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MENDOCINO COUNTY
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Date: May 10, 2017
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 (YTD) ending March 31, 2017. 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 date to prior fiscal year expenditures through the first three quarters. Schedule 2A compares current quarter expenditures to current quarter budgeted amounts. Schedule 2B compares fiscal year expenditures to date to fiscal year budgeted amounts through three quarters.

MCERA's total administrative expenses for the quarter and fiscal YTD were below budget estimates. Total administrative expenses for the quarter came in higher than the comparable quarterly period and slightly higher on a YTD basis. MCERA's total expenses were above prior period spending due in part to the recognition of the building maintenance plan expenses. Total expenses were above budget for the quarter, but below estimates for the fiscal YTD.

Schedule 1A & 1B (Current Year Expenditures v. Prior Year Expenditures):

Highlights from FY-16 vs FY-17 actual expense comparison for the current quarter and fiscal YTD are presented below:

- For the quarter and YTD, personnel costs were higher primarily because of pay period timing differences between the fiscal years. Unemployment Insurance and Workers Comp expense fell significantly in FY 2017.
- Administrative expenses for the quarter and YTD were above prior periods. Office expense was higher for the quarter due to recognizing the cost of the smart board projector as well as a portion of the cubicle expense. For the YTD office expense is elevated due to increased IT support for device maintenance and workplace reconfiguration as well as the cubicle and projector expense previously mentioned. Legal expense for the YTD was lower due mainly to less tax compliance services and a slight

decrease in services from Sonoma County Counsel. Contracts expense for the YTD was lower in FY17 because an outside vendor for monthly accounting and audit support is no longer needed.

- Board Expense for the quarter and YTD were well below the prior periods mainly because of a drop in board education and training expense.
- Disability activity saw an uptick for the quarter and \$10,720 in administrative review expense occurred. For the YTD, administrative reviews were also above the prior year spending levels. No disability hearing expenses were recognized for the quarter or fiscal YTD.
- The annual LRS Pension Gold fee was paid in January. There were also a few change orders that occurred during the quarter. The annual maintenance fee for the scan station was also recognized during the quarter. On an YTD basis, technology expenses are well below the prior fiscal year.
- Investment expense was higher for the quarter and YTD. The addition of the custodian bank and higher direct investment management fees resulting from an increased allocation to international equities accounted for much of the cost increase. The YTD difference in actuary services can be partially explained by the timing of invoices including some late invoices from the prior fiscal year. Fees related to the UAAL project and the contribution rate impact letter contributed to the increase in actuary expense for FY 17.

Schedule 2A & 2B (Current Year Expenditures v. Budgeted Expenditures):

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 in line with the budget for the quarter. For the YTD, personnel costs were below budget mainly as a result of the Benefit Specialist I vacancy during the first quarter of the fiscal year.
- Administrative expenses for the quarter were below budget largely because of lower than expected legal and staff training expense. Quarterly office expense was above budget due to the purchase of the smart board projector and marginally higher cubicle costs. On an YTD basis, administrative expenses were also below budget. As mentioned earlier, office expense was over budget due to projector and cubicle costs as well as increased IT support for devices and workspace reconfiguration. Legal expense was below budget mainly due to lower than expected tax compliance and fiduciary law services. Audit and staff education and training contributed meaningfully to the YTD cost savings.
- Board expense was below budget for the quarter and for the YTD. Board education and training was well below estimates and fewer stipends were also paid.
- Disability expense for the quarter and YTD were below budget due to no hearing related costs occurring so far this fiscal year. The administrative review of claims increased somewhat as a result of an uptick in applications and new contract terms with MMRO for case reviews and medical evaluations.

- Technology expense for the quarter and YTD were below budget. A portion of the EDMS project was recognized in the prior fiscal year. There is expected to be significant savings in the Linea vendor category as the actual cost of finishing the implementation of Pension Gold in FY-17 was lower than the contract maximum built into the budget.
- Investment fees in total were below budget estimates largely because no new managers that charge direct fees have been added to MCERA's portfolio. The quarterly differences can be mostly explained by timing of invoices. Investment consulting fees were lower due to the extension of the Callan agreement at the current contract terms. The YTD custodian bank budget estimate was low and explains the budget overage. As mentioned earlier, actuary expense includes some late invoices related to prior year reports. Fees related to the UAAL project and the contribution rate impact letter also contributed to the increase in actuary expense for FY 17.
- The FY-17 building maintenance budget was set at \$142,000 and \$139,896 was recognized as of March 31, 2017. The general services department of the county has been providing assistance in managing the projects and aggregated the cost of the projects into a single invoice.

