

Date: February 19, 2020  
To: Board of Retirement  
From: F. Robert Reveles, Financial/Investment Officer  
Subject: Preliminary Quarterly Budget Update – Q2 FY20

### Introduction

Attached is the budget update report for the quarter and year-to-date ending December 31, 2019. While the major expenses through December 31<sup>st</sup>, 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 excluding technology and investment categories 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, but below the prior period on a fiscal year-to-date (YTD) basis.

### Schedule 1A & 1B:

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

- Administrative expenses for the quarter were well above the prior period while YTD Administrative expenses were just above the prior period. Personnel costs for the current quarter were higher than the prior year's quarter primarily due to no health insurance premium holiday in FY20. For YTD, personnel costs increased as a result of implementation of the Koff Study and no health insurance premium holiday. On an YTD basis the increase in Personnel costs were offset by savings within Legal, Audit, and Contract expenses. Office expenses were higher for the quarter and YTD due to purchase of unanticipated computer hardware. (County has required new computer hardware and software.) Legal costs were higher for the quarter due to continuing benefit related work plan projects, while on an YTD basis legal costs were lower than the prior year because MCERA has needed less general advice. Audit expense differs for the quarter due to the timing of invoices. On an YTD basis audit expense is just below the previous year. Staff Education and Training has been utilized at a greater rate than anticipated, primarily due to our Benefits Specialist and FIO.
- Board Expense for the quarter and YTD were lower because new board member education and training events were utilized at a lower rate than prior fiscal year. During Q2 FY19 7 training events were attended while in Q2 FY20 5 training events were attended.
- Disability hearing expense decreased from the prior year. New disability application rates have been on the decline over the last year.
- Payments to LRS decreased slightly in FY 2020. During Q2 FY19 MCERA had additional security features added to the pension administration system.



- Total investment expenses were lower for the quarter and YTD. As the portfolio has recovered from last Decembers market loss investment management fees have risen above the prior comparator periods. Custodial fees were elevated because of timing by the custodian. Year-to-date actuary fees were lower because of invoice timing by the actuary.

#### 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 below budget for the quarter and YTD. Personnel expenses were lower for the quarter and YTD primarily because of no overtime expense. (Less than 200 OT hours have been paid this fiscal year, while 400 have been budgeted). Office expense for the quarter came in above budget because of unanticipated hardware purchases while on an YTD basis Office expenses were lower than anticipated in Copier, Lease, and Maintenance, Postage, and Board Meeting Support line items. Legal expense was higher in the quarter than the budget due to timing of vendor invoices, while on an YTD basis legal expense is below the budget. Staff education and training continued to be well under budget.
- Board Expense came in below budget as attendance to training events was lower than expected, Board stipends and related meeting expenses were also lower than budgeted.
- Disability expenses were lower for both administrative review and hearings. There are currently 4 disability applications pending and 1 scheduled hearing.
- Technology expense for the quarter was above budget estimates, but below budget estimates YTD. This fiscal year, during the quarter, County IT billed board support timely, with 5 of the first 6 months billed in December 2019. (Last year only 3 months of IT support were billed by quarter end) LRS billing is very near budget estimates.
- Investment expenses were below budget estimates for the quarter and YTD as the drop in asset values during Q2 FY19 reduced the management fees charged. At this time the MCERA portfolio has recovered from last Decembers market loss. Custodian bank invoices and investment management fees are now being estimated at month end close by the FIO, this will prevent timing differences in the Investment Manager Fees and Custodian Bank line items going forward. Actuarial fees are below budget on a quarterly and YTD basis currently due to timing of invoices.

#### Conclusion

MCERA's total administrative expenses excluding technology and investment on an YTD and quarter basis were below budget estimates. For the quarter actuals were higher than the prior year and YTD actuals were below the prior period. Total expenses for the first half of the fiscal year were also below budget and below the prior periods.

