



Date: May 15, 2019
To: Board of Retirement
From: James Wilbanks, Ph.D., Executive Director
Robert Reveles, Financial/Investment Officer
Subject: Fiscal Year 2020 Proposed Budget

OVERVIEW

The attached schedules detail the proposed budget for MCERA for fiscal year 2020 (FY-20). The first schedule compares the FY-20 budget proposal to the FY-19 amended MCERA budget. In typical years, there would be additional schedules included comparing the proposed budget to the projected expenses for the current fiscal year as well as a comparison of the current fiscal year projected expenses versus budget. These schedules are not included this year as the third quarter budget update for this year, on which the current year projected expenses are based, is not yet available. As soon as the budget update is available, we will provide the additional comparisons to the Board. The next schedule compares the FY-20 proposed budget and the adopted budget for the prior four fiscal years. The third schedule compares the FY-20 proposed budget against the actual expenditures in prior years, with the FY-19 budget included rather than actual or projected expenses. The FY-19 projected expenses will be provided as soon as we have the third quarter budget update prepared. The last two schedules provide historical perspective in viewing the budget proposal.

This overview provides additional detail on some of the differences in each section of the FY-20 budget proposal to provide context and information beyond the numbers provided in the schedules.

PERSONNEL

The information in the personnel section of the budget is provided to MCERA by the Auditor-Controller based on current staffing levels. There are no changes in staffing levels in the current proposal.

There are a number of difference in the FY-20 proposed budget vs the FY-19 amended budget for this category. First is the changes in salary due to hiring a new Finance/Investment Officer (FIO) at Step 1 of the salary schedule whereas the previous FIO was at Step 5 of the salary schedule. Next, there are expected increases in salary expenses, specifically one staff member is due for step increases and the contracted bonus for the Executive Director.

The second area of changes involves changes in health insurance costs. Overall, the employer portion of the health insurance provided to MCERA employees is increasing by 33% this year for each benefit level. This increase is partially offset by the lower benefit level of the new FIO vs. the previous FIO.

Finally, While not a significant change from the FY-19 budget, the FY-20 Proposed Budget does include funding for 400 hours of staff overtime specifically to address critical projects from the Board Work Plan that require additional focused effort to complete within the desired deadlines. The total funds for staff



Fiscal Year 2020 Budget Proposal Continued

overtime included in the proposed budget are \$17,045, including FICA and Medicare taxes. The FY-19 budget included a total of \$21,530 for staff overtime.

ADMINISTRATIVE

The proposed budget for FY-20 in the Administrative category includes a decrease of \$98,404 from the FY-19 budget. The primary drivers of the proposed increase is the sub-category Contracts with a \$100,000 decrease to remove the FY-19 anticipated expenditures for external parties to conduct a risk assessment and an IT security audit. These projects were included in the FY-19 budget in accordance with the 2019 Board Work Plan, but were not initiated as priorities shifted to other projects. We do expect to return to these projects in the future, but do not anticipate doing so in FY-20.

In addition to the decrease in the Contracts sub-category, there are also changes in other sub-categories within the Administrative Category. Specifically the sub-categories Office Expense and Legal Expense include changes further discussed in the following sections.

Office Expense

The office expense in the FY-20 proposed budget shows a \$10,154 decrease from the FY-19 budget for a number of reasons. The first change is in Office Equipment. In the FY-19 Budget, this line item included \$10,000 to purchase new Board chairs and \$3,000 to purchase two additional laptops for staff, both of which are removed from the proposed budget since they were one-time expenditures. The proposed FY-20 budget proposal includes \$1,500 as a contingency for the purchase of replacement equipment, if needed. After all these adjustments, we then increase the Office Expense item by 5% to account for overall cost increases. On net, this item is decreased from the FY-19 Budget by \$10,154, or 26.43%.

Legal Expense

There is an increase in the legal expense in the FY-20 proposed budget relative to the FY-19 amended budget. There is an increase in the budget for Sonoma County Counsel caused by two factors. We normally see an increase in the hourly rate from Sonoma County Counsel every year and need to plan accordingly. Secondly, we anticipate a modest increase in the usage rate because of some projects on the Board Work Plan. Expenses for other legal counsel remains the same as in the amended FY-19 budget.

