

Date: July 15, 2020
To: Board of Retirement
From: F. Robert Reveles, Financial/Investment Officer
Subject: Preliminary Quarterly Budget Update – Q4 FY20

Introduction

Attached is the budget update report for the quarter and year-to-date ending June 30, 2020. While the major expenses through June 30, 2020 are recorded, please note the figures in the report are preliminary and updates may occur as new data is received. The report is divided into four schedules. (The 5th schedule normally present in this report, the year-end projection, is redundant and has not been included) 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 on a year-to-date (YTD) basis total expenses remained below budget. Actual administrative expenses excluding technology and investment categories were less than the comparable quarter but more than the prior year.

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 at prior year levels, while YTD were above the prior period. Personnel costs for the current quarter were higher than the prior year's quarter, first, due to last year having large vacation cash-out/management reimbursements (this report contains very small reimbursements) and secondly, implementation of countywide payroll increases. (Koff Study) For YTD, personnel costs increased overall as a result of pay increases and Overtime pay. FY20 has twice the Overtime pay of FY19. Office expenses were lower for both periods because last year expenses were elevated due to purchase of new BOR meeting chairs and restock of forms. Audit expense differs for the quarter and YTD due to the timing of invoices. Contracts are greater for both periods due to the search firm retained for the new Executive Director search and communication efforts. Staff Education and Training is lower for both periods as the Covid-19 pandemic has prevented travel and conference attendance.
- Board Expense for the quarter was greater than the previous year. Meeting attendance during the final quarter picked up slightly while Board Education and Training remained well below the prior year. (One training during Q4FY20 – a result of the COVID-19 pandemic, prior year had a multiple conferences that were not canceled.) YTD total Board Expense is lower than the prior year primarily because of the COVID-19 impacts to travel.
- Disability hearing expense decreased on a quarter and YTD basis from the prior year. 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 remains below prior year expenses for both the quarter and YTD. (May/June billing due) During FY20 MCERA implemented reporting updates within the Pension Gold system that are expected to make the actuarial extract process less cumbersome, and support the reporting for actuarial salary assumption changes. (Actuarial vacation cash-out assumption) County IT Project expense is greater than prior year because of increasing pay rates of IT staff and increased hourly support. In FY19 the PCX Scan Station yearly support expense was reported in the LRS – Pension Gold expense line.
- Total investment expenses were higher than the prior periods. (Please note that investment expenses, estimated through June, do not include updated Real Estate balances) For the quarter, investment management fees were slightly higher than the previous year due to an additional management fee paid as a result of the March/April portfolio rebalance. (Mondrian) Total portfolio assets have grown approximately 1.19% from the prior year. Consultant fees increased in January 2019, and are currently at the contracted amount. On a quarter and YTD basis Custodial fees are elevated due to billing/accrual issues at the beginning of the fiscal year. All Custodial fees for the year are now estimated and accrued. Actuarial Services are low compared to last fiscal year due to invoice timing and because FY19 included the additional costs of an actuarial audit.

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 expense for the quarter is higher than the budget because of an additional payroll period this quarter year as compared to the budget. (YTD personnel expense is just below budget.) Office expense is lower for both periods as supplies were not utilized at expected rates. Legal expense is below budget for both the quarter and YTD. While much of the FY20 legal billings are included in this report, there are a few outstanding. Overall, Legal Expense is expected to remain under budget. Audit expense differs for the quarter and YTD due to invoice timing. Contracts are below budget for the quarter and YTD. The Executive Director Search firm, a contract approved in February 2020, billed the majority of the contract in March 2020. As mentioned above, Staff Education and Training is lower for both periods as increased quarantine measures have prevented travel and conference attendance. Membership for the quarter and YTD have increased due to vendor price increases. Imputed rent is above budget for the quarter because of a correction due to match the budget. YTD Imputed rent is at budget.
- Board Expense was lower for the quarter and YTD than the budget. Fiduciary insurance rates came down this fiscal year. Board meeting stipends were more than the budget for the quarter, but on an YTD basis overall meeting attendance was lower than budgeted. The Board education and training line item remains below budget (quarter and YTD) - the Covid-19 virus has affected travel and conference attendance. Many organizations have offered free online trainings in place of canceled events.



