

Date: June 19, 2019
To: Board of Retirement
From: F. Robert Reveles, 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, 2019. While the major expenses through March 31, 2019 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 for the quarter and fiscal year were below budget estimates. Actual administrative expenses excluding technology and investment categories were more than the comparable quarter's cost by about 17%, and nearly 12% on a 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 quarter and YTD were above the prior period driven largely by higher legal expenses. Personnel costs for the current quarter are slightly higher than the prior year's quarter due to merit wage increases. For the YTD, personnel costs nearly match the prior year. Office expenses were lower for the quarter and YTD due to higher office equipment and furnishing expense during FY 2018. Legal costs are higher in FY 2019 due to ongoing work plan projects. Staff education and Training costs are about half the value of last fiscal year; prior fiscal year had greater utilization.
- Board Expense for the quarter and YTD was lower primarily because new board member education and training events were not utilized.
- Disability hearing expense increased substantially for the quarter and YTD, primarily due to one hearing.
- Payments to LRS increased in FY 2019 due to change order requests, and a new emergency backup processing module. (PG Secure)
- Total investment expense is lower than previous years primarily because the Custodial bank management fees have been approximately 11% less than budgeted, and in the prior year the Actuarial Audit study was conducted.



Preliminary Quarterly Budget Update Continued

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. For the quarter, the line items office expense, legal expense, and staff education and training came in under budget. Office expense is low because of timing of invoices. (Board Chairs paid in April, 2019) Legal expense has increased due to increase in demand for services. Staff education and training is 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.
- Overall, disability expenses are just below budget. Administrative review has only adjudicated 2 cases to date this fiscal year.
- Technology expense came in slightly higher than budget estimates.
- Direct investment management fees were below budget estimates as the estimates were based on aggressive asset growth assumptions as well as adding new managers to the mix. There was a large asset value decrease in Q2 of this fiscal year, though Q3 saw a rally it was not enough to meet the assumed growth of the assets. Through Q3 management fees are about 62% of what was expected at this time. Custodian bank invoices are lower than budget.

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 three quarters of the fiscal year were also below budget, but above the prior fiscal year. Like the prior quarter, a large part of the increase in actual to actual spending was due to higher legal expenses. Disability reviews, also as predicted, have increased significantly-nearly doubling the cost on an YTD basis.