Mendocino County Employees Retirement Association				
Fiscal Year 2020 Budget Comparison				
Schedule 1A: Current Year Quarter vs Prior Year Quarter				
	FY 2019	FY 2020		
	Oct-Dec	Oct-Dec	Difference	
	Actual	Actual	\$	%
<b>Administrative</b>				
Personnel	\$ 119,679	\$ 137,728	18,049	15.08%
Office Expense	4,003	8,098	4,095	102.30%
Legal Expense	54,925	67,480	12,555	22.86%
Audit	4,580	33,702	29,122	635.85%
Contracts	2,500	-	(2,500)	-100.00%
Staff Education and Training	652	3,003	2,351	360.58%
Membership	160	-	(160)	-100.00%
Imputed Rent (625-B Kings Court)	13,371	13,371	-	0.00%
<b>Subtotal</b>	<b>\$ 199,870</b>	<b>\$ 263,382</b>	<b>\$ 63,512</b>	<b>31.78%</b>
<b>Board Expense</b>				
Fiduciary Insurance	\$ 41,206	\$ 41,242	36	0.09%
Board Meeting Stipends	1,500	1,300	(200)	-13.33%
Board Education and Training	5,171	3,882	(1,289)	-24.93%
<b>Subtotal</b>	<b>\$ 47,877</b>	<b>\$ 46,424</b>	<b>\$ (1,453)</b>	<b>-3.03%</b>
<b>Total Administrative &amp; Board Expense</b>	<b>\$ 247,747</b>	<b>\$ 309,806</b>	<b>\$ 62,059</b>	<b>25.05%</b>
<b>Disability</b>				
Administrative Review	\$ -	\$ 1,575	\$ 1,575	100.00%
Hearings <sup>1</sup>	17,616	483	(17,133)	-97.26%
<b>Subtotal</b>	<b>\$ 17,616</b>	<b>\$ 2,058</b>	<b>\$ (15,558)</b>	<b>-88.32%</b>
<b>Total Administrative, Board, and Disability Expense</b>	<b>\$ 265,363</b>	<b>\$ 311,864</b>	<b>\$ 46,501</b>	<b>17.52%</b>
<b>Technology</b>				
LRS - Pension Gold	\$ 150,140	\$ 149,099	\$ (1,041)	-0.69%
County IT Project Expenses	894	1,981	1,087	121.59%
PCX Scan Station	-	-	-	0.00%
<b>Subtotal</b>	<b>\$ 151,034</b>	<b>\$ 151,080</b>	<b>\$ 46</b>	<b>0.03%</b>
<b>Investment</b>				
Investment Manager Fees <sup>2</sup>	\$ 125,194	\$ 143,542	18,348	14.66%
Investment Consultant - Callan	38,617	43,750	5,133	13.29%
Custodian Bank - State Street	8,970	23,139	14,169	157.96%
Actuary Services - Segal	111,077	1,500	(109,577)	-98.65%
Investment Monitoring <sup>3</sup>	-	-	-	0.00%
<b>Subtotal</b>	<b>\$ 283,858</b>	<b>\$ 211,931</b>	<b>\$ (71,927)</b>	<b>-25.34%</b>
<b>Property Maintenance Plan</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Total MCERA Expenses</b>	<b>\$ 700,255</b>	<b>\$ 674,875</b>	<b>\$ (25,380)</b>	<b>-3.62%</b>
<b>Total Administrative Expenses (Total ex Technology &amp; Investment)</b>	<b>\$ 265,363</b>	<b>\$ 311,864</b>	<b>\$ 46,501</b>	<b>17.52%</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 1B: Current Year To Date vs Prior Year To Date				
	FY 2019	FY 2020		
	Jul-Dec	Jul-Dec	Difference	
	Actual	Actual	\$	%
<b>Administrative</b>				
Personnel	\$ 269,054	\$ 292,931	23,877	8.87%
Office Expense	9,240	11,518	2,278	24.65%
Legal Expense	99,097	82,851	(16,246)	-16.39%
Audit	38,223	36,322	(1,901)	-4.97%
Contracts	2,500	-	(2,500)	-100.00%
Staff Education and Training	1,660	4,174	2,514	151.45%
Membership	4,160	4,000	(160)	-3.85%
Imputed Rent (625-B Kings Court)	26,742	26,742	-	0.00%
<b>Subtotal</b>	<b>\$ 450,676</b>	<b>\$ 458,538</b>	<b>\$ 7,862</b>	<b>1.74%</b>
<b>Board Expense</b>				
Fiduciary Insurance	\$ 41,206	\$ 41,242	36	0.09%
Board Meeting Stipends	3,300	1,300	(2,000)	-60.61%
