

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: August 17, 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 fiscal year ending June 30, 2016. 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. Each schedule follows the layout of the FY 2016 adopted budget.

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 administrative expenses for the quarter and fiscal year were well below budget estimates and slightly below prior period expenditures. Total expenses were at or below prior period spending, but below budgeted estimates.

Schedule 1A & 1B:

Highlights from FY 2015 vs FY 2016 actual expense comparison for the current quarter and fiscal year are presented below:

- Personnel costs for the current quarter were higher than the prior year's quarter due to the open Retirement Specialist position during the end of FY 2015. The YTD comparison captures the reduced personnel costs in FY 2015 primarily related to the Interim Retirement Administrator and open Retirement Specialist position.
- Administrative expenses for the quarter and fiscal year were well below prior period expenditures. Legal expense for both the quarter and the fiscal year were significantly lower during FY 2016. The cost of preparing the determination letter for the IRS was lower than expected in FY 2016 and the COLA project elevated legal expense during FY 2015. The majority of the expense savings for the fiscal year can be attributed to services that are no longer needed. For example, recruitment and outside accounting services.

- Board Expense for the quarter was lower versus the prior period as a result of a reduction in board education and training expense. For the fiscal year, board expense was also lower due to a drop in education and training costs as well as a reduction in stipends.
- Disability activity was very low for the quarter and fiscal year. No costs related to disability hearings occurred during FY 2016. For the fiscal year, the administrative review portion was slightly above prior fiscal year spending levels.
- As noted in the third quarter budget update, technology expense increased in FY 2016 due to the delivery of the Pension Gold system in January. Support from Linea decreased during the quarter and fiscal year offsetting some of the increase. Costs related to the implementation of Pension Gold were lower during the quarter and the majority of the related expense in FY2015 was due to support from Segal. The electronic document imaging system (EDMS) project began during the current quarter and will continue into the next fiscal year.
- Investment expense variances for the current quarter are due mainly to timing differences. Actuary services were higher during FY 2015 because of costs related to the triennial experience study and GASB 67 reports. If you recall, Alliance Bernstein converted to a mutual fund in early FY 2016 and MCERA no longer pays management fees directly. Invoices for custody services from State Street Bank have been recorded, but additional invoices are expected for FY 2016. The negative other investment expense resulted from securities litigation settlement payment receipts.

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

Highlights from the budget vs actual comparison for the current quarter are presented below:

- Personnel costs were below budget for the quarter and fiscal year mostly due to the Retirement Specialist vacancy that occurred during part of FY 2016.
- Administrative expenses for the quarter and fiscal year were below budget. Most of the difference can be explained by lower than expected legal expense, staff education and training expense, and audit expense. Legal expense was under budget due to lower than expected costs in preparing the determination letter filing with the IRS and little demand for services from Nossaman. Staff education and training was lower than anticipated during FY2016 due to the demands of implementing the Pension Gold system. Office expense was above budget mainly due to one-time office equipment expense and increased demand for IT support services.
- Board Expense was below budget for the quarter and fiscal year primarily because board education and training expenses were significantly below anticipated levels.
- Disability expense continued at below historical levels during the quarter. For the fiscal year actual expenses were about 75% below budget. As mentioned earlier, this was mostly because no disability hearings occurred during FY 2016. Disability expenses are difficult to forecast as they are driven by applications.

- In aggregate, technology expenses for the quarter and fiscal year were below budget. One-time costs related to Pension Gold development resulted in higher than expected pension automation project expense. Costs from Linea were below estimates. Work began on the electronic document imaging system (EDMS) project during the quarter and the remainder of the \$115,000 budget for the completed project is expected to occur in FY 2017.
- Investment expenses for the quarter were above budget due to additional charges from Segal which included costs for the joint meeting with the board of supervisors. For the fiscal year, total investment expense was below budget. As mentioned earlier, Alliance Bernstein no longer bills directly. MCERA's contract with Callan was extended at the current fee level resulting in savings compared to the budgeted amount. Some invoices from State Street Bank are still pending, but the total is expected to be below the approved budget level for FY 2016.
- The Board approved a capital maintenance budget of \$50,000 for FY-16. Some of the preparatory work was completed and recorded this quarter, but the bulk of the work is expected to begin next fiscal year.

Conclusion

Fiscal year 2016 ended well when compared to the budget. All major budget subtotals were below estimates. Total expenditures for FY 2016 were below budget by 21.74%. Total Administrative expenses, excluding technology and investment costs, were below budget estimates by 17.65%. When compared to the prior fiscal year, total expenditures increased slightly by 0.62%. Total administrative expenses, excluding technology and investment costs, decreased by 4.69% when compared to FY 2015. Much of the savings when compared to the prior fiscal year can be attributed to lower disability and administrative expenses. Administrative expenses for FY 2016 were below MCERA's policy limit and well below the cap set by CERL.

