

James R. Wilbanks, Ph.D.
Retirement Administrator



Telephone: (707) 463-4328
(707) 467-6473
Fax: (707) 467-6472

MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
625-B KINGS COURT
UKIAH, CALIFORNIA 95482-5027

Date: November 2, 2016
To: Board of Retirement
From: Stan Conwell, Financial/Investment Officer
Subject: Preliminary Quarterly Budget Update

Introduction

Attached is the budget update report for the quarter and year-to-date ending September 30, 2016. Please note the figures in the report are preliminary and minor updates may occur as new data is received. The report is usually composed of four schedules. However, as this is the first budget update of the fiscal year the quarter and YTD reports are identical and the YTD schedules were not included. Schedule 1A compares current quarter expenditures to the expenditures during the same quarter of the prior year. Schedule 2A compares current quarter expenditures to current quarter budgeted amounts. MCERA's total expenses for the quarter were below budget estimates and prior period costs. Actual total administrative costs were above the prior year's quarter.

Schedule 1A:

Highlights from FY 2016 vs FY 2017 actual expense comparison for the current quarter are presented below:

- Personnel costs for the current quarter were higher than the prior year's quarter due to the vacancy in the Retirement Specialist position during FY16. The position was only partially vacant during the current quarter.
- Administrative expenses were slightly higher compared to the prior fiscal year. Audit expense in FY 17 was received sooner due to scheduling the field work earlier in the fiscal year. Legal expense was lower due to differences in invoice timing and services billed. Contract expense savings occurred in FY 17 as a result of no longer needing outside accounting services.
- Technology expenses decreased significantly this quarter as the implementation of the Pension Automation System is nearing completion.
- Actuary expenses were elevated due to a late invoice for the FY 16 GASB 67 addendum and GASB 68 reports.

Schedule 2A:

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

- Personnel costs were below budget for the quarter because of the vacancy in the Retirement Specialist position for part of the quarter.
- Administrative expenses were below budget for the first quarter of the fiscal year. Legal expense was reduced due to timing of invoices and lower than expected costs for services. Office expense came in above budget due to increased IT services. Audit expense was lower than budgeted, but total costs are expected to be in line with overall budget estimates. No board education or training costs were recorded during the quarter.
- Disability costs for the quarter were below average. The pace of disability application processing may increase as MMRO and MCERA continue to integrate.
- As you are aware, MCERA recently completed an asset and liability study and is currently reviewing investment manager structure. If a change in managers is adopted, it could result in direct billing for investment management services. The FY 17 budget includes estimates for this possibility. As mentioned above, the actuary services are above budget due to the timing of an invoice.

Conclusion

From a budget standpoint, FY 2017 is off to a decent start. In aggregate, total expenditures are down when compared to both the adopted budget and prior period actual costs. Total administrative expenses were above the prior year's quarter, but that was primarily because personnel expense in Q1 of FY16 was temporarily decreased due to a position vacancy. The pace of expenses may pick up next quarter as invoices are received for the building maintenance project, the EDMS project, and the disability reviews pending from MMRO. However, these activities are expected to be within budget.

Mendocino County Employees Retirement Association

Fiscal Year 2017 Budget Comparison

Schedule 1A: Current Year Quarter vs Prior Year Quarter

	FY 2016	FY 2017	Difference	
	Jul - Sept	Jul - Sept		
	Actual	Actual	\$	%
Personnel				
Gross Regular Salaries	\$ 57,076	\$ 73,627	\$ 16,551	29.00%
Extra Help	4,705	-	(4,705)	-100.00%
Overtime	-	-	-	0.00%
Retirement	16,153	20,358	4,205	26.04%
Social Security	3,276	4,222	946	28.89%
Medicare	834	987	153	18.34%
Retirement Cola	6,135	7,329	1,194	19.47%
Health Insurance	12,255	14,650	2,395	19.54%
Unemployment Insurance	-	-	-	0.00%
Workers Comp	-	-	-	0.00%
Sub Total Personnel (BU 1920)	\$ 100,434	\$ 121,174	\$ 20,740	20.65%
Administrative				
Office Expense	\$ 4,311	\$ 5,617	1,306	30.29%
Legal Expense	26,180	12,167	(14,013)	-53.53%
Audit	15,000	34,600	19,600	130.67%
Contracts	5,528	-	(5,528)	-100.00%
Staff Education and Training	1,424	1,480	56	3.93%
Membership	4,000	4,000	-	0.00%
Community Access ¹	-	-	-	0.00%
Travel In-County ¹	87	-	(87)	-100.00%
Subtotal	\$ 56,530	\$ 57,864	\$ 1,334	2.36%
Board Expense				
Fiduciary Insurance	-	-	-	0.00%
Board Meeting Stipends	1,800	1,300	(500)	-27.78%
Board Education and Training	1,290	-	(1,290)	-100.00%
Subtotal	\$ 3,090	\$ 1,300	\$ (1,790)	-57.93%
Total Personnel, Administrative & Board Expense	\$ 160,054	\$ 180,338	\$ 20,284	12.67%
Disability				
Hearing Preparation			\$ -	0.00%
Hearings			-	0.00%
Administrative Review	7,119	3,185	(3,934)	-55.26%
Subtotal Disability	\$ 7,119	\$ 3,185	\$ (3,934)	-55.26%
625-B Kings Court				
Imputed Rent	13,068	13,200	132	1.01%
Subtotal	\$ 13,068	\$ 13,200	\$ 132	1.01%
Total Administrative Expenses	\$ 180,241	\$ 196,723	\$ 16,482	9.14%

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Fiscal Year 2017 Budget Comparison

