

Date: February 20, 2019
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, 2018. While the major expenses through December 31st, 2018 are recorded, 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 categories for the quarter and fiscal year were below budget estimates. Actual administrative expenses excluding technology and investment categories were below the comparable quarter's cost, but above the prior period on a fiscal year-to-date (YTD) basis.

Schedule 1A & 1B:

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

- Administrative expenses for the YTD were above the prior period driven largely by higher legal expenses. Personnel costs for the current quarter were slightly lower than the prior year's quarter due to the health insurance premium holiday that was partially offset by merit wage increases and other wage adjustments. For the YTD, personnel costs nearly match the prior year. Higher merit and longevity wage increases were offset by the health insurance premium holiday. Office expenses were lower for the quarter and YTD due to higher office equipment and furnishing expense during FY 2018. Audit expense differs for the quarter due to the timing of invoices. Legal costs were higher in FY 2019 due to ongoing benefit related work plan projects. Contract expense in FY 2019 was for the fiduciary governance survey.
- Board Expense for the YTD was lower primarily because new board member education and training events were not needed and off site meeting expense declined.
- Disability hearing expense increased substantially for the quarter and YTD. However, new disability applications decreased concurrently moderating the impact on total disability expenditures.
- Payments to LRS increased in FY 2019 due to change order requests as well as the initial BCP service fees. The scan station expenses differ between years due to timing.



- 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 majority of the cost increase. Year-to-date actuary fees were elevated in FY 2019 due to expenses related to the actuarial audit and staff and auditor inquiries.

Schedule 2A & 2B:

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

- Administrative expenses were at or below budget for the quarter and YTD despite legal expense increases. Personnel expenses were lower for the quarter and YTD primarily because of the health insurance premium holiday, PEPPRA limits, and no overtime expense. Office expense came in under budget for the YTD because of savings from office equipment and furnishings purchases. Legal expense jumped in the quarter as work began in earnest on a number of work plan projects. Staff education and training continued to be well under budget.
- Board Expense came in below budget as attendance to training events was lower than expected and Board stipends and related meeting expenses were also lower than budgeted.
- There were no disability administrative expenses in the quarter or YTD. However, the savings were offset by higher than expected disability hearings expenses. Additional disability applications and resulting administrative costs are anticipated to increase during the latter part of the fiscal year.
- Technology expense came in close to budget estimates.
- Direct investment management fees were below budget estimates as the drop in asset values reduced the management fees charged. Custodian bank invoices are still pending, but expected to be in line with the budget. Actuary expenses did exceed the budget due to additional services related to the actuarial audit and other non-contract expenses.

Conclusion

MCERA's total administrative expenses excluding technology and investment on an YTD basis were below budget estimates, but above actual costs when compared to the prior fiscal year. Total expenses for the first half of the fiscal year were also below budget, but above the prior fiscal year. A large part of the increase in actual to actual spending was due to higher legal expenses. As the work plan project continues it's possible legal expense will moderate and end the fiscal year near budget estimates. However, expenses could remain elevated as the total project cost is somewhat contingent on ongoing work by staff that could uncover the need for additional legal services. Nevertheless, its likely cost savings in other categories will offset any potential budget overages in the legal services category.