Board Education and Training	6,162	4,256	(1,906)	-30.93%
<b>Subtotal</b>	<b>\$ 50,668</b>	<b>\$ 46,798</b>	<b>\$ (3,870)</b>	<b>-7.64%</b>
<b>Total Administrative &amp; Board Expense</b>	<b>\$ 501,344</b>	<b>\$ 505,336</b>	<b>\$ 3,992</b>	<b>0.80%</b>
<b>Disability</b>				
Administrative Review	\$ -	\$ 3,150	\$ 3,150	100.00%
Hearings <sup>1</sup>	38,875	3,205	(35,670)	-91.76%
<b>Subtotal</b>	<b>\$ 38,875</b>	<b>\$ 6,355</b>	<b>\$ (32,520)</b>	<b>-83.65%</b>
<b>Total Administrative, Board, and Disability Expense</b>	<b>\$ 540,219</b>	<b>\$ 511,691</b>	<b>\$ (28,528)</b>	<b>-5.28%</b>
<b>Technology</b>				
LRS - Pension Gold	\$ 156,440	\$ 150,899	\$ (5,541)	-3.54%
County IT Project Expenses	2,712	1,981	(731)	-26.95%
PCX Scan Station	-	-	-	0.00%
<b>Subtotal</b>	<b>\$ 159,152</b>	<b>\$ 152,880</b>	<b>\$ (6,272)</b>	<b>-3.94%</b>
<b>Investment</b>				
Investment Manager Fees <sup>2</sup>	\$ 269,446	\$ 276,838	7,392	2.74%
Investment Consultant - Callan	77,234	87,500	10,266	13.29%
Custodian Bank - State Street	22,424	41,272	18,848	84.05%
Actuary Services - Segal	112,577	17,231	(95,346)	-84.69%
Investment Monitoring <sup>3</sup>	-	-	-	0.00%
<b>Subtotal</b>	<b>\$ 481,681</b>	<b>\$ 422,841</b>	<b>\$ (58,840)</b>	<b>-12.22%</b>
<b>Property Maintenance Plan</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Total MCERA Expenses</b>	<b>\$ 1,181,052</b>	<b>\$ 1,087,412</b>	<b>\$ (93,640)</b>	<b>-7.93%</b>
<b>Total Administrative Expenses</b>	<b>\$ 540,219</b>	<b>\$ 511,691</b>	<b>\$ (28,528)</b>	<b>-5.28%</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		
	Oct-Dec	Oct-Dec	Difference	
	Budget	Actual	\$	%
<b>Administrative</b>				
Personnel	\$ 152,483	\$ 137,728	(14,755)	-9.68%
Office Expense	7,477	8,098	621	8.31%
Legal Expense	52,500	67,480	14,980	28.53%
Audit	32,500	33,702	1,202	3.70%
Contracts	2,500	-	(2,500)	-100.00%
Staff Education and Training	5,204	3,003	(2,201)	-42.29%
Membership	160	-	(160)	-100.00%
Imputed Rent (625-B Kings Court)	13,772	13,371	(401)	-2.91%
<b>Subtotal</b>	<b>\$ 266,596</b>	<b>\$ 263,382</b>	<b>\$ (3,214)</b>	<b>-1.21%</b>
<b>Board Expense</b>				
Fiduciary Insurance	\$ 45,000	\$ 41,242	(3,758)	-8.35%
Board Meeting Stipends	2,350	1,300	(1,050)	-44.68%
Board Education and Training	6,465	3,882	(2,583)	-39.95%
<b>Subtotal</b>	<b>\$ 53,815</b>	<b>\$ 46,424</b>	<b>\$ (7,391)</b>	<b>-13.73%</b>
<b>Total Administrative &amp; Board Expense</b>	<b>\$ 320,411</b>	<b>\$ 309,806</b>	<b>\$ (10,605)</b>	<b>-3.31%</b>
<b>Disability</b>				
Administrative Review	\$ 10,000	\$ 1,575	(8,425)	-84.25%
Hearings <sup>1</sup>	20,000	483	(19,517)	-97.59%
<b>Subtotal</b>	<b>\$ 30,000</b>	<b>\$ 2,058</b>	<b>\$ (27,942)</b>	<b>-93.14%</b>
<b>Total Administrative, Board, and Disability Expense</b>	<b>\$ 350,411</b>	<b>\$ 311,864</b>	<b>\$ (38,547)</b>	<b>-11.00%</b>
<b>Technology</b>				
LRS - Pension Gold	\$ 149,440	\$ 149,099	(341)	-0.23%
County IT Project Expenses	1,250	1,981	731	58.48%
PCX Scan Station	-	-	-	0.00%
<b>Subtotal</b>	<b>\$ 150,690</b>	<b>\$ 151,080</b>	<b>\$ 390</b>	<b>0.26%</b>