Preliminary Quarterly Budget Update Continued

- Disability expenses were lower than budget for both administrative review and hearings. There are 3 current disability applications and 1 pending applications.
- Technology expense for the quarter was just above budget, while YTD was below budget. Actuarial extract updates within Pension Gold have been completed, while the Other Pays report is nearing completion. County IT project expenses are more than budget due to pay rate increases for IT staff and an increase in hours billed to MCERA. (This report includes IT actuals through May, estimate for June.) PCX Scan Station expense increased due to vendor pricing.
- Investment expenses were below budget estimates for the quarter and YTD. The stock market volatility experienced during Q3 of this fiscal year has lowered the Investment Manager Fees MCERA paid this quarter and YTD by lowering the asset balances, as compared to budget estimations, across much of the portfolio - which generates lower fees as a result. MCERA was able to maintain our portfolio allocations within the asset allocation target ranges during this turbulent time. Custodial fees over this quarter have been lower than budgeted, yet remain above budget on an YTD basis. Actuarial services are below budget due to timing. Investment Monitoring, originally meant for on-site due diligence, was not be utilized due to the Covid-19 pandemic.
- There were no capital improvements.

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 period costs and below budget estimates. Total administrative expenses excluding technology and investment increased by 10.31% 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 12.16%. Administrative expenses excluding technology and investment for FY 2020 were below MCERA's policy limit by \$308,884 and below the cap set by CERL by \$802,214.

