

Date: September 13th, 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 fiscal year ending June 30, 2019. While all the information for the fiscal year end has been recorded, figures in this report are still preliminary as there may be some minor reclassifications as a result of the external audit. 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 items for the quarter fell just shy of prior period expenditures and budget estimates. For the fiscal year expenditures were above the prior fiscal year, but below the budgeted amount.

Schedule 1A & 1B:

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

- Administrative expenses for the quarter were less than prior year totals. Office expenses (new board chairs) and Staff Education and Training were driving factors in the increase for the quarter. For the year Legal expense increased compared to last year because of the need for more legal services.
- Board Expense was lower for the quarter and lower for the fiscal year primarily because of greater attendance at education and training events including SACRS, CalAPRS, and Callan events in FY18. During the final quarter of FY18 a new trustee attended CALAPRS Pension Governance class. For FY19 Board Education and Training was lower because of lower attendance at training events.
- Disability costs were lower during the quarter than the prior year. Last year's quarter costs were elevated due to arbitration and mediation cases in June '18. For the year FY19 total costs are slightly below FY18 total costs because of decreased administrative review.
- Technology expense during the quarter was higher than last fiscal year because this year includes multiple change orders. (Mostly the Member Account Verification PIR) The FY 2019 expenses are higher because there was one more PIR and two more hourly support billings. (Average PIR cost was more also) No County related IT project expenses occurred in FY 2019.
- Investment expenses decreased for the quarter, driven mainly by two sources: State Street billing and actuarial billing. At this time State Street billing for Q4FY19 has not entered MUNIS, while last year MCERA paid for an actuarial audit of Segal. (This year MCERA has not) For the fiscal year the Investment expenses have decreased overall. Though the investment manager fees and Callan fees



Preliminary Quarterly Budget Update Continued

have increased during the fiscal year the lack of quarterly State Street billing and last years actuarial audit charges have actually decreased total expenses.

- There were no FY 2019 property maintenance projects.

Schedule 2A & 2B:

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 below budget for the quarter as well as the fiscal year. Office expense was greater for the quarter than budget because of new Board Chairs and supplies, while contracts expense was below budget estimates. (Audit contract not spent) For the fiscal year Personnel was lower because of the new salary of FIO is at a lower rate than previous FIO. FIO position also took 3 pay periods to fill once prior FIO had resigned. Legal expense was below budget estimates. Audit contract expense (Contracts) in budget was not executed this fiscal year.
- Board stipends for the quarter and fiscal year were lower primarily due to less Board meeting attendance. The budget for Board stipends is built with the assumption of perfect attendance and additional committee meetings as a contingency. Board education and training came in under budget due to lower than expected attendance to trainings and no FY19 offsite meeting.
- Disability activity is up during the quarter and exceeded the budget estimates. For the fiscal year, total disability expenses did not exceed the budget, primarily due to lack of hearings compared to last year. Hearing related expenses ended the fiscal year below budget, while administrative review costs ended the fiscal year above budget. Disability expenses are difficult to predict as they are driven by the volume of applications which can vary greatly from year to year.
- Technology expense was below budget estimates during the quarter. For the fiscal year, while LRS expenses increased due to a greater number of PIR's than expected, there were no County IT or PCX Scan expenses.
- Investment expenses for the quarter were lower than budget estimates, as mentioned above, because the custodial bank has not invoiced us for April, May, or June. Investment manager fees for the fiscal year are lower than budget estimates because the budget included a 5% increase (7% for one manager) in net asset values over the Fiscal year. Actual asset values were not as high as budget estimates. Actuary Services via Segal for FY19 were more expensive than anticipated.
- There were no capital improvement projects in FY19

Conclusion

For the fiscal year, MCERA's total administrative expenses excluding technology and investment were below budget estimates, but above the prior year. For the quarter, total administrative expenses excluding technology and investment were below the prior year and the budget. Total expenses for the fiscal year were above prior



MCERA

Preliminary Quarterly Budget Update Continued

period costs and below budget estimates. Total administrative expenses excluding technology and investment increased by 7.03% when compared to the prior fiscal year. When compared to the budget, MCERA's total administrative expenses excluding technology and investment for the fiscal year were below estimates by 16.14%. Administrative expenses excluding technology and investment for FY 2019 were below MCERA's policy limit by about \$335,000 and below the cap set by CERL by about \$908,000.

