

Date: November 6, 2019  
To: Board of Retirement  
From: F. Robert Reveles, Financial/Investment Officer  
Subject: Preliminary Quarterly Budget Update – Q1 FY20

### Introduction

Attached is the budget update report for the first quarter (July – September) of the fiscal year ending June 30, 2020. Please note the figures in the report are preliminary and updates may occur if any new accruals are received. Each quarterly update report is typically composed of four schedules. One exception is the first budget update of the fiscal year when the quarter and year-to-date (YTD) schedules present identical information. As this report is the first of the fiscal year, the YTD schedules were excluded. Schedule 1A compares current quarter expenditures to the expenditures during the same period of the prior year. Schedule 2A compares current quarter expenditures to current period budgeted amounts. Like FY 2019, in FY 2020 all disability hearing and hearing preparation expenses are reported as hearing expenses. Similarly, investment manager fees are aggregated in one line item. The details of each expense category are discussed in the accompanying narrative. MCERA's total expenses for the quarter were below budget estimates and below prior period expenses. Actual total administrative costs excluding technology and investment expense were below budget estimates as well as the prior period.

### Schedule 1A:

Highlights from FY 2019 vs FY 2020 actual expense comparison for the current quarter are presented below:

- Administrative expenses for the quarter are less than prior year totals. The need for legal services during the first quarter has been lower than anticipated, while audit expense is lower than the prior period because of timing in billing from the vendor. (Prior period we were charged for the 2018 independent audit in September- this year in October.)
- Board education and training costs are lower in FY 2020 due to trustee attendance at trainings. Last year a trustee attended Callan College, this year two trustees attended trustee training at Pepperdine. Board stipends are lower due to timing of invoices. (Q1 stipends charged in Oct)
- Disability costs are lower during the quarter than the prior year. Last year's quarter costs were elevated due to a number of cases involving hearings. This year there are fewer continuing cases.
- Technology Expense has decreased during the quarter because only one PensionGold change order (PIR) was closed this year, while last year three PIRs were closed in the same period.
- Investment expenses are less than prior periods. Investment Manager fees were elevated in the prior fiscal year, specifically TRowe had higher valuations during the same period. MCERA Investment consultant Callan has yet to invoice MCERA for Q1 services. Custodial bank services have exceeded prior period balances for 2 reasons: MCERA asset values are higher than they were a year ago (the monthly average fee is more) and the custodian is making changes in their billing process. 75% of the



## Preliminary Quarterly Budget Update Continued

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balance shown, on Custodian Bank line, is from the prior fiscal year. Actuarial services have increased due to a Callan data request for the Asset Liability Study.

### Schedule 2A:

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

- Administrative expenses are below budget for the first quarter of the fiscal year. Personnel and Legal expense are largest contributors to the difference. Specifically, the budget for July personnel is double the actual expense (because of County accruals). Also note the October budget amendment increased the personnel line item in the MCERA budget for OT. MCERA has a number of projects in the works which may require the use of OT. As mentioned above the need for legal services during the quarter was lower than anticipated – though we are expecting the expenses to be in line with the budget by year-end.
- Board Expense came in below budget as attendance to trustee trainings and board meetings were lower than expected.
- Disability expense was below budget for the quarter. Disability activity has tapered down compared to last year. As the board knows, estimating Disability activity accurately can be difficult.
- Technology Expense is lower than budget. Budget includes 7 PensionGold change orders. (PIR) In Q1 one PIR has been closed.
- Investment fees are below budget for the first quarter. Investment manager fees include fees billed directly from the following managers: Investec, Mondrian, T. Rowe, and SSGA. The total fees were below budget due to a decrease in asset values. Investment consultant and Custodian expenses differ from budget due to invoice timing.

### Conclusion

From a total expense perspective FY 2020 is exceeding budget expectations. Total expenditures came in 35.16% under budget. Excluding technology and investment expense, expenditures were lower than budget estimates by \$199,987 or 33.90%. The decreases are primarily due to Personnel, Legal, Investment Manager Fees, and Investment Consultant line items. MCERA expects the Personnel, Legal, and Investment Consultant line items will be close to budget estimates by year-end. It is unclear at this time if Investment Manager Fees, and the market, will meet budget expectations.