Mendocino County Employees Retirement Association				
Fiscal Year 2020 Budget Comparison				
Schedule 1A: Current Year Quarter vs Prior Year Quarter				
	FY 2019	FY 2020		
	Apr-Jun	Apr-Jun	Difference	
	Actual	Actual	\$	%
Administrative				
Personnel	\$ 155,874	\$ 191,234	35,360	22.68%
Office Expense	17,581	4,355	(13,226)	-75.23%
Legal Expense	39,360	18,511	(20,849)	-52.97%
Audit	3,249	1,220	(2,029)	-62.45%
Contracts	919	9,248	8,329	906.31%
Staff Education and Training	8,995	(125)	(9,120)	-101.39%
Membership	-	-	-	0.00%
Imputed Rent (625-B Kings Court)	13,371	14,976	1,605	12.00%
Subtotal	\$ 239,349	\$ 239,419	\$ 70	0.03%
Board Expense				
Fiduciary Insurance	\$ -	\$ -	-	0.00%
Board Meeting Stipends	1,000	2,700	1,700	170.00%
Board Education and Training	2,398	913	(1,485)	-61.93%
Subtotal	\$ 3,398	\$ 3,613	\$ 215	6.33%
Total Administrative & Board Expense	\$ 242,747	\$ 243,032	\$ 285	0.12%
Disability				
Administrative Review	\$ 32,325	\$ 13,725	\$ (18,600)	-57.54%
Hearings ¹	7,424	5,727	(1,697)	-22.86%
Subtotal	\$ 39,749	\$ 19,452	\$ (20,297)	-51.06%
Total Administrative, Board, and Disability Expense	\$ 282,496	\$ 262,484	\$ (20,012)	-7.08%
Technology				
LRS - Pension Gold	\$ 16,295	\$ 1,125	\$ (15,170)	-93.10%
County IT Project Expenses	3,416	3,439	23	0.67%
PCX Scan Station	-	3,806	3,806	100.00%
Subtotal	\$ 19,711	\$ 8,370	\$ (11,341)	-57.54%
Investment				
Investment Manager Fees ²	\$ 134,329	\$ 141,647	7,318	5.45%
Investment Consultant - Callan	43,750	43,750	-	0.00%
Custodian Bank - State Street	8,970	13,554	4,584	51.10%
Actuary Services - Segal	1,500	-	(1,500)	-100.00%
Investment Monitoring ³	-	-	-	0.00%
Subtotal	\$ 188,549	\$ 198,951	\$ 10,402	5.52%
Property Maintenance Plan	\$ -	\$ -	\$ -	0.00%
Total MCERA Expenses	\$ 490,756	\$ 469,805	\$ (20,951)	-4.27%
Total Administrative Expenses	\$ 282,496	\$ 262,484	\$ (20,012)	-7.08%
(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 2020 Budget Comparison				
Schedule 1B: Current Year To Date vs Prior Year To Date				
	FY 2019	FY 2020		
	Jul-Jun	Jul-Jun	Difference	
	Actual	Actual	\$	%
Administrative				
Personnel	\$ 599,746	\$ 691,081	91,335	15.23%
Office Expense	32,928	19,206	(13,722)	-41.67%
Legal Expense	174,655	252,606	77,951	44.63%
Audit	42,217	39,170	(3,047)	-7.22%
Contracts	3,419	34,508	31,089	909.30%
Staff Education and Training	12,134	6,466	(5,668)	-46.71%
Membership	5,665	5,770	105	1.85%
Imputed Rent (625-B Kings Court)	53,484	55,089	1,605	3.00%
Subtotal	\$ 924,248	\$ 1,103,896	\$ 179,648	19.44%
Board Expense				
Fiduciary Insurance	\$ 41,188	\$ 41,214	26	0.06%
Board Meeting Stipends	5,600	5,200	(400)	-7.14%
Board Education and Training	10,796	5,399	(5,397)	-49.99%
Subtotal	\$ 57,584	\$ 51,813	\$ (5,771)	-10.02%
Total Administrative & Board Expense	\$ 981,832	\$ 1,155,709	\$ 173,877	17.71%
Disability				
Administrative Review	\$ 44,355	\$ 32,593	\$ (11,762)	-26.52%
Hearings ¹	59,643	9,484	(50,159)	-84.10%
Subtotal	\$ 103,998	\$ 42,077	\$ (61,921)	-59.54%
Total Administrative, Board, and Disability Expense	\$ 1,085,830	\$ 1,197,786	\$ 111,956	10.31%
Technology				
LRS - Pension Gold	\$ 182,646	\$ 153,824	\$ (28,822)	-15.78%
County IT Project Expenses	6,128	6,697	569	9.29%
PCX Scan Station	-	9,649	9,649	100.00%
Subtotal	\$ 188,774	\$ 170,170	\$ (18,604)	-9.86%
Investment				
Investment Manager Fees ²	\$ 534,443	\$ 537,958	3,515	0.66%
Investment Consultant - Callan	164,734	175,000	10,266	6.23%
Custodian Bank - State Street	40,363	68,446	28,083	69.58%
Actuary Services - Segal	125,278	105,680	(19,598)	-15.64%
Investment Monitoring ³	-	-	-	0.00%
Subtotal	\$ 864,818	\$ 887,084	\$ 22,266	2.57%
Property Maintenance Plan	\$ -	\$ -	\$ -	0.00%
Total MCERA Expenses	\$ 2,139,422	\$ 2,255,040	\$ 115,618	5.40%
Total Administrative Expenses	\$ 1,085,830	\$ 1,197,786	\$ 111,956	10.31%
(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 2020 Budget Comparison				