BOARD EXPENSE

The changes in the Board Expense category are relative minor. A slight increase is proposed in the Fiduciary Insurance item in case these rates increase. There is no change proposed for the Board meeting expense item. For the Board Education and Training item, we are proposing that we forgo the Strategic Planning off-site meeting this year. Accordingly, we have removed the \$5,000 for the off-site from the FY-19 budget to arrive at a baseline estimate. We then increased this baseline estimate by 10% in anticipation of increased Trustee training needs since we have two relatively new Board members. The net result in the Board Education and Training sub-category is a decrease of \$2,630, or 9.16% relative to the FY-19 amended budget.



DISABILITY

The only change in the Disability category is a slight increase in the Administrative Review item. We remind the Board that the Hearings item was increased from the original proposed FY-19 budget due to an increase in the number of cases going to hearing relative to prior years.

625-B KINGS COURT

The imputed rent for the office space occupied by MCERA in the building the Association owns is proposed to increase by 3% in FY-20. The increase in imputed rent for MCERA is tied to the increase in rent specified in the lease agreement between the Department of Rehabilitative Services and MCERA.

TECHNOLOGY

With implementation of the Pension Administration System (PAS) fully complete, the majority of the LRS/PensionGold costs are straightforward to predict as they are specified in the contract with Levi, Ray and Shoup (LRS), the provider of the Pension Gold system. This contract specified a 10 Year fee schedule. Based on that schedule the FY-20 Pension Gold fee is \$139,940. An additional \$20,000 is included in the proposed budget as a reserve for possible change orders that may be needed to the system. The FY-19 budget included \$36,100 for change orders.

INVESTMENT

There are a number of changes in the Investment category for the FY-20 proposed budget. The first change is an anticipated increase in Investment Manager Fees as a result of the Asset Liability Study, new asset allocation and the potential hiring of new investment managers.

The next change in the Investment category represents an increase in fees for Investment Consulting services provided by Callan, LLC. In the Callan response to the MCERA request for proposals (RFP) for investment consulting services, conducted in 2018, Callan proposed a fee of \$175,000. With their selection, the new fee went into effect in January, 2019.

The next change is an increase in the item Actuary Services – Segal relative to the FY-19 budget in anticipation of additional need for input from the actuary related to various projects on the Board Work Plan.

Finally, we propose a decrease of \$7,950, or 40.77%, for Internal Investment Monitoring proposed in the FY-20 budget. This sub-category includes funds for three distinct areas: regular due diligence meetings with our current investment managers, access to investment data from an external provider and on-site due diligence for the investment consultant RFP.

We removed \$9,000 from the FY-19 Internal Investment Monitoring since there will be no investment consultant due diligence this year. This figure then serves as our baseline estimate, which we then increase by 10% in anticipation of cost and utilization increases this year.

**TOTAL COMPARISONS**

There are a number of sub-total or total budget comparisons of note for MCERA. The easiest is the Total MCERA Budget. Schedule 1 shows the proposed FY-20 budget includes an increase of \$40,400 over the amended FY-19 budget. Across the various budget categories, we see roughly a \$20,000 increase in Personnel, a nearly \$100,000 decrease in Administrative, almost no change in Board Expense, Disability and Imputed Rent, a \$16,000 decrease in Technology and a \$120,000 increase in investments.

Much more relevant for a 1937 Act Plan is the Administrative Expenses Sub-Total. The County Employees' Retirement Law of 1937 (CERL or 1937 Act), defines and specifies a limit on these expenses for all plans organized under the act. Administrative Expenses includes any MCERA expenses except for Technology and Investment expenses.

The Administrative Expenses statutory limit is the greater of \$2,000,000 or 21 basis points (0.21%) of the most recent Actuarial Accrued Liabilities (AAL) of the plan. For MCERA, the statutory limit on Administrative Expenses is the \$2,000,000.

The MCERA Board, in the Budget Adoption Policy, specifies that the budget limit for MCERA shall be 21 basis points (0.21%) of the most recent Actuarial Accrued Liabilities of the plan. For FY-20, the AAL is \$717,461,993 based on the June 30, 2018 actuarial valuation. This AAL results in the MCERA Policy based budget limit for Administrative Expenses of \$1,506,670.

The total Administrative Expenses in the proposed FY-20 budget is \$1,227,845. This proposal is \$772,155 below the statutory limit and \$278,825 below the limit specified by the Board in policy.

