in hearing expense.
- Investment fees were below budget for the first quarter. Investment manager fees include fees billed directly from the following managers: Investec, Mondrian, T. Rowe, and SSGA. The total fees were below budget due to a decrease in asset levels and a drop in the Mondrian fund fees. Custodian expenses differ from budget due to invoice timing.

Conclusion

From a total expense perspective FY 2019 is in line with budget expectations. Total expenditures came in 0.66% under budget. Excluding technology and investment expense, expenditures exceeded budget estimates by \$18,282 or 7.14%. A large part of the increase was due to higher legal and disability expenses. The increase in actual to actual spending was also driven mainly by an increase in legal and disability expenses. The timing of audit invoices also played a factor. It's expected that personnel and office expense will increase during the remainder of the fiscal year and a budget revision may be required.

| Mendocino County Employees Retirement Association | | | | |
|--|-------------------|-------------------|-------------------|----------------|
| Fiscal Year 2019 Budget Comparison | | | | |
| Schedule 1A: Current Year Quarter vs Prior Year Quarter | | | | |
| | FY 2018 | FY 2019 | | |
| | July - Sept | July - Sept | Difference | |
| | Actual | Actual | \$ | % |
| Administrative | | | | |
| Personnel | \$ 147,587 | \$ 149,374 | 1,787 | 1.21% |
| Office Expense | 12,060 | 5,841 | (6,219) | -51.57% |
| Legal Expense | 12,127 | 44,172 | 32,045 | 264.25% |
| Audit | 7,304 | 32,635 | 25,331 | 346.81% |
| Contracts | 2,600 | - | (2,600) | -100.00% |
| Staff Education and Training | 1,383 | 1,008 | (375) | -27.11% |
| Membership | 4,000 | 4,000 | - | 0.00% |
| Imputed Rent (625-B Kings Court) | 13,233 | 13,371 | 138 | 1.04% |
| Subtotal | \$ 200,294 | \$ 250,401 | \$ 50,107 | 25.02% |
| Board Expense | | | | |
| Fiduciary Insurance | - | - | - | 0.00% |
| Board Meeting Stipends | - | 1,800 | 1,800 | 100.00% |
| Board Education and Training | 9,114 | 991 | (8,123) | -89.13% |
| Subtotal | \$ 9,114 | \$ 2,791 | \$ (6,323) | -69.38% |
| Total Administrative & Board Expense | \$ 209,408 | \$ 253,192 | \$ 43,784 | 20.91% |
| Disability | | | | |
| Administrative Review | \$ 4,387 | \$ - | \$ (4,387) | -100.00% |
| Hearings ¹ | 1,280 | 21,260 | 19,980 | 1560.94% |
| Subtotal | \$ 5,667 | \$ 21,260 | \$ 15,593 | 275.15% |
| Total Administrative, Board, and Disability Expense | \$ 215,075 | \$ 274,452 | \$ 59,377 | 27.61% |
| Technology | | | | |
| LRS - Pension Gold | \$ 638 | \$ 6,300 | \$ 5,662 | 887.46% |
| County IT Project Expenses | - | - | - | 0.00% |
| PCX Scan Station | - | - | - | 0.00% |
| Subtotal | \$ 638 | \$ 6,300 | \$ 5,662 | 887.46% |
| Investment | | | | |
| Investment Manager Fees ² | \$ 77,821 | \$ 144,252 | 66,431 | 85.36% |
| Investment Consultant - Callan | 37,492 | 38,617 | 1,125 | 3.00% |
| Custodian Bank - State Street | 8,970 | 8,970 | - | 0.00% |
| Actuary Services - Segal | 8,264 | 1,500 | (6,764) | -81.85% |
| Investment Monitoring ³ | - | - | - | 0.00% |
| Subtotal | \$ 132,547 | \$ 193,339 | \$ 60,792 | 45.86% |
| Property Maintenance Plan | \$ - | \$ - | \$ - | 0.00% |
| Total MCERA Expenses | \$ 348,260 | \$ 474,091 | \$ 125,831 | 36.13% |
| Total Administrative Expenses | \$ 215,075 | \$ 274,452 | \$ 59,377 | 27.61% |
| (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 2019 Budget Comparison | | | | |
| Schedule 2A: Current Year Quarter vs Current Quarter Budget | | | | |
| | FY 2019 | FY 2019 | | |
| | July - Sept | July - Sept | Difference | |
| | Budget | Actual | \$ | % |
| Administrative | | | | |
| Personnel | \$ 147,211 | \$ 149,374 | 2,163 | 1.47% |
| Office Expense | 8,364 | 5,841 | (2,523) | -30.16% |
| Legal Expense | 31,250 | 44,172 | 12,922 | 41.35% |
| Audit | 22,200 | 32,635 | 10,435 | 47.00% |
| Contracts | - | - | - | 0.00% |
| Staff Education and Training | 2,354 | 1,008 | (1,346) | -57.18% |
| Membership | 4,000 | 4,000 | - | 0.00% |
| Imputed Rent (625-B Kings Court) | 13,371 | 13,371 | - | 0.00% |
| Subtotal | \$ 228,750 | \$ 250,401 | \$ 21,651 | 9.47% |
| Board Expense | | | | |
| Fiduciary Insurance | - | - | - | 0.00% |
| Board Meeting Stipends | 2,000 | 1,800 | (200) | -10.00% |
| Board Education and Training | 7,120 | 991 | (6,129) | -86.08% |
| Subtotal | \$ 9,120 | \$ 2,791 | \$ (6,329) | -69.40% |
| Total Administrative & Board Expense | \$ 237,870 | \$ 253,192 | \$ 15,322 | 6.44% |
| Disability | | | | |
| Administrative Review | \$ 7,800 | \$ - | \$ (7,800) | -100.00% |
| Hearings ¹ | 10,500 | 21,260 | 10,760 | 102.48% |
| Subtotal | \$ 18,300 | \$ 21,260 | \$ 2,960 | 16.17% |
| Total Administrative, Board, and Disability Expense | \$ 256,170 | \$ 274,452 | \$ 18,282 | 7.14% |
| Technology | | | | |
| LRS - Pension Gold | \$ 3,500 | \$ 6,300 | \$ 2,800 | 80.00% |
| County IT Project Expenses | 1,250 | - | (1,250) | -100.00% |
| PCX Scan Station | - | - | - | 0.00% |
| Subtotal | \$ 4,750 | \$ 6,300 | \$ 1,550 | 32.63% |
| Investment | | | | |
| Investment Manager Fees ² | \$ 162,342 | \$ 144,252 | (18,090) | -11.14% |
| Investment Consultant - Callan | 37,492 | 38,617 | 1,125 | 3.00% |
| Custodian Bank - State Street | 15,000 | 8,970 | (6,030) | -40.20% |
| Actuary Services - Segal | 1,500 | 1,500 | - | 0.00% |
| Investment Monitoring ³ | - | - | - | 0.00% |
| Subtotal | \$ 216,334 | \$ 193,339 | \$ (22,995) | -10.63% |
| Property Maintenance Plan | \$ - | \$ - | \$ - | 0.00% |
| Total MCERA Expenses | \$ 477,254 | \$ 474,091 | \$ (3,163) | -0.66% |
| Total Administrative Expenses | \$ 256,170 | \$ 274,452 | \$ 18,282 | 7.14% |
| (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. | | | | |