Mendocino County Employees Retirement Association				
Fiscal Year 2019 Budget Comparison				
Schedule 1A: Current Year Quarter vs Prior Year Quarter				
	FY 2018	FY 2019		
	Oct - Dec	Oct - Dec	Difference	
	Actual	Actual	\$	%
Administrative				
Personnel	\$ 122,648	\$ 119,679	(2,969)	-2.42%
Office Expense	8,997	4,897	(4,100)	-45.57%
Legal Expense	28,422	54,925	26,503	93.25%
Audit	33,896	4,580	(29,316)	-86.49%
Contracts	-	2,500	2,500	100.00%
Staff Education and Training	1,945	652	(1,293)	-66.48%
Membership	160	160	-	0.00%
Imputed Rent (625-B Kings Court)	13,233	13,371	138	1.04%
Subtotal	\$ 209,301	\$ 200,764	\$ (8,537)	-4.08%
Board Expense				
Fiduciary Insurance	41,346	41,206	(140)	-0.34%
Board Meeting Stipends	2,500	1,500	(1,000)	-40.00%
Board Education and Training	5,233	5,171	(62)	-1.18%
Subtotal	\$ 49,079	\$ 47,877	\$ (1,202)	-2.45%
Total Administrative & Board Expense	\$ 258,380	\$ 248,641	\$ (9,739)	-3.77%
Disability				
Administrative Review	\$ 21,925	\$ -	\$ (21,925)	-100.00%
Hearings ¹	1,216	17,616	16,400	1348.68%
Subtotal	\$ 23,141	\$ 17,616	\$ (5,525)	-23.88%
Total Administrative, Board, and Disability Expense	\$ 281,521	\$ 266,257	\$ (15,264)	-5.42%
Technology				
LRS - Pension Gold	\$ 138,627	\$ 150,140	\$ 11,513	8.31%
County IT Project Expenses		-	-	0.00%
PCX Scan Station	8,500	-	(8,500)	-100.00%
Subtotal	\$ 147,127	\$ 150,140	\$ 3,013	2.05%
Investment				
Investment Manager Fees ²	\$ 145,902	\$ 124,413	(21,489)	-14.73%
Investment Consultant - Callan	37,492	38,617	1,125	3.00%
Custodian Bank - State Street	13,454	8,970	(4,484)	-33.33%
Actuary Services - Segal	78,227	104,627	26,400	33.75%
Investment Monitoring ³	-	1,081	1,081	100.00%
Subtotal	\$ 275,075	\$ 277,708	\$ 2,633	0.96%
Property Maintenance Plan	\$ 2,136	\$ -	\$ (2,136)	-100.00%
Total MCERA Expenses	\$ 705,859	\$ 694,105	\$ (9,618)	-1.67%
Total Administrative Expenses	\$ 281,521	\$ 266,257	\$ (15,264)	-5.42%
(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 1B: Current Year To Date vs Prior Year To Date				
	FY 2018	FY 2019		
	July - Dec	July - Dec	Difference	
	Actual	Actual	\$	%
Administrative				
Personnel	\$ 270,235	\$ 269,054	(1,181)	-0.44%
Office Expense	21,055	11,382	(9,673)	-45.94%
Legal Expense	40,548	99,097	58,549	144.39%
Audit	41,200	38,223	(2,977)	-7.23%
Contracts	2,600	2,500	(100)	-3.85%
Staff Education and Training	3,328	1,660	(1,668)	-50.12%
Membership	4,160	4,160	-	0.00%
Imputed Rent (625-B Kings Court)	26,466	26,742	276	1.04%
Subtotal	\$ 409,592	\$ 452,818	\$ 43,226	10.55%
Board Expense				
Fiduciary Insurance	41,346	41,206	(140)	-0.34%
Board Meeting Stipends	2,500	3,300	800	32.00%
Board Education and Training	14,347	6,162	(8,185)	-57.05%
Subtotal	\$ 58,193	\$ 50,668	\$ (7,525)	-12.93%
Total Administrative & Board Expense	\$ 467,785	\$ 503,486	\$ 35,701	7.63%
Disability				
Administrative Review	\$ 26,312	\$ -	\$ (26,312)	-100.00%
Hearings ¹	2,496	38,875	36,379	1457.49%
Subtotal	\$ 28,808	\$ 38,875	\$ 10,067	34.95%
Total Administrative, Board, and Disability Expense	\$ 496,593	\$ 542,361	\$ 45,768	9.22%
Technology				
LRS - Pension Gold	\$ 139,265	\$ 156,440	\$ 17,175	12.33%
County IT Project Expenses	-	-	-	0.00%
PCX Scan Station	8,500	-	(8,500)	-100.00%
Subtotal	\$ 147,765	\$ 156,440	\$ 8,675	5.87%
Investment				
Investment Manager Fees ²	\$ 223,722	\$ 268,665	44,943	20.09%
Investment Consultant - Callan	74,984	77,234	2,250	3.00%
Custodian Bank - State Street	22,424	22,424	-	0.00%
Actuary Services - Segal	86,491	106,127	19,636	22.70%
Investment Monitoring ³	-	1,081	1,081	100.00%
Subtotal	\$ 407,621	\$ 475,531	\$ 67,910	16.66%
Property Maintenance Plan	\$ 2,136	\$ -	\$ (2,136)	-100.00%
Total MCERA Expenses	\$ 1,054,115	\$ 1,174,332	\$ 122,353	11.40%