Mendocino County Employees Retirement Association				
Fiscal Year 2019 Budget Comparison				
Schedule 1A: Current Year Quarter vs Prior Year Quarter				
	FY 2018	FY 2019		
	Apr-Jun	Apr-Jun	Difference	
	Actual	Actual	\$	%
Administrative				
Personnel	\$ 153,655	\$ 155,874	2,219	1.44%
Office Expense	10,672	20,774	10,102	94.66%
Legal Expense	41,305	39,360	(1,945)	-4.71%
Audit	2,232	3,249	1,017	45.56%
Contracts	-	919	919	100.00%
Staff Education and Training	2,886	8,995	6,109	211.68%
Membership	-	-	-	0.00%
Imputed Rent (625-B Kings Court)	13,233	13,371	138	1.04%
Subtotal	\$ 223,983	\$ 242,542	\$ 18,559	8.29%
Board Expense				
Fiduciary Insurance	-	-	-	0.00%
Board Meeting Stipends	1,400	1,000	(400)	-28.57%
Board Education and Training	5,211	2,398	(2,813)	-53.98%
Subtotal	\$ 6,611	\$ 3,398	\$ (3,213)	-48.60%
Total Administrative & Board Expense	\$ 230,594	\$ 245,940	\$ 15,346	6.65%
Disability				
Administrative Review	\$ 19,490	\$ 32,325	\$ 12,835	65.85%
Hearings ¹	48,238	7,424	(40,814)	-84.61%
Subtotal	\$ 67,728	\$ 39,749	\$ (27,979)	-41.31%
Total Administrative, Board, and Disability Expense	\$ 298,322	\$ 285,689	\$ (12,633)	-4.23%
Technology				
LRS - Pension Gold	\$ 7,719	\$ 16,295	\$ 8,576	111.10%
County IT Project Expenses			-	0.00%
PCX Scan Station	-	-	-	0.00%
Subtotal	\$ 7,719	\$ 16,295	\$ 8,576	111.10%
Investment				
Investment Manager Fees ²	\$ 135,515	\$ 134,329	(1,186)	-0.88%
Investment Consultant - Callan	38,617	43,750	5,133	13.29%
Custodian Bank - State Street	17,869	8,970	(8,899)	-49.80%
Actuary Services - Segal	31,885	1,500	(30,385)	-95.30%
Investment Monitoring ³	894	-	(894)	-100.00%
Subtotal	\$ 224,780	\$ 188,549	\$ (36,231)	-16.12%
Property Maintenance Plan	\$ (81,915)	\$ -	\$ 81,915	-100.00%
Total MCERA Expenses	\$ 448,906	\$ 490,533	\$ (40,288)	9.27%
Total Administrative Expenses	\$ 298,322	\$ 285,689	\$ (12,633)	-4.23%
(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-Jun	Jul-Jun	Difference	
	Actual	Actual	\$	%
Administrative				
Personnel	\$ 592,996	\$ 599,746	6,750	1.14%
Office Expense	40,374	38,834	(1,540)	-3.81%
Legal Expense	94,281	174,655	80,374	85.25%
Audit	43,432	42,217	(1,215)	-2.80%
Contracts	3,510	3,419	(91)	-2.59%
Staff Education and Training	10,043	12,134	2,091	20.82%
Membership	5,165	5,665	500	9.68%
Imputed Rent (625-B Kings Court)	52,932	53,484	552	1.04%
Subtotal	\$ 842,733	\$ 930,154	\$ 87,421	10.37%
Board Expense				
Fiduciary Insurance	41,346	41,188	(158)	-0.38%
Board Meeting Stipends	5,200	5,600	400	7.69%
Board Education and Training	24,127	10,796	(13,331)	-55.25%
Subtotal	\$ 70,673	\$ 57,584	\$ (13,089)	-18.52%
Total Administrative & Board Expense	\$ 913,406	\$ 987,738	\$ 74,332	8.14%
Disability				
Administrative Review	\$ 49,607	\$ 44,355	\$ (5,252)	-10.59%
Hearings ¹	57,062	59,643	2,581	4.52%
Subtotal	\$ 106,669	\$ 103,998	\$ (2,671)	-2.50%
Total Administrative, Board, and Disability Expense	\$ 1,020,075	\$ 1,091,736	\$ 71,661	7.03%
Technology				
LRS - Pension Gold	\$ 154,946	\$ 182,646	\$ 27,700	17.88%
County IT Project Expenses	-	-	-	0.00%
PCX Scan Station	8,500	-	(8,500)	-100.00%
Subtotal	\$ 163,446	\$ 182,646	\$ 19,200	11.75%
Investment				
Investment Manager Fees ²	\$ 497,833	\$ 533,362	35,529	7.14%
Investment Consultant - Callan	152,218	164,734	12,516	8.22%
Custodian Bank - State Street	54,076	40,363	(13,713)	-25.36%
Actuary Services - Segal	178,474	125,278	(53,196)	-29.81%
Investment Monitoring ³	894	1,081	187	20.92%
Subtotal	\$ 883,495	\$ 864,818	\$ (18,677)	-2.11%
Property Maintenance Plan	\$ -	\$ -	\$ -	0.00%
Total MCERA Expenses	\$ 2,067,016	\$ 2,139,200	\$ 72,184	3.49%