Mendocino County Employees Retirement Association				
Fiscal Year 2019 Budget Comparison				
Schedule 1A: Current Year Quarter vs Prior Year Quarter				
	FY 2018	FY 2019		
	Jan-Mar	Jan-Mar	Difference	
	Actual	Actual	\$	%
Administrative				
Personnel	\$ 169,106	\$ 174,818	5,712	3.38%
Office Expense	8,650	5,917	(2,733)	-31.60%
Legal Expense	12,428	37,542	25,114	202.08%
Audit	-	745	745	100.00%
Contracts	-	-	-	0.00%
Staff Education and Training	3,830	1,479	(2,351)	-61.38%
Membership	1,005	1,505	500	49.75%
Imputed Rent (625-B Kings Court)	13,233	13,371	138	1.04%
Subtotal	\$ 208,252	\$ 235,377	\$ 27,125	13.03%
Board Expense				
Fiduciary Insurance	-	(18)	(18)	-100.00%
Board Meeting Stipends	1,300	1,300	-	0.00%
Board Education and Training	4,569	2,236	(2,333)	-51.06%
Subtotal	\$ 5,869	\$ 3,518	\$ (2,351)	-40.06%
Total Administrative & Board Expense	\$ 214,121	\$ 238,895	\$ 24,774	11.57%
Disability				
Administrative Review	\$ 3,805	\$ 12,030	\$ 8,225	216.16%
Hearings ¹	6,328	12,000	5,672	89.63%
Subtotal	\$ 10,133	\$ 24,030	\$ 13,897	137.15%
Total Administrative, Board, and Disability Expense	\$ 224,254	\$ 262,925	\$ 38,671	17.24%
Technology				
LRS - Pension Gold	\$ 7,962	\$ 9,911	\$ 1,949	24.48%
County IT Project Expenses			-	0.00%
PCX Scan Station	-	-	-	0.00%
Subtotal	\$ 7,962	\$ 9,911	\$ 1,949	24.48%
Investment				
Investment Manager Fees ²	\$ 138,596	\$ 130,667	(7,929)	-5.72%
Investment Consultant - Callan	38,617	43,750	5,133	13.29%
Custodian Bank - State Street	13,783	8,970	(4,813)	-34.92%
Actuary Services - Segal	60,099	1,500	(58,599)	-97.50%
Investment Monitoring ³	-	-	-	0.00%
Subtotal	\$ 251,095	\$ 184,887	\$ (66,208)	-26.37%
Property Maintenance Plan	\$ 79,779	\$ -	\$ (79,779)	-100.00%
Total MCERA Expenses	\$ 563,090	\$ 457,723	\$ (25,588)	-18.71%
Total Administrative Expenses	\$ 224,254	\$ 262,925	\$ 38,671	17.24%
(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		
	Jul-Mar	Jul-Mar	Difference	
	Actual	Actual	\$	%
Administrative				
Personnel	\$ 439,341	\$ 443,872	4,531	1.03%
Office Expense	29,705	17,297	(12,408)	-41.77%
Legal Expense	52,976	136,639	83,663	157.93%
Audit	41,200	38,968	(2,232)	-5.42%
Contracts	2,600	2,500	(100)	-3.85%
Staff Education and Training	7,158	3,139	(4,019)	-56.15%
Membership	5,165	5,665	500	9.68%
Imputed Rent (625-B Kings Court)	39,699	40,113	414	1.04%
Subtotal	\$ 617,844	\$ 688,193	\$ 70,349	11.39%
Board Expense				
Fiduciary Insurance	41,346	41,188	(158)	-0.38%
Board Meeting Stipends	3,800	4,600	800	21.05%
Board Education and Training	18,916	8,398	(10,518)	-55.60%
Subtotal	\$ 64,062	\$ 54,186	\$ (9,876)	-15.42%
Total Administrative & Board Expense	\$ 681,906	\$ 742,379	\$ 60,473	8.87%
Disability				
Administrative Review	\$ 30,117	\$ 12,030	\$ (18,087)	-60.06%
Hearings ¹	8,824	50,875	42,051	476.55%
Subtotal	\$ 38,941	\$ 62,905	\$ 23,964	61.54%
Total Administrative, Board, and Disability Expense	\$ 720,847	\$ 805,284	\$ 84,437	11.71%
Technology				
LRS - Pension Gold	\$ 147,227	\$ 166,351	\$ 19,124	12.99%
County IT Project Expenses	-	-	-	0.00%
PCX Scan Station	8,500	-	(8,500)	-100.00%
Subtotal	\$ 155,727	\$ 166,351	\$ 10,624	6.82%
Investment				
Investment Manager Fees ²	\$ 362,319	\$ 399,032	36,713	10.13%
Investment Consultant - Callan	113,601	120,984	7,383	6.50%
Custodian Bank - State Street	36,207	31,393	(4,814)	-13.30%
Actuary Services - Segal	146,590	114,077	(32,513)	-22.18%
Investment Monitoring ³	-	1,081	1,081	100.00%
Subtotal	\$ 658,717	\$ 666,567	\$ 7,850	1.19%
Property Maintenance Plan	\$ 81,915	\$ -	\$ (81,915)	-100.00%
Total MCERA Expenses	\$ 1,617,206	\$ 1,638,202	\$ 102,911	1.30%
Total Administrative Expenses (Total ex Technology & Investment)	\$ 720,847	\$ 805,284	\$ 84,437	11.71%