Mendocino County Employees Retirement Association
Fiscal Year 2020
Proposed Budget vs Prior Year Amended Budget

	FY 2019		FY 2020		Difference	
	Adopted Budget		Proposed Budget			
	Revised (Mar '19)		(May '19)		\$	%
Personnel (BU 1920)						
Gross Regular Salaries ¹	\$ 419,888	\$	441,493	\$	21,605	5.15%
Retirement	118,006		117,476		(529)	-0.45%
FICA	23,717		22,834		(883)	-3.72%
Medicare	5,847		6,294		447	7.65%
Retirement Cola	31,330		26,724		(4,605)	-14.70%
Health Insurance	49,748		54,106		4,358	8.76%
Unemployment Insurance	265		272		7	2.64%
Workers Comp	305		321		16	5.25%
Subtotal	\$ 649,105	\$	669,521	\$	20,416	3.15%
Administrative						
Office Expense	\$ 38,420	\$	28,266	\$	(10,154)	-26.43%
Legal Expense	200,000		210,000		10,000	5.00%
Audit	39,400		40,000		600	1.52%
Contracts ²	103,400		3,500		(99,900)	-96.62%
Staff Education and Training	16,000		16,800		800	5.00%
Membership	5,250		5,500		250	4.76%
Subtotal	\$ 402,470	\$	304,066	\$	(98,404)	-24.45%
Board Expense						
Fiduciary Insurance	\$ 42,000	\$	45,000	\$	3,000	7.14%
Board Meeting Expense	8,100		8,100		-	0.00%
Board Education and Training	28,700		26,070		(2,630)	-9.16%
Subtotal	\$ 78,800	\$	79,170	\$	370	0.47%
Total Personnel, Administrative & Board Expense	\$ 1,130,375	\$	1,052,757	\$	(77,618)	-6.87%
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Disability						
Administrative Review	\$ 38,000	\$	40,000		2,000	5.26%
Hearings	80,000		80,000		-	0.00%
Subtotal	\$ 118,000	\$	120,000	\$	2,000	1.69%
625-B Kings Court						
Imputed Rent	\$ 53,484	\$	55,089	\$	1,605	3.00%
Subtotal	\$ 53,484	\$	55,089	\$	1,605	3.00%
Total Administration Expense	\$ 1,301,859	\$	1,227,845	\$	(74,014)	-5.69%

Mendocino County Employees Retirement Association
Fiscal Year 2020
Proposed Budget vs Prior Year Amended Budget

	FY 2019		FY 2020		Difference	
	Adopted Budget		Proposed Budget			
	Revised (Mar '19)		(May '19)		\$	%
Technology						
LRS/Pension Gold	\$	176,040	\$	159,940	\$ (16,100)	-9.15%
County IT Related Expenses		5,000		5,000	-	0.00%
PCX Scan Station		9,000		9,000	-	0.00%
Subtotal	\$	190,040	\$	173,940	\$ (16,100)	-8.47%
Investment						
Investment Manager Fees	\$	649,368	\$	720,000	\$ 70,632	10.88%
Investment Consultant - Callan		150,168		175,000	24,832	16.54%
Actuary Services - Segal		87,000		120,000	33,000	37.93%
Custodian Bank - State Street		60,000		60,000	-	0.00%
Internal Investment Monitoring		19,500		11,550	(7,950)	-40.77%
Subtotal	\$	966,036	\$	1,086,550	\$ 120,514	12.48%
Capital Improvement Plan	\$	15,000	\$	25,000	\$ 10,000	66.67%
Total MCERA	\$	2,472,935	\$	2,513,335	\$ 40,400	1.63%
Total Administrative Expenses	\$	1,301,859	\$	1,227,845		
(Total ex Technology & Investment)						
CERL Administrative Cap	\$	2,000,000	\$	2,000,000		
(Over)/Under Cap	\$	698,141	\$	772,155		
MCERA Policy Cap	\$	1,427,087	\$	1,506,670		
Balance	\$	125,228	\$	278,825		
Basis Points Test		0.21%		0.21%		
AAL	\$	679,565,362	\$	717,461,993		
Date		6/30/2017		6/30/2018		

¹ Includes 400 Hours in Benefits staff overtime for projects.

² \$100,000 for internal risk audit contract in FY-19.