Mendocino County Employees Retirement Association

Fiscal Year 2016 Budget Comparison

Schedule 1A: Current Year Quarter vs Prior Year Quarter

	FY 2015	FY 2016	Difference	
	April - June	April - June		
	Actual	Actual	\$	%
Personnel				
Gross Regular Salaries	\$ 80,462	\$ 91,389	\$ 10,926	13.58%
Extra Help	3,419	-	(3,419)	-100.00%
Overtime	-	-	-	0.00%
Retirement	20,869	28,033	7,163	34.32%
Social Security	4,847	5,652	805	16.60%
Medicare	1,183	1,322	139	11.72%
Retirement Cola	7,158	10,622	3,464	48.39%
Health Insurance	17,122	20,154	3,033	17.71%
Unemployment Insurance	-	-	-	0.00%
Workers Comp	-	-	-	0.00%
Sub Total Personnel (BU 1920)	\$ 135,060	\$ 157,171	\$ 22,111	16.37%
Administrative				
Community Access	\$ 570	\$ 378	(192)	-33.68%
Recruitment	-	-	-	0.00%
General Insurance	-	-	-	0.00%
Membership	505	-	(505)	-100.00%
Office Expense	8,393	8,931	538	6.41%
Legal Expense	25,310	13,256	(12,054)	-47.63%
Contracts	700	-	(700)	-100.00%
Travel In-County	113	82	(31)	-27.43%
Staff Education and Training	5,124	2,416	(2,708)	-52.85%
Audit	-	-	-	0.00%
Subtotal	\$ 40,715	\$ 25,063	\$ (15,652)	-38.44%
Board Expense				
Fiduciary Insurance	\$ -	\$ -	\$ -	0.00%
Board Meeting Stipends	1,500	1,400	(100)	-6.67%
Board Education and Training	5,721	-	(5,721)	-100.00%
Subtotal	\$ 7,221	\$ 1,400	\$ (5,821)	-80.61%
Total Personnel, Administrative & Board Expense	\$ 182,996	\$ 183,634	\$ 638	0.35%
Disability				
Hearing Preperation	\$ 2,242	\$ -	\$ (2,242)	-100.00%
Hearings	10,756	-	(10,756)	-100.00%
Administrative Review	4,780	2,435	(2,345)	-49.06%
Subtotal Disability	\$ 17,778	\$ 2,435	\$ (15,343)	-86.30%
625-B Kings Court				
Imputed Rent	12,939	13,068	129	1.00%
Subtotal	\$ 12,939	\$ 13,068	\$ 129	1.00%
Total Administrative Expenses	\$ 213,713	\$ 199,137	\$ (14,576)	-6.82%

Mendocino County Employees Retirement Association

Fiscal Year 2016 Budget Comparison

Schedule 1A: Current Year Quarter vs Prior Year Quarter

	FY 2015	FY 2016	Difference	
	April - June	April - June		
	Actual	Actual	\$	%
Technology				
LRS - PAS Project	\$ -	\$ 3,113	\$ 3,113	100.00%
Linea Solutions Consultant	23,451	8,944	(14,506)	-61.86%
PAS Project Related Expenses	23,272	3,113	(20,159)	-86.62%
LRS - Document Imaging		32,294	32,294	100.00%
Subtotal Technology	\$ 46,723	\$ 47,465	\$ 742	1.59%
Investment				
Alliance Bernstein Fees	\$ 17,950	\$ -	\$ (17,950)	-100.00%
Mondrian Fees	80,617	43,118	(37,499)	-46.52%
Investment Consultant-Callan	36,400	36,400	-	0.00%
Actuary Services-Segal	34,241	18,984	(15,257)	-44.56%
Custodial Bank - State Street	-	22,424	22,424	100.00%
Other Investment Expense	-	177	177	100.00%
Subtotal Investments	\$ 169,208	\$ 121,103	\$ (48,105)	-28.43%
Property Maintenance Plan	-	2,193	2,193	100.00%
Subtotal	\$ -	\$ 2,193	\$ 2,193	100.00%
Total MCERA Expenses	\$ 429,644	\$ 369,897	\$ (59,747)	-13.91%

Mendocino County Employees Retirement Association

Fiscal Year 2016 Budget Comparison

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

	FY 2015	FY 2016		
	July - June	July - June	Difference	
	Actual	Actual	\$	%
Personnel				
Gross Regular Salaries	\$ 252,119	\$ 313,018	\$ 60,899	24.15%
Extra Help	33,840	6,766	(27,074)	-80.01%
Overtime	3,161	-	(3,161)	-100.00%
Retirement	61,665	89,917	28,252	45.82%
Social Security	14,657	18,550	3,893	26.56%
Medicare	3,936	4,437	501	12.72%
Retirement Cola	22,094	34,169	12,075	54.65%
Health Insurance	60,153	64,891	4,738	7.88%
Unemployment Insurance	1,627	841	(786)	-48.31%
Workers Comp	2,219	2,045	(174)	-7.84%
Sub Total Personnel (BU 1920)	\$ 455,471	\$ 534,634	\$ 79,163	17.38%
Administrative				
Community Access	\$ 2,020	\$ 1,048	\$ (972)	-48.12%
Recruitment	39,987	-	(39,987)	-100.00%
General Insurance	-	-	-	0.00%
Membership	4,665	5,095	430	9.22%
Office Expense	26,792	26,581	(211)	-0.79%
Legal Expense	107,839	71,612	(36,227)	-33.59%
Contracts	16,564	6,428	(10,136)	-61.19%
Travel In-County	299	328	29	9.64%
Staff Education and Training	8,817	9,547	730	8.28%
Audit	37,877	37,000	(877)	-2.32%
Subtotal	\$ 244,860	\$ 157,639	\$ (87,221)	-35.62%
Board Expense				
Fiduciary Insurance	39,375	39,385	10	0.03%
Board Meeting Stipends	7,300	6,200	(1,100)	-15.07%
Board Education and Training	14,662	10,730	(3,932)	-26.82%
Subtotal	\$ 61,337	\$ 56,315	\$ (5,022)	-8.19%
Total Personnel, Administrative & Board Expense	\$ 761,668	\$ 748,588	\$ (13,081)	-1.72%
Disability				
Hearing Preperation	\$ 10,826	\$ -	\$ (10,826)	-100.00%
Hearings	18,582	-	(18,582)	-100.00%
Administrative Review	18,362	19,955	1,593	8.68%
Subtotal Disability	\$ 47,770	\$ 19,955	\$ (27,815)	-58.23%
625-B Kings Court				
Imputed Rent	51,756	52,272	