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		
	Jan-Mar	Jan-Mar	Difference	
	Budget	Actual	\$	%
Administrative				
Personnel	\$ 173,931	\$ 174,818	887	0.51%
Office Expense	9,605	5,917	(3,688)	-38.40%
Legal Expense	50,000	37,542	(12,458)	-24.92%
Audit		745	745	100.00%
Contracts	-	-	-	0.00%
Staff Education and Training	4,501	1,479	(3,022)	-67.14%
Membership	545	1,505	960	176.15%
Imputed Rent (625-B Kings Court)	13,371	13,371	-	0.00%
Subtotal	\$ 251,953	\$ 235,377	\$ (16,576)	-6.58%
Board Expense				
Fiduciary Insurance		(18)	(18)	-100.00%
Board Meeting Stipends	1,500	1,300	(200)	-13.33%
Board Education and Training	7,175	2,236	(4,939)	-68.84%
Subtotal	\$ 8,675	\$ 3,518	\$ (5,157)	-59.45%
Total Administrative & Board Expense	\$ 260,628	\$ 238,895	\$ (21,733)	-8.34%
Disability				
Administrative Review	\$ 9,363	\$ 12,030	\$ 2,667	28.48%
Hearings ¹	20,000	12,000	(8,000)	-40.00%
Subtotal	\$ 29,363	\$ 24,030	\$ (5,333)	-18.16%
Total Administrative, Board, and Disability Expense	\$ 289,991	\$ 262,925	\$ (27,066)	-9.33%
Technology				
LRS - Pension Gold	\$ 3,500	\$ 9,911	\$ 6,411	183.17%
County IT Project Expenses	1,250	-	(1,250)	-100.00%
PCX Scan Station	4,500	-	(4,500)	-100.00%
Subtotal	\$ 9,250	\$ 9,911	\$ 661	7.15%
Investment				
Investment Manager Fees ²	\$ 162,342	\$ 130,667	(31,675)	-19.51%
Investment Consultant - Callan	37,592	43,750	6,158	16.38%
Custodian Bank - State Street	15,000	8,970	(6,030)	-40.20%
Actuary Services - Segal	4,000	1,500	(2,500)	-62.50%
Investment Monitoring ³	9,000	-	(9,000)	-100.00%
Subtotal	\$ 227,934	\$ 184,887	\$ (43,047)	-18.89%
Property Maintenance Plan	\$ 3,750	\$ -	\$ (3,750)	-100.00%
Total MCERA Expenses	\$ 530,925	\$ 457,723	\$ (69,452)	-13.79%
Total Administrative Expenses	\$ 289,991	\$ 262,925	\$ (27,066)	-9.33%
(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		
	Jul-Mar	Jul-Mar	Difference	
	Budget	Actual	\$	%
Administrative				
Personnel	\$ 498,765	\$ 443,872	(54,893)	-11.01%
Office Expense	28,815	17,297	(11,518)	-39.97%
Legal Expense	150,000	136,639	(13,361)	-8.91%
Audit	39,400	38,968	(432)	-1.10%
Contracts	2,500	2,500	-	0.00%
Staff Education and Training	11,499	3,139	(8,360)	-72.70%
Membership	4,705	5,665	960	20.40%
Imputed Rent (625-B Kings Court)	40,113	40,113	-	0.00%
Subtotal	\$ 775,797	\$ 688,193	\$ (87,604)	-11.29%
Board Expense				
Fiduciary Insurance	42,000	\$ 41,188	(812)	-1.93%
Board Meeting Stipends	5,800	4,600	(1,200)	-20.69%
Board Education and Training	21,525	8,398	(13,127)	-60.98%
Subtotal	\$ 69,325	\$ 54,186	\$ (15,139)	-21.84%
Total Administrative & Board Expense	\$ 845,122	\$ 742,379	\$ (102,743)	-12.16%
Disability				
Administrative Review	\$ 28,638	\$ 12,030	\$ (16,608)	-57.99%
Hearings ¹	60,000	50,875	(9,125)	-15.21%
Subtotal	\$ 88,638	\$ 62,905	\$ (25,733)	-29.03%
Total Administrative, Board, and Disability Expense	\$ 933,760	\$ 805,284	\$ (128,476)	-13.76%
Technology				
LRS - Pension Gold	\$ 156,440	\$ 166,351	\$ 9,911	6.34%
County IT Project Expenses	3,750	-	(3,750)	-100.00%
PCX Scan Station	4,500	-	(4,500)	-100.00%
Subtotal	\$ 164,690	\$ 166,351	\$ 1,661	1.01%
Investment				
Investment Manager Fees ²	\$ 487,026	\$ 399,032	(87,994)	-18.07%
Investment Consultant - Callan	112,576	120,984	8,408	7.47%
Custodian Bank - State Street	45,000	31,393	(13,607)	-30.24%
Actuary Services - Segal	83,000	114,077	31,077	37.44%
Investment Monitoring ³	10,500	1,081	(9,419)	-89.70%
Subtotal	\$ 738,102	\$ 666,567	\$ (71,535)	-9.69%
Property Maintenance Plan	\$ 11,250	\$ -	\$ (11,250)	-100.00%
Total MCERA Expenses	\$ 1,847,803	\$ 1,638,202	\$ (198,351)	-11.34%
Total Administrative Expenses	\$ 933,760	\$ 805,284	\$ (128,476)	-13.76%
(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.				