Conclusion

MCERA's total administrative expenses through the first three quarters of the fiscal year were below budget estimates and in line with prior YTD expenditures if you take into account the pay period timing differences between fiscal years. MCERA's total expenses were higher compared with prior periods largely because of the building maintenance plan costs. Total expenses for the quarter were slightly above budget, but below budgeted estimates for the fiscal YTD. With many of the major expenses for the year now complete, it is less likely that unexpected costs will arise and necessitate the need for budget revisions. It is also probable that budget overages can be offset by savings in other categories and will not impact the total budgeted expenses for the fiscal year.

Mendocino County Employees Retirement Association

Fiscal Year 2017 Budget Comparison

Schedule 1A: Current Year Quarter vs Prior Year Quarter

	FY 2016	FY 2017	Difference	
	Jan - Mar	Jan - Mar		
	Actual	Actual	\$	%
Personnel				
Gross Regular Salaries	\$ 79,677	\$ 93,345	\$ 13,667	17.15%
Extra Help	-	-	-	0.00%
Overtime	-	-	-	0.00%
Retirement	21,291	25,580	4,289	20.15%
Social Security	4,587	5,375	788	17.19%
Medicare	1,073	1,257	184	17.18%
Retirement Cola	8,067	9,138	1,071	13.27%
Health Insurance	15,307	17,858	2,551	16.67%
Unemployment Insurance	-	-	-	0.00%
Workers Comp	-	-	-	0.00%
Sub Total Personnel (BU 1920)	\$ 130,002	\$ 152,553	\$ 22,551	17.35%
Administrative				
Office Expense	\$ 10,067	\$ 19,837	\$ 9,770	97.05%
Legal Expense	14,506	15,621	1,115	7.69%
Audit	-	-	-	0.00%
Contracts	900	5	(895)	-99.44%
Staff Education and Training	2,529	1,600	(929)	-36.73%
Membership	1,095	935	(160)	-14.61%
Community Access ¹	670	-	(670)	-100.00%
Travel In-County ¹	58	-	(58)	-100.00%
Subtotal	\$ 29,825	\$ 37,998	\$ 8,173	27.40%
Board Expense				
Fiduciary Insurance	\$ (30)	(30)	\$ -	0.00%
Board Meeting Stipends	1,700	1,300	(400)	-23.53%
Board Education and Training	5,142	1,817	(3,325)	-64.66%
Subtotal	\$ 6,812	\$ 3,087	\$ (3,725)	-54.68%
Total Personnel, Administrative & Board Expense	\$ 166,639	\$ 193,638	\$ 26,999	16.20%
Disability				
Hearing Preperation	\$ -	\$ -	\$ -	0.00%
Hearings	-	-	-	0.00%
Administrative Review	-	10,720	10,720	100.00%
Subtotal Disability	\$ -	\$ 10,720	\$ 10,720	100.00%
625-B Kings Court				
Imputed Rent	13,068	13,200	132	1.01%
Subtotal	\$ 13,068	\$ 13,200	\$ 132	1.01%
Total Administrative Expenses	\$ 179,707	\$ 217,558	\$ 37,851	21.06%

Mendocino County Employees Retirement Association

Fiscal Year 2017 Budget Comparison

Schedule 1A: Current Year Quarter vs Prior Year Quarter

Technology				
LRS - PAS Project	\$ 134,708	\$ 142,990	\$ 8,282	6.15%
Linea Solutions Consultant	13,784	-	(13,784)	-100.00%
PAS Project Related Expenses	10,615	-	(10,615)	-100.00%
EDMS Project	-	5,400	5,400	100.00%
Subtotal Technology	\$ 159,107	\$ 148,390	\$ (10,717)	-6.74%
Investment				
New Manager Fees ²	\$ -	\$ -	\$ -	0.00%
Mondrian Fees	42,984	55,389	12,405	28.86%
Investment Consultant-Callan	36,400	37,492	1,092	3.00%
Custodian Bank - State Street	-	17,939	17,939	100.00%
Actuary Services-Segal	11,164	17,662	6,498	58.20%
Other Investment Expense	-	-	-	0.00%
Subtotal Investments	\$ 90,548	\$ 128,482	\$ 37,934	41.89%
Building Maintenance Plan	\$ 955	\$ 136,179	\$ 135,224	14159.58%
Total MCERA Expenses	\$ 430,317	\$ 630,609	\$ 200,292	46.55%
Total Administrative Expenses	\$ 179,707	\$ 217,558	\$ 37,851	21.06%
(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/Liabilty Study.				

