

Date: June 19, 2019  
To: Board of Retirement  
From: James Wilbanks, Ph.D., Executive Director  
F. Robert Reveles, Financial/Investment Officer  
Subject: Fiscal Year 2019 Budget Projection

### Introduction

With the completion of the third quarter (Q3) budget update for fiscal year 2019 (FY-19), we can now prepare and present a projection of expenses for FY-19. Typically the projection is prepared as part of the comparisons for the budget proposal for the next fiscal year. Due to the transition in the Financial/Investment Officer position this year, the Q3 Budget Update and FY-19 Projection were delayed and not available as part of the budget proposal process. This memo covers the FY-19 Projection and provides two schedules with detailed comparisons. The first schedule compares the FY-19 Projection against the FY-18 actual expenditures while the second schedule compares the FY-19 Projection against the FY-19 Budget.

### Schedule 1:

Highlights from FY-19 Projection vs FY-18 actual expense comparison are presented below:

- Projected Administrative expenses for the year are higher than last year, primarily due to a significant increase in legal expenses driven by Board Work Plan priorities. Projected Personnel costs for the year are flat versus prior year. Projected Office expenses are nearly 10% less than last year, largely due to significant one-time expenses in FY-18. Projected Staff Education and Training costs are down nearly 24% due to less utilization of training in FY-19.
- Projected Board Expense is down nearly 10% versus the prior year, primarily due to less utilization of board member education and training.
- Projected Disability expense is lower than the FY-18 actuals, with the Administrative Review well below (-56%) prior year and Hearings well above (24%) prior year expenditures.
- Projected Technology expenses are 17% higher than in FY-18. This increase is due to increased services in LRS-Pension Gold, with the addition of PG Secure and the need for several projects to further customize PG for MCERA needs.
- Projected Investment expenses are slightly lower than FY-18 actual expenses primarily due to the Actuarial Audit expense in the prior year.
- Projected Property Maintenance Plan expenses are significantly lower than in FY-18 since most of the deferred maintenance issues were addressed in FY-17 and FY-18.



## Preliminary Quarterly Budget Update Continued

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- Projected Total MCERA Expenses for FY-19 are just over \$50,000, or 2.3%, below FY-18 actual expenses. Projected Total Administrative Expenses for FY-19 are nearly \$62,000, or 6%, higher than FY-18 actual expenses.

### Schedule 2:

Highlights from the FY-19 Projection vs. FY-19 Budget are presented below:

- Projected Administrative expenses are well below budgeted amounts. Projected Personnel expenses are 8.4% below budget. This is caused by several factors including: less overtime than budgeted, the health insurance premium holiday, PEPPRA limits and savings from the Financial/Investment Officer position being vacant for a period of time. Projected Contracts expenses is well below budget as Board Work Plan priorities shifted and the planned Risk Review contract was not issued.
- Projected Board Expense is below budget as attendance at training events is lower than expected and Board stipends and related meeting expenses are also lower than budgeted.
- Projected Disability expenses are below budget. However, projecting expenses for this category is difficult as the expenses are driven by external factors over which MCERA has relatively little control.
- Projected Technology expenses are very close to budget estimates.
- Projected Investment expenses are over 12% below budgeted amounts. This difference is driven mostly by Investment Management Fees which are projected to be over \$140,000 below budget. As a reminder, when we budget for Investment Manager Fees, we assumed both an increase in the number of managers paid directly as well as healthy growth in assets under management.
- Projected Property Maintenance Plan expenses are below budget by 75%, although the dollar amount is only \$11,000. This category could end up at or above budget as the County often waits to provide invoices until the end of the fiscal year for projects related to the building.
- Projected Total MCERA Expenses for FY-19 are \$340,000, or 14%, below budget. Projected Total Administrative Expenses are \$219,999, or 16%, below budget.