Mendocino County Employees Retirement Association				
Fiscal Year 2020 Budget Comparison				
Schedule 1A: Current Year Quarter vs Prior Year Quarter				
	FY 2019	FY 2020		
	Jul-Sept	Jul-Sept	Difference	
	Actual	Actual	\$	%
<b>Administrative</b>				
Personnel	\$ 149,374	\$ 155,203	5,829	3.90%
Office Expense	7,054	3,419	(3,635)	-51.53%
Legal Expense	44,172	15,533	(28,639)	-64.84%
Audit	33,643	2,620	(31,023)	-92.21%
Contracts	-	-	-	0.00%
Staff Education and Training	1,008	1,171	163	16.17%
Membership	4,000	4,000	-	0.00%
Imputed Rent (625-B Kings Court)	13,371	13,371	-	0.00%
<b>Subtotal</b>	<b>\$ 252,622</b>	<b>\$ 195,317</b>	<b>\$ (57,305)</b>	<b>-22.68%</b>
<b>Board Expense</b>				
Fiduciary Insurance	\$ -	\$ -	-	0.00%
Board Meeting Stipends	1,800	-	(1,800)	-100.00%
Board Education and Training	991	373	(618)	-62.36%
<b>Subtotal</b>	<b>\$ 2,791</b>	<b>\$ 373</b>	<b>\$ (2,418)</b>	<b>-86.64%</b>
<b>Total Administrative &amp; Board Expense</b>	<b>\$ 255,413</b>	<b>\$ 195,690</b>	<b>\$ (59,723)</b>	<b>-23.38%</b>
<b>Disability</b>				
Administrative Review	\$ -	\$ 1,575	\$ 1,575	100.00%
Hearings <sup>1</sup>	21,260	2,722	(18,538)	-87.20%
<b>Subtotal</b>	<b>\$ 21,260</b>	<b>\$ 4,297</b>	<b>\$ (16,963)</b>	<b>-79.79%</b>
<b>Total Administrative, Board, and Disability Expense</b>	<b>\$ 276,673</b>	<b>\$ 199,987</b>	<b>\$ (76,686)</b>	<b>-27.72%</b>
<b>Technology</b>				
LRS - Pension Gold	\$ 6,300	\$ 1,800	\$ (4,500)	-71.43%
County IT Project Expenses	-	-	-	0.00%
PCX Scan Station	-	-	-	0.00%
<b>Subtotal</b>	<b>\$ 6,300</b>	<b>\$ 1,800</b>	<b>\$ (4,500)</b>	<b>-71.43%</b>
<b>Investment</b>				
Investment Manager Fees <sup>2</sup>	\$ 144,252	\$ 133,296	(10,956)	-7.60%
Investment Consultant - Callan	38,617	-	(38,617)	-100.00%
Custodian Bank - State Street	13,454	18,133	4,679	34.78%
Actuary Services - Segal	1,500	6,018	4,518	301.20%
Investment Monitoring <sup>3</sup>	-	-	-	0.00%
<b>Subtotal</b>	<b>\$ 197,823</b>	<b>\$ 157,447</b>	<b>\$ (40,376)</b>	<b>-20.41%</b>
<b>Property Maintenance Plan</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Total MCERA Expenses</b>	<b>\$ 480,796</b>	<b>\$ 359,234</b>	<b>\$ (121,562)</b>	<b>-25.28%</b>
<b>Total Administrative Expenses</b>	<b>\$ 276,673</b>	<b>\$ 199,987</b>	<b>\$ (76,686)</b>	<b>-27.72%</b>
<b>(Total ex Technology &amp; Investment)</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 2020 Budget Comparison				
Schedule 2A: Current Year Quarter vs Current Quarter Budget				
	FY 2020	FY 2020		
	Jul-Sept	Jul-Sept	Difference	
	Budget	Actual	\$	%
<b>Administrative</b>				
Personnel	\$ 175,958	\$ 155,203	(20,755)	-11.80%
Office Expense	7,207	3,419	(3,788)	-52.56%
Legal Expense	52,500	15,533	(36,967)	-70.41%
Audit	7,500	2,620	(4,880)	-65.07%
Contracts	-	-	-	0.00%
Staff Education and Training	2,354	1,171	(1,183)	-50.25%
Membership	4,000	4,000	-	0.00%
Imputed Rent (625-B Kings Court)	13,772	13,371	(401)	-2.91%
<b>Subtotal</b>	<b>\$ 263,291</b>	<b>\$ 195,317</b>	<b>\$ (67,974)</b>	<b>-25.82%</b>
<b>Board Expense</b>				
Fiduciary Insurance	\$ -	\$ -	-	0.00%
Board Meeting Stipends	2,150	-	(2,150)	-100.00%
Board Education and Training	7,110	373	(6,737)	-94.75%
<b>Subtotal</b>	<b>\$ 9,260</b>	<b>\$ 373</b>	<b>\$ (8,887)</b>	<b>-95.97%</b>
<b>Total Administrative &amp; Board Expense</b>	<b>\$ 272,551</b>	<b>\$ 195,690</b>	<b>\$ (76,861)</b>	<b>-28.20%</b>
<b>Disability</b>				
Administrative Review	\$ 10,000	\$ 1,575	\$ (8,425)	-84.25%
Hearings <sup>1</sup>	20,000	2,722	(17,278)	-86.39%
<b>Subtotal</b>	<b>\$ 30,000</b>	<b>\$ 4,297</b>	<b>\$ (25,703)</b>	<b>-85.68%</b>
<b>Total Administrative, Board, and Disability Expense</b>	<b>\$ 302,551</b>	<b>\$ 199,987</b>	<b>\$ (102,564)</b>	<b>-33.90%</b>
<b>Technology</b>				
LRS - Pension Gold	\$ 3,500	\$ 1,800	\$ (1,700)	-48.57%
County IT Project Expenses	1,250	-	(1,250)	-100.00%
PCX Scan Station	-	-	-	0.00%
<b>Subtotal</b>	<b>\$ 4,750</b>	<b>\$ 1,800</b>	<b>\$ (2,950)</b>	<b>-62.11%</b>
<b>Investment</b>				
Investment Manager Fees <sup>2</sup>	\$ 180,000	\$ 133,296	(46,704)	-25.95%
Investment Consultant - Callan	43,750	-	(43,750)	-100.00%
Custodian Bank - State Street	15,000	18,133	3,133	20.89%
Actuary Services - Segal	6,500	6,018	(482)	-7.42%
Investment Monitoring <sup>3</sup>	1,500	-	(1,500)	-100.00%
<b>Subtotal</b>	<b>\$ 246,750</b>	<b>\$ 157,447</b>	<b>\$ (89,303)</b>	<b>-36.19%</b>
<b>Property Maintenance Plan</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Total MCERA Expenses</b>	<b>\$ 554,051</b>	<b>\$ 359,234</b>	<b>\$ (194,817)</b>	<b>-35.16%</b>
<b>Total Administrative Expenses</b>	<b>\$ 302,551</b>	<b>\$ 199,987</b>	<b>\$ (102,564)</b>	<b>-33.90%</b>
<b>(Total ex Technology &amp; Investment)</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.				