Mendocino County Employees Retirement Association

Fiscal Year 2017 Budget Comparison

Schedule 1B: Current Year To Date vs Prior Year To Date

	FY 2016	FY 2017	Difference	
	Jul - Mar	Jul - Mar		
	Actual	Actual	\$	%
Personnel				
Gross Regular Salaries	\$ 221,630	\$ 245,904	\$ 24,274	10.95%
Extra Help	6,766	-	(6,766)	-100.00%
Overtime	-	-	-	0.00%
Retirement	61,884	65,237	3,353	5.42%
Social Security	12,899	13,608	709	5.49%
Medicare	3,115	3,306	191	6.12%
Retirement Cola	23,547	23,461	(86)	-0.37%
Health Insurance	44,736	47,815	3,079	6.88%
Unemployment Insurance	841	353	(488)	-58.03%
Workers Comp	2,045	286	(1,759)	-86.01%
Sub Total Personnel (BU 1920)	\$ 377,463	\$ 399,969	\$ 22,506	5.96%
Administrative				
Office Expense	\$ 17,650	\$ 37,504	\$ 19,854	112.49%
Legal Expense	58,356	50,461	(7,895)	-13.53%
Audit	37,000	38,500	1,500	4.05%
Contracts	6,428	5	(6,423)	-99.92%
Staff Education and Training	7,131	7,822	691	9.69%
Membership	5,095	5,095	-	0.00%
Community Access ¹	670	-	(670)	-100.00%
Travel In-County ¹	246	-	(246)	-100.00%
Subtotal	\$ 132,576	\$ 139,387	\$ 6,811	5.14%
Board Expense				
Fiduciary Insurance	\$ 39,385	\$ 41,344	\$ 1,959	4.97%
Board Meeting Stipends	4,800	4,100	(700)	-14.58%
Board Education and Training	10,730	2,234	(8,496)	-79.18%
Subtotal	\$ 54,915	\$ 47,678	\$ (7,237)	-13.18%
Total Personnel, Administrative & Board Expense	\$ 564,954	\$ 587,034	\$ 22,080	3.91%
Disability				
Hearing Preperation	\$ -	\$ -	\$ -	0.00%
Hearings	-	-	-	0.00%
Administrative Review	17,520	21,200	3,680	21.00%
Subtotal Disability	\$ 17,520	\$ 21,200	\$ 3,680	21.00%
625-B Kings Court				
Imputed Rent	39,204	39,600	396	1.01%
Subtotal	\$ 39,204	\$ 39,600	\$ 396	1.01%
Total Administrative Expenses	\$ 621,678	\$ 647,834	\$ 26,156	4.21%