Mendocino County Employees Retirement Association				
Fiscal Year 2019 Budget Comparison				
Schedule 1: Current Year Projection vs Prior Year Actual				
	FY 2018	FY 2019		
	Jul-Jun	Jul-Jun	Difference	
	Actual	Projection	\$	%
<b>Administrative</b>				
Personnel	\$ 592,996	\$ 594,212	1,216	0.20%
Office Expense	40,374	36,413	(3,961)	-9.81%
Legal Expense	94,281	186,639	92,358	97.96%
Audit	43,432	38,968	(4,464)	-10.28%
Contracts	3,510	2,500	(1,010)	-28.77%
Staff Education and Training	10,043	7,640	(2,403)	-23.93%
Membership	5,165	6,210	1,045	20.23%
Imputed Rent (625-B Kings Court)	52,932	53,484	552	1.04%
<b>Subtotal</b>	<b>\$ 842,733</b>	<b>\$ 926,066</b>	<b>\$ 83,333</b>	<b>9.89%</b>
<b>Board Expense</b>				
Fiduciary Insurance	41,346	\$ 41,188	(158)	-0.38%
Board Meeting Stipends	5,200	\$ 6,900	1,700	32.69%
Board Education and Training	24,127	\$ 15,573	(8,554)	-35.45%
<b>Subtotal</b>	<b>\$ 70,673</b>	<b>\$ 63,661</b>	<b>\$ (7,012)</b>	<b>-9.92%</b>
<b>Total Administrative &amp; Board Expense</b>	<b>\$ 913,406</b>	<b>\$ 989,727</b>	<b>\$ 76,321</b>	<b>8.36%</b>
<b>Disability</b>				
Administrative Review	\$ 49,607	\$ 21,392	\$ (28,215)	-56.88%
Hearings <sup>1</sup>	57,062	\$ 70,875	13,813	24.21%
<b>Subtotal</b>	<b>\$ 106,669</b>	<b>\$ 92,267</b>	<b>\$ (14,402)</b>	<b>-13.50%</b>
<b>Total Administrative, Board, and Disability Expense</b>	<b>\$ 1,020,075</b>	<b>\$ 1,081,994</b>	<b>\$ 61,919</b>	<b>6.07%</b>
<b>Technology</b>				
LRS - Pension Gold	\$ 154,946	\$ 185,951	\$ 31,005	20.01%
County IT Project Expenses	-	\$ 1,250	1,250	100.00%
PCX Scan Station	8,500	\$ 4,500	(4,000)	-47.06%
<b>Subtotal</b>	<b>\$ 163,446</b>	<b>\$ 191,701</b>	<b>\$ 28,255</b>	<b>17.29%</b>
<b>Investment</b>				
Investment Manager Fees <sup>2</sup>	\$ 497,833	\$ 508,110	10,277	2.06%
Investment Consultant - Callan	152,218	\$ 158,576	6,358	4.18%
Custodian Bank - State Street	54,076	\$ 46,393	(7,683)	-14.21%
Actuary Services - Segal	178,474	\$ 118,077	(60,397)	-33.84%
Investment Monitoring <sup>3</sup>	894	\$ 10,081	9,187	1027.63%
<b>Subtotal</b>	<b>\$ 883,495</b>	<b>\$ 841,237</b>	<b>\$ (42,258)</b>	<b>-4.78%</b>
<b>Property Maintenance Plan</b>	<b>\$ 102,617</b>	<b>\$ 3,750</b>	<b>\$ (98,867)</b>	<b>-96.35%</b>
<b>Total MCERA Expenses</b>	<b>\$ 2,169,633</b>	<b>\$ 2,118,682</b>	<b>\$ (50,951)</b>	<b>-2.35%</b>
<b>Total Administrative Expenses (Total ex Technology &amp; Investment)</b>	<b>\$ 1,020,075</b>	<b>\$ 1,081,994</b>	<b>\$ 61,919</b>	<b>6.07%</b>
<sup>1</sup> All Hearing related expenses including any hearing preparations.				
<sup>2</sup> Investment fees paid directly to managers.				
<sup>3</sup> Investment manager monitoring, consultant RFP due diligence, investment data.				