Total Administrative Expenses	\$ 1,020,075	\$ 1,091,736	\$ 71,661	7.03%
(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		
	Apr-Jun	Apr-Jun	Difference	
	Budget	Actual	\$	%
Administrative				
Personnel	\$ 150,340	\$ 155,874	5,534	3.68%
Office Expense	9,605	20,774	11,169	116.28%
Legal Expense	50,000	39,360	(10,640)	-21.28%
Audit		3,249	3,249	100.00%
Contracts	100,900	919	(99,981)	-99.09%
Staff Education and Training	4,501	8,995	4,494	99.84%
Membership	545	-	(545)	-100.00%
Imputed Rent (625-B Kings Court)	13,371	13,371	-	0.00%
Subtotal	\$ 329,262	\$ 242,542	\$ (86,720)	-26.34%
Board Expense				
Fiduciary Insurance		-	-	0.00%
Board Meeting Stipends	2,300	1,000	(1,300)	-56.52%
Board Education and Training	7,175	2,398	(4,777)	-66.58%
Subtotal	\$ 9,475	\$ 3,398	\$ (6,077)	-64.14%
Total Administrative & Board Expense	\$ 338,737	\$ 245,940	\$ (92,797)	-27.39%
Disability				
Administrative Review	\$ 9,362	\$ 32,325	\$ 22,963	245.28%
Hearings ¹	20,000	7,424	(12,576)	-62.88%
Subtotal	\$ 29,362	\$ 39,749	\$ 10,387	35.38%
Total Administrative, Board, and Disability Expense	\$ 368,099	\$ 285,689	\$ (82,410)	-22.39%
Technology				
LRS - Pension Gold	\$ 19,600	\$ 16,295	\$ (3,305)	-16.86%
County IT Project Expenses	1,250	-	(1,250)	-100.00%
PCX Scan Station	4,500	-	(4,500)	-100.00%
Subtotal	\$ 25,350	\$ 16,295	\$ (9,055)	-35.72%
Investment				
Investment Manager Fees ²	\$ 162,342	\$ 134,329	(28,013)	-17.26%
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	\$ 188,549	\$ (39,385)	-17.28%
Property Maintenance Plan	\$ 3,750	\$ -	\$ (3,750)	-100.00%
Total MCERA Expenses	\$ 625,133	\$ 490,533	\$ (130,850)	-21.53%
Total Administrative Expenses	\$ 368,099	\$ 285,689	\$ (82,410)	-22.39%
(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-Jun	Jul-Jun	Difference	
	Budget	Actual	\$	%
Administrative				
Personnel	\$ 649,105	\$ 599,746	(49,359)	-7.60%
Office Expense	38,420	38,834	414	1.08%
Legal Expense	200,000	174,655	(25,345)	-12.67%
Audit	39,400	42,217	2,817	7.15%
Contracts	103,400	3,419	(99,981)	-96.69%
Staff Education and Training	16,000	12,134	(3,866)	-24.16%
Membership	5,250	5,665	415	7.90%
Imputed Rent (625-B Kings Court)	53,484	53,484	-	0.00%
Subtotal	\$ 1,105,059	\$ 930,154	\$ (174,905)	-15.83%
Board Expense				
Fiduciary Insurance	42,000	\$ 41,188	(812)	-1.93%
Board Meeting Stipends	8,100	5,600	(2,500)	-30.86%
Board Education and Training	28,700	10,796	(17,904)	-62.38%
Subtotal	\$ 78,800	\$ 57,584	\$ (21,216)	-26.92%
Total Administrative & Board Expense	\$ 1,183,859	\$ 987,738	\$ (196,121)	-16.57%
Disability				
Administrative Review	\$ 38,000	\$ 44,355	\$ 6,355	16.72%
Hearings ¹	80,000	59,643	(20,357)	-25.45%
Subtotal	\$ 118,000	\$ 103,998	\$ (14,002)	-11.87%
Total Administrative, Board, and Disability Expense	\$ 1,301,859	\$ 1,091,736	\$ (210,123)	-16.14%
Technology				
LRS - Pension Gold	\$ 176,040	\$ 182,646	\$ 6,606	3.75%
County IT Project Expenses	5,000	-	(5,000)	-100.00%
PCX Scan Station	9,000	-	(9,000)	-100.00%
Subtotal	\$ 190,040	\$ 182,646	\$ (7,394)	-3.89%
Investment				
Investment Manager Fees ²	\$ 649,368	\$ 533,362	(116,006)	-17.86%
Investment Consultant - Callan	150,168	164,734	14,566	9.70%
Custodian Bank - State Street	60,000	40,363	(19,637)	-32.73%
Actuary Services - Segal	87,000	125,278	38,278	44.00%
Investment Monitoring ³	19,500	1,081	(18,419)	-94.46%
Subtotal	\$ 966,036	\$ 864,818	\$ (101,218)	-10.48%
Property Maintenance Plan	\$ 15,000	\$ -	\$ (15,000)	-100.00%
Total MCERA Expenses	\$ 2,472,935	\$ 2,139,200	\$ (318,735)	-13.50%
Total Administrative Expenses	\$ 1,301,859	\$ 1,091,736	\$ (210,123)	-16.14%
(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.				