Mendocino County Employees Retirement Association

Fiscal Year 2017 Budget Comparison

Schedule 1B: Current Year To Date vs Prior Year To Date

Technology				
LRS - PAS Project	\$ 162,458	\$ 144,610	\$ (17,849)	-10.99%
Linea Solutions Consultant	124,073	3,341	(120,732)	-97.31%
PAS Project Related Expenses	27,067	4,674	(22,393)	-82.73%
EDMS Project		88,510	88,510	100.00%
Subtotal Technology	\$ 313,598	\$ 241,135	\$ (72,463)	-23.11%
Investment				
New Manager Fees ²	\$ -	\$ -	\$ -	0.00%
Alliance Bernstein Fees	11,274		(11,274)	-100.00%
Mondrian Fees	121,493	151,520	30,027	24.71%
Investment Consultant-Callan	109,200	110,292	1,092	1.00%
Custodian Bank - State Street	-	44,848	44,848	100.00%
Actuary Services-Segal	87,410	117,931	30,521	34.92%
Other Investment Expense	-	-	-	0.00%
Subtotal Investments	\$ 329,377	\$ 424,591	\$ 95,214	28.91%
Building Maintenance Plan	\$ 955	\$ 139,896	\$ 138,941	14548.80%
Total MCERA Expenses	\$ 1,265,608	\$ 1,453,456	\$ 48,907	14.84%
Total Administrative Expenses	\$ 621,678	\$ 647,834	\$ 26,156	4.21%
(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	
	Jan - Mar	Jan - Mar	\$	%
	Budget	Actual		
Personnel				
Gross Regular Salaries	\$ 93,600	\$ 93,345	\$ (256)	-0.27%
Extra Help	-	-	-	0.00%
Overtime	-	-	-	0.00%
Retirement	26,047	25,580	(467)	-1.79%
Social Security	5,277	5,375	98	1.86%
Medicare	1,259	1,257	(2)	-0.14%
Retirement Cola	9,306	9,138	(168)	-1.81%
Health Insurance	17,927	17,858	(69)	-0.38%
Unemployment Insurance	-	-	-	0.00%
Workers Comp	-	-	-	0.00%
Sub Total Personnel (BU 1920)	\$ 153,416	\$ 152,553	\$ (863)	-0.56%
Administrative				
Office Expense	\$ 15,609	\$ 19,837	\$ 4,228	27.09%
Legal Expense	22,325	15,621	(6,704)	-30.03%
Audit	-	-	-	0.00%
Contracts	900	5	(895)	-99.44%
Staff Education and Training	4,957	1,600	(3,357)	-67.72%
Membership	1,250	935	(315)	-25.20%
Community Access ¹	-	-	-	0.00%
Travel In-County ¹	-	-	-	0.00%
Subtotal	\$ 45,041	\$ 37,998	\$ (7,043)	-15.64%
Board Expense				
Fiduciary Insurance	\$ -	\$ (30)	\$ (30)	-100.00%
Board Meeting Stipends	1,800	1,300	(500)	-27.78%
Board Education and Training	8,315	1,817	(6,498)	-78.15%
Subtotal	\$ 10,115	\$ 3,087	\$ (7,028)	-69.48%
Total Personnel, Administrative & Board Expense	\$ 208,572	\$ 193,638	\$ (14,934)	-7.16%
Disability				
Hearing Preperation	\$ 8,700	\$ -	\$ (8,700)	-100.00%
Hearings	4,800	-	(4,800)	-100.00%
Administrative Review	3,000	10,720	7,720	257.33%
Subtotal Disability	\$ 16,500	\$ 10,720	\$ (5,780)	-35.03%
625-B Kings Court				
Imputed Rent	13,200	13,200	(0)	0.00%
Subtotal	\$ 13,200	\$ 13,200	\$ (0)	0.00%
Total Administrative Expenses	\$ 238,272	\$ 217,558	\$ (20,714)	-8.69%

Mendocino County Employees Retirement Association

Fiscal Year 2017 Budget Comparison

Schedule 2A: Current Year Quarter vs Current Quarter Budget

Technology				
LRS - PAS Project	\$ 141,579	\$ 142,990	\$ 1,411	1.00%
Linea Solutions Consultant	5,000	-	(5,000)	-100.00%
PAS Project Related Expenses	2,000	-	(2,000)	-100.00%
EDMS Project	9,000	5,400	(3,600)	-40.00%
Subtotal Technology	\$ 157,579	\$ 148,390	\$ (9,189)	-5.83%
Investment				
New Manager Fees ²	\$ 65,000	\$ -	\$ (65,000)	-100.00%
Mondrian Fees	47,500	55,389	7,889	16.61%
Investment Consultant-Callan	45,500	37,492	(8,008)	-17.60%
Custodian Bank - State Street	12,125	17,939	5,814	47.95%
Actuary Services-Segal	1,500	17,662	16,162	1077.47%
Other Investment Expense	1,000	-	(1,000)	-100.00%
Subtotal Investments	\$ 172,625	\$ 128,482	\$ (44,143)	-25.57%
Building Maintenance Plan	\$ 25,000	\$ 136,179	\$ 111,179	444.72%
Total MCERA Expenses	\$ 593,476	\$ 630,609	\$ (74,046)	6.26%
Total Administrative Expenses	\$ 238,272	\$ 217,558	\$ (20,714)	-8.69%
(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 2B: Current Year To Date vs Current Year To Date Budget