Total Administrative Expenses (Total ex Technology & Investment)	\$ 496,593	\$ 542,361	\$ 45,768	9.22%
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		
	Oct - Dec	Oct - Dec	Difference	
	Budget	Actual	\$	%
Administrative				
Personnel	\$ 149,031	\$ 119,679	(29,352)	-19.70%
Office Expense	6,621	4,897	(1,724)	-26.03%
Legal Expense	31,250	54,925	23,675	75.76%
Audit	17,200	4,580	(12,620)	-73.37%
Contracts	2,500	2,500	-	0.00%
Staff Education and Training	4,644	652	(3,992)	-85.96%
Membership	160	160	-	0.00%
Imputed Rent (625-B Kings Court)	13,371	13,371	-	0.00%
Subtotal	\$ 224,776	\$ 200,764	\$ (24,012)	-10.68%
Board Expense				
Fiduciary Insurance	42,000	41,206	(794)	-1.89%
Board Meeting Stipends	2,300	1,500	(800)	-34.78%
Board Education and Training	5,905	5,171	(734)	-12.43%
Subtotal	\$ 50,205	\$ 47,877	\$ (2,328)	-4.64%
Total Administrative & Board Expense	\$ 274,981	\$ 248,641	\$ (26,340)	-9.58%
Disability				
Administrative Review	\$ 11,475	\$ -	\$ (11,475)	-100.00%
Hearings ¹	10,500	17,616	7,116	67.77%
Subtotal	\$ 21,975	\$ 17,616	\$ (4,359)	-19.84%
Total Administrative, Board, and Disability Expense	\$ 296,956	\$ 266,257	\$ (30,699)	-10.34%
Technology				
LRS - Pension Gold	\$ 149,440	\$ 150,140	\$ 700	0.47%
County IT Project Expenses	1,250	-	(1,250)	-100.00%
PCX Scan Station	-	-	-	0.00%
Subtotal	\$ 150,690	\$ 150,140	\$ (550)	-0.37%
Investment				
Investment Manager Fees ²	\$ 162,342	\$ 124,413	(37,929)	-23.36%
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	77,500	104,627	27,127	35.00%
Investment Monitoring ³	1,500	1,081	(419)	-27.93%
Subtotal	\$ 293,834	\$ 277,708	\$ (16,126)	-5.49%
Property Maintenance Plan	\$ -	\$ -	\$ -	0.00%
Total MCERA Expenses	\$ 741,480	\$ 694,105	\$ (47,375)	-6.39%
Total Administrative Expenses	\$ 296,956	\$ 266,257	\$ (30,699)	-10.34%
(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 2B: Current Year To Date vs Current Budget Year To Date				
	FY 2019	FY 2019		
	July - Dec	July - Dec	Difference	
	Budget	Actual	\$	%
Administrative				
Personnel	\$ 296,241	\$ 269,054	(27,188)	-9.18%
Office Expense	14,985	11,382	(3,603)	-24.04%
Legal Expense	62,500	99,097	36,597	58.56%
Audit	39,400	38,223	(1,177)	-2.99%
Contracts	2,500	2,500	-	0.00%
Staff Education and Training	6,998	1,660	(5,338)	-76.28%
Membership	4,160	4,160	-	0.00%
Imputed Rent (625-B Kings Court)	26,742	26,742	-	0.00%
Subtotal	\$ 453,526	\$ 452,818	\$ (708)	-0.16%
Board Expense				
Fiduciary Insurance	42,000	\$ 41,206	(794)	-1.89%
Board Meeting Stipends	4,300	3,300	(1,000)	-23.26%
Board Education and Training	13,025	6,162	(6,863)	-52.69%
Subtotal	\$ 59,325	\$ 50,668	\$ (8,657)	-14.59%
Total Administrative & Board Expense	\$ 512,851	\$ 503,486	\$ (9,365)	-1.83%
Disability				
Administrative Review	\$ 19,275	\$ -	\$ (19,275)	-100.00%
Hearings ¹	21,000	38,875	17,875	85.12%
Subtotal	\$ 40,275	\$ 38,875	\$ (1,400)	-3.48%
Total Administrative, Board, and Disability Expense	\$ 553,126	\$ 542,361	\$ (10,765)	-1.95%
Technology				
LRS - Pension Gold	\$ 152,940	\$ 156,440	\$ 3,500	2.29%
County IT Project Expenses	2,500	-	(2,500)	-100.00%
PCX Scan Station	-	-	-	0.00%
Subtotal	\$ 155,440	\$ 156,440	\$ 1,000	0.64%
Investment				
Investment Manager Fees ²	\$ 324,684	\$ 268,665	(56,019)	-17.25%
Investment Consultant - Callan	74,984	77,234	2,250	3.00%
Custodian Bank - State Street	30,000	22,424	(7,576)	-25.25%
Actuary Services - Segal	79,000	106,127	27,127	34.34%
Investment Monitoring ³	1,500	1,081	(419)	-27.93%
Subtotal	\$ 510,168	\$ 475,531	\$ (34,637)	-6.79%
Property Maintenance Plan	\$ -	\$ -	\$ -	0.00%
Total MCERA Expenses	\$ 1,218,734	\$ 1,174,332	\$ (44,402)	-3.64%
Total Administrative Expenses	\$ 553,126	\$ 542,361	\$ (10,765)	-1.95%
(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.				