Schedule 1A: Current Year Quarter vs Prior Year Quarter

Technology				
LRS - PAS Project	\$ 22,500	\$ 38	\$ (22,462)	-99.83%
Linea Solutions Consultant	46,654	2,970	(43,684)	-93.63%
PAS Project Related Expenses	2,661	3,476	814	30.60%
EDMS Project			-	0.00%
Subtotal Technology	\$ 71,815	\$ 6,484	\$ (65,331)	-90.97%
Investment				
New Manager Fees ²	\$ -	\$ -	\$ -	0.00%
Mondrian Fees	47,438	44,638	(2,800)	-5.90%
Investment Consultant-Callan	36,400	36,400	-	0.00%
Custodian Bank - State Street	-	-	-	0.00%
Actuary Services-Segal	1,500	26,025	24,525	1635.00%
Other Investment Expense	-	-	-	0.00%
Subtotal Investments	\$ 85,338	\$ 107,063	\$ 21,725	25.46%
Building Maintenance Plan	\$ -	\$ -	\$ -	0.00%
Total MCERA Expenses	\$ 337,394	\$ 310,269	\$ (27,125)	-8.04%
Total Administrative Expenses	\$ 180,241	\$ 196,723	\$ 16,482	9.14%
(Total ex Technology & Investment)				
¹ Moved to Office Expense in FY '17				
² New managers that bill directly may be added depending on the outcome of the FY '16 Asset/Liability Study.				

Mendocino County Employees Retirement Association

Fiscal Year 2017 Budget Comparison

Schedule 2A: Current Year Quarter vs Current Quarter Budget

	FY 2017	FY 2017	Difference	
	Jul - Sept	Jul - Sept		
	Budget	Actual	\$	%
Personnel				
Gross Regular Salaries	\$ 79,459	\$ 73,627	\$ (5,833)	-7.34%
Extra Help	-	-	-	0.00%
Overtime	-	-	-	0.00%
Retirement	22,314	20,358	(1,956)	-8.77%
Social Security	4,521	4,222	(298)	-6.59%
Medicare	1,076	987	(89)	-8.25%
Retirement Cola	7,982	7,329	(653)	-8.18%
Health Insurance	15,622	14,650	(972)	-6.22%
Unemployment Insurance	-	-	-	0.00%
Workers Comp	-	-	-	0.00%
Sub Total Personnel (BU 1920)	\$ 130,975	\$ 121,174	\$ (9,801)	-7.48%
Administrative				
Office Expense	\$ 4,409	\$ 5,617	1,208	27.41%
Legal Expense	24,750	12,167	(12,583)	-50.84%
Audit	38,500	34,600	(3,900)	-10.13%
Contracts	-	-	-	0.00%
Staff Education and Training	2,061	1,480	(581)	-28.19%
Membership	4,000	4,000	-	0.00%
Community Access ¹	-	-	-	0.00%
Travel In-County ¹	-	-	-	0.00%
Subtotal	\$ 73,720	\$ 57,864	\$ (15,856)	-21.51%
Board Expense				
Fiduciary Insurance	-	-	-	0.00%
Board Meeting Stipends	1,800	1,300	(500)	-27.78%
Board Education and Training	2,965	-	(2,965)	-100.00%
Subtotal	\$ 4,765	\$ 1,300	\$ (3,465)	-72.72%
Total Personnel, Administrative & Board Expense	\$ 209,459	\$ 180,338	\$ (29,122)	-13.90%
Disability				
Hearing Preparation	\$ 8,700	\$ -	\$ (8,700)	-100.00%
Hearings	4,800	-	(4,800)	-100.00%
Administrative Review	4,870	3,185	(1,685)	-34.60%
Subtotal Disability	\$ 18,370	\$ 3,185	\$ (15,185)	-82.66%
625-B Kings Court				
Imputed Rent	13,200	13,200	(0)	0.00%
Subtotal	\$ 13,200	\$ 13,200	\$ (0)	0.00%
Total Administrative Expenses	\$ 241,030	\$ 196,723	\$ (44,307)	-18.38%

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Fiscal Year 2017 Budget Comparison

Schedule 2A: Current Year Quarter vs Current Quarter Budget

Technology				
LRS - PAS Project	\$ -	\$ 38	\$ 38	100.00%
Linea Solutions Consultant	5,000	2,970	(2,030)	-40.60%
PAS Project Related Expenses	4,000	3,476	(524)	-13.11%
EDMS Project	-	-	-	0.00%
Subtotal Technology	\$ 9,000	\$ 6,484	\$ (2,516)	-27.96%
Investment				
New Manager Fees ²	\$ 60,000	\$ -	\$ (60,000)	-100.00%
Mondrian Fees	47,500	44,638	(2,862)	-6.03%
Investment Consultant-Callan	36,400	36,400	-	0.00%
Custodian Bank - State Street	12,125	-	(12,125)	-100.00%
Actuary Services-Segal	1,500	26,025	24,525	1635.00%
Other Investment Expense	-	-	-	0.00%
Subtotal Investments	\$ 157,525	\$ 107,063	\$ (50,462)	-32.03%
Building Maintenance Plan	\$ 54,600	\$ -	\$ (54,600)	-100.00%
Total MCERA Expenses	\$ 407,555	\$ 310,269	\$ (97,285)	-23.87%
Total Administrative Expenses	\$ 241,030	\$ 196,723	\$ (44,307)	-18.38%
(Total ex Technology & Investment)				
¹ Moved to Office Expense in FY '17				
² New managers that bill directly may be added depending on the outcome of the FY '16 Asset/Liability Study.				