Mendocino County Employees Retirement Association				
Fiscal Year 2019 Budget Comparison				
Schedule 2: Current Year Projection vs Current Year Budget				
	FY 2019	FY 2019		
	Jul-Jun	Jul-Jun	Difference	
	Budget	Projection	\$	%
<b>Administrative</b>				
Personnel	\$ 649,105	\$ 594,212	(54,893)	-8.46%
Office Expense	38,420	36,413	(2,007)	-5.22%
Legal Expense	200,000	186,639	(13,361)	-6.68%
Audit	39,400	38,968	(432)	-1.10%
Contracts	103,400	2,500	(100,900)	-97.58%
Staff Education and Training	16,000	7,640	(8,360)	-52.25%
Membership	5,250	6,210	960	18.29%
Imputed Rent (625-B Kings Court)	53,484	53,484	-	0.00%
<b>Subtotal</b>	<b>\$ 1,105,059</b>	<b>\$ 926,066</b>	<b>\$ (178,993)</b>	<b>-16.20%</b>
<b>Board Expense</b>				
Fiduciary Insurance	42,000	\$ 41,188	(812)	-1.93%
Board Meeting Stipends	8,100	6,900	(1,200)	-14.81%
Board Education and Training	28,700	15,573	(13,127)	-45.74%
<b>Subtotal</b>	<b>\$ 78,800</b>	<b>\$ 63,661</b>	<b>\$ (15,139)</b>	<b>-19.21%</b>
<b>Total Administrative &amp; Board Expense</b>	<b>\$ 1,183,859</b>	<b>\$ 989,727</b>	<b>\$ (194,132)</b>	<b>-16.40%</b>
<b>Disability</b>				
Administrative Review	\$ 38,000	\$ 21,392	\$ (16,608)	-43.71%
Hearings <sup>1</sup>	80,000	70,875	(9,125)	-11.41%
<b>Subtotal</b>	<b>\$ 118,000</b>	<b>\$ 92,267</b>	<b>\$ (25,733)</b>	<b>-21.81%</b>
<b>Total Administrative, Board, and Disability Expense</b>	<b>\$ 1,301,859</b>	<b>\$ 1,081,994</b>	<b>\$ (219,865)</b>	<b>-16.89%</b>
<b>Technology</b>				
LRS - Pension Gold	\$ 176,040	\$ 185,951	\$ 9,911	5.63%
County IT Project Expenses	5,000	1,250	(3,750)	-75.00%
PCX Scan Station	9,000	4,500	(4,500)	-50.00%
<b>Subtotal</b>	<b>\$ 190,040</b>	<b>\$ 191,701</b>	<b>\$ 1,661</b>	<b>0.87%</b>
<b>Investment</b>				
Investment Manager Fees <sup>2</sup>	\$ 649,368	\$ 508,110	(141,258)	-21.75%
Investment Consultant - Callan	150,168	158,576	8,408	5.60%
Custodian Bank - State Street	60,000	46,393	(13,607)	-22.68%
Actuary Services - Segal	87,000	118,077	31,077	35.72%
Investment Monitoring <sup>3</sup>	19,500	10,081	(9,419)	-48.30%
<b>Subtotal</b>	<b>\$ 966,036</b>	<b>\$ 841,237</b>	<b>\$ (124,799)</b>	<b>-12.92%</b>
<b>Property Maintenance Plan</b>	<b>\$ 15,000</b>	<b>\$ 3,750</b>	<b>\$ (11,250)</b>	<b>-75.00%</b>
<b>Total MCERA Expenses</b>	<b>\$ 2,472,935</b>	<b>\$ 2,118,682</b>	<b>\$ (354,253)</b>	<b>-14.33%</b>
<b>Total Administrative Expenses (Total ex Technology &amp; Investment)</b>	<b>\$ 1,301,859</b>	<b>\$ 1,081,994</b>	<b>\$ (219,865)</b>	<b>-16.89%</b>
<sup>1</sup> All Hearing related expenses including any hearing preparations.				
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