	FY 2017	FY 2017	Difference	
	Jul - Dec	Jul - Mar		
	Budget	Actual	\$	%
Personnel				
Gross Regular Salaries	\$ 251,216	\$ 245,904	\$ (5,313)	-2.11%
Extra Help	-	-	-	0.00%
Overtime	-	-	-	0.00%
Retirement	70,309	65,237	(5,072)	-7.21%
Social Security	14,244	13,608	(636)	-4.47%
Medicare	3,394	3,306	(88)	-2.60%
Retirement Cola	25,140	23,461	(1,679)	-6.68%
Health Insurance	48,915	47,815	(1,100)	-2.25%
Unemployment Insurance	1,700	353	(1,347)	-79.24%
Workers Comp	650	286	(364)	-56.00%
Sub Total Personnel (BU 1920)	\$ 415,568	\$ 399,969	\$ (15,600)	-3.75%
Administrative				
Office Expense	\$ 26,176	\$ 37,504	\$ 11,328	43.27%
Legal Expense	70,175	50,461	(19,714)	-28.09%
Audit	44,500	38,500	(6,000)	-13.48%
Contracts	900	5	(895)	-99.44%
Staff Education and Training	15,527	7,822	(7,705)	-49.62%
Membership	5,250	5,095	(155)	-2.95%
Community Access ¹	-	-	-	0.00%
Travel In-County ¹	-	-	-	0.00%
Subtotal	\$ 162,528	\$ 139,387	\$ (23,141)	-14.24%
Board Expense				
Fiduciary Insurance	\$ 42,000	\$ 41,344	\$ (656)	-1.56%
Board Meeting Stipends	5,400	4,100	(1,300)	-24.07%
Board Education and Training	18,840	2,234	(16,606)	-88.14%
Subtotal	\$ 66,240	\$ 47,678	\$ (18,562)	-28.02%
Total Personnel, Administrative & Board Expense	\$ 644,337	\$ 587,034	\$ (57,303)	-8.89%
Disability				
Hearing Preperation	\$ 26,100	\$ -	\$ (26,100)	-100.00%
Hearings	14,400	-	(14,400)	-100.00%
Administrative Review	12,740	21,200	8,460	66.41%
Subtotal Disability	\$ 53,240	\$ 21,200	\$ (32,040)	-60.18%
625-B Kings Court				
Imputed Rent	39,601	39,600	(1)	0.00%
Subtotal	\$ 39,601	\$ 39,600	\$ (1)	0.00%
Total Administrative Expenses	\$ 737,178	\$ 647,834	\$ (89,344)	-12.12%

Mendocino County Employees Retirement Association

Fiscal Year 2017 Budget Comparison

Schedule 2B: Current Year To Date vs Current Year To Date Budget

Technology				
LRS - PAS Project	\$ 146,579	\$ 144,610	\$ (1,970)	-1.34%
Linea Solutions Consultant	15,000	3,341	(11,659)	-77.72%
PAS Project Related Expenses	8,000	4,674	(3,326)	-41.57%
EDMS Project	124,000	88,510	(35,490)	-28.62%
Subtotal Technology	\$ 293,579	\$ 241,135	\$ (52,444)	-17.86%
Investment				
New Manager Fees ²	\$ 185,000	\$ -	\$ (185,000)	-100.00%
Mondrian Fees	142,500	151,520	9,020	6.33%
Investment Consultant-Callan	118,300	110,292	(8,008)	-6.77%
Custodian Bank - State Street	36,375	44,848	8,473	23.29%
Actuary Services-Segal	73,500	117,931	44,431	60.45%
Other Investment Expense	1,000	-	(1,000)	-100.00%
Subtotal Investments	\$ 556,675	\$ 424,591	\$ (132,084)	-23.73%
Building Maintenance Plan	\$ 142,000	\$ 139,896	\$ (2,104)	-1.48%
Total MCERA Expenses	\$ 1,729,432	\$ 1,453,456	\$ (273,872)	-15.96%
Total Administrative Expenses	\$ 737,178	\$ 647,834	\$ (89,344)	-12.12%
(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.				