Schedule 2A: Current Year Quarter vs Current Quarter Budget				
	FY 2020	FY 2020		
	Apr-Jun	Apr-Jun	Difference	
	Budget	Actual	\$	%
Administrative				
Personnel	\$ 168,687	\$ 191,234	22,547	13.37%
Office Expense	6,952	4,355	(2,597)	-37.36%
Legal Expense	167,500	18,511	(148,989)	-88.95%
Audit	-	1,220	1,220	100.00%
Contracts	24,000	9,248	(14,752)	-61.47%
Staff Education and Training	5,339	(125)	(5,464)	-102.34%
Membership	405	-	(405)	-100.00%
Imputed Rent (625-B Kings Court)	13,772	14,976	1,204	8.74%
Subtotal	\$ 386,655	\$ 239,419	\$ (147,236)	-38.08%
Board Expense				
Fiduciary Insurance	\$ -	\$ -	-	0.00%
Board Meeting Stipends	1,950	2,700	750	38.46%
Board Education and Training	4,175	913	(3,262)	-78.13%
Subtotal	\$ 6,125	\$ 3,613	\$ (2,512)	-41.01%
Total Administrative & Board Expense	\$ 392,780	\$ 243,032	\$ (149,748)	-38.13%
Disability				
Administrative Review	\$ 10,000	\$ 13,725	\$ 3,725	37.25%
Hearings ¹	20,000	5,727	(14,273)	-71.37%
Subtotal	\$ 30,000	\$ 19,452	\$ (10,548)	-35.16%
Total Administrative, Board, and Disability Expense	\$ 422,780	\$ 262,484	\$ (160,296)	-37.91%
Technology				
LRS - Pension Gold	\$ 3,500	\$ 1,125	\$ (2,375)	-67.86%
County IT Project Expenses	1,250	3,439	2,189	175.12%
PCX Scan Station	3,500	3,806	306	8.74%
Subtotal	\$ 8,250	\$ 8,370	\$ 120	1.45%
Investment				
Investment Manager Fees ²	\$ 180,000	\$ 141,647	(38,353)	-21.31%
Investment Consultant - Callan	43,750	43,750	-	0.00%
Custodian Bank - State Street	15,000	13,554	(1,446)	-9.64%
Actuary Services - Segal	16,500	-	(16,500)	-100.00%
Investment Monitoring ³	1,050	-	(1,050)	-100.00%
Subtotal	\$ 256,300	\$ 198,951	\$ (57,349)	-22.38%
Property Maintenance Plan	\$ 25,000	\$ -	\$ (25,000)	-100.00%
Total MCERA Expenses	\$ 712,330	\$ 469,805	\$ (217,525)	-34.05%
Total Administrative Expenses (Total ex Technology & Investment)	\$ 422,780	\$ 262,484	\$ (160,296)	-37.91%
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 2020 Budget Comparison				
Schedule 2B: Current Year To Date vs Current Budget Year To Date				
	FY 2020	FY 2020		
	Jul-Jun	Jul-Jun	Difference	
	Budget	Actual	\$	%
Administrative				
Personnel	\$ 695,314	\$ 691,081	(4,233)	-0.61%
Office Expense	28,266	19,206	(9,060)	-32.05%
Legal Expense	325,000	252,606	(72,394)	-22.28%
Audit	40,000	39,170	(830)	-2.08%
Contracts	46,500	34,508	(11,992)	-25.79%
Staff Education and Training	16,800	6,466	(10,334)	-61.51%
Membership	5,500	5,770	270	4.91%
Imputed Rent (625-B Kings Court)	55,089	55,089	-	0.00%
Subtotal	\$ 1,212,469	\$ 1,103,896	\$ (108,573)	-8.95%
Board Expense				
Fiduciary Insurance	\$ 45,000	\$ 41,214	(3,786)	-8.41%
Board Meeting Stipends	8,100	5,200	(2,900)	-35.80%
Board Education and Training	26,070	5,399	(20,671)	-79.29%
Subtotal	\$ 79,170	\$ 51,813	\$ (27,357)	-34.55%
Total Administrative & Board Expense	\$ 1,291,639	\$ 1,155,709	\$ (135,930)	-10.52%
Disability				
Administrative Review	\$ 40,000	\$ 32,593	(7,407)	-18.52%
Hearings ¹	80,000	9,484	(70,516)	-88.15%
Subtotal	\$ 120,000	\$ 42,077	\$ (77,923)	-64.94%
Total Administrative, Board, and Disability Expense	\$ 1,411,639	\$ 1,197,786	\$ (213,853)	-15.15%
Technology				
LRS - Pension Gold	\$ 159,940	\$ 153,824	(6,116)	-3.82%
County IT Project Expenses	5,000	6,697	1,697	33.94%
PCX Scan Station	9,000	9,649	649	7.21%
Subtotal	\$ 173,940	\$ 170,170	\$ (3,770)	-2.17%
Investment				
Investment Manager Fees ²	\$ 720,000	\$ 537,958	(182,042)	-25.28%
Investment Consultant - Callan	175,000	175,000	-	0.00%
Custodian Bank - State Street	60,000	68,446	8,446	14.08%
Actuary Services - Segal	120,000	105,680	(14,320)	-11.93%
Investment Monitoring ³	11,550	-	(11,550)	-100.00%
Subtotal	\$ 1,086,550	\$ 887,084	\$ (199,466)	-18.36%
Property Maintenance Plan	\$ 25,000	\$ -	\$ (25,000)	-100.00%
Total MCERA Expenses	\$ 2,697,129	\$ 2,255,040	\$ (417,089)	-16.39%
Total Administrative Expenses	\$ 1,411,639	\$ 1,197,786	\$ (213,853)	-15.15%
(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.				