<b>Investment</b>				
Investment Manager Fees <sup>2</sup>	\$ 180,000	\$ 143,542	(36,458)	-20.25%
Investment Consultant - Callan	43,750	43,750	-	0.00%
Custodian Bank - State Street	15,000	23,139	8,139	54.26%
Actuary Services - Segal	85,500	1,500	(84,000)	-98.25%
Investment Monitoring <sup>3</sup>	-	-	-	0.00%
<b>Subtotal</b>	<b>\$ 324,250</b>	<b>\$ 211,931</b>	<b>\$ (112,319)</b>	<b>-34.64%</b>
<b>Property Maintenance Plan</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Total MCERA Expenses</b>	<b>\$ 825,351</b>	<b>\$ 674,875</b>	<b>\$ (150,476)</b>	<b>-18.23%</b>
<b>Total Administrative Expenses</b>	<b>\$ 350,411</b>	<b>\$ 311,864</b>	<b>\$ (38,547)</b>	<b>-11.00%</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 2B: Current Year To Date vs Current Budget Year To Date				
	FY 2020	FY 2020		
	Jul-Dec	Jul-Dec	Difference	
	Budget	Actual	\$	%
<b>Administrative</b>				
Personnel	\$ 328,441	\$ 292,931	(35,510)	-10.81%
Office Expense	14,684	11,518	(3,166)	-21.56%
Legal Expense	105,000	82,851	(22,149)	-21.09%
Audit	40,000	36,322	(3,678)	-9.20%
Contracts	2,500	-	(2,500)	-100.00%
Staff Education and Training	7,558	4,174	(3,384)	-44.77%
Membership	4,160	4,000	(160)	-3.85%
Imputed Rent (625-B Kings Court)	27,545	26,742	(803)	-2.91%
<b>Subtotal</b>	<b>\$ 529,888</b>	<b>\$ 458,538</b>	<b>\$ (71,350)</b>	<b>-13.47%</b>
<b>Board Expense</b>				
Fiduciary Insurance	\$ 45,000	\$ 41,242	(3,758)	-8.35%
Board Meeting Stipends	4,500	1,300	(3,200)	-71.11%
Board Education and Training	13,575	4,256	(9,319)	-68.65%
<b>Subtotal</b>	<b>\$ 63,075</b>	<b>\$ 46,798</b>	<b>\$ (16,277)</b>	<b>-25.81%</b>
<b>Total Administrative &amp; Board Expense</b>	<b>\$ 592,963</b>	<b>\$ 505,336</b>	<b>\$ (87,627)</b>	<b>-14.78%</b>
<b>Disability</b>				
Administrative Review	\$ 20,000	\$ 3,150	(16,850)	-84.25%
Hearings <sup>1</sup>	40,000	3,205	(36,795)	-91.99%
<b>Subtotal</b>	<b>\$ 60,000</b>	<b>\$ 6,355</b>	<b>\$ (53,645)</b>	<b>-89.41%</b>
<b>Total Administrative, Board, and Disability Expense</b>	<b>\$ 652,963</b>	<b>\$ 511,691</b>	<b>\$ (141,272)</b>	<b>-21.64%</b>
<b>Technology</b>				
LRS - Pension Gold	\$ 152,940	\$ 150,899	(2,041)	-1.33%
County IT Project Expenses	2,500	1,981	(519)	-20.76%
PCX Scan Station	-	-	-	0.00%
<b>Subtotal</b>	<b>\$ 155,440</b>	<b>\$ 152,880</b>	<b>\$ (2,560)</b>	<b>-1.65%</b>
<b>Investment</b>				
Investment Manager Fees <sup>2</sup>	\$ 360,000	\$ 276,838	(83,162)	-23.10%
Investment Consultant - Callan	87,500	87,500	-	0.00%
Custodian Bank - State Street	30,000	41,272	11,272	37.57%
Actuary Services - Segal	92,000	17,231	(74,769)	-81.27%
Investment Monitoring <sup>3</sup>	1,500	-	(1,500)	-100.00%
<b>Subtotal</b>	<b>\$ 571,000</b>	<b>\$ 422,841</b>	<b>\$ (148,159)</b>	<b>-25.95%</b>
<b>Property Maintenance Plan</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Total MCERA Expenses</b>	<b>\$ 1,379,403</b>	<b>\$ 1,087,412</b>	<b>\$ (291,991)</b>	<b>-21.17%</b>
<b>Total Administrative Expenses</b>	<b>\$ 652,963</b>	<b>\$ 511,691</b>	<b>\$ (141,272)</b>	<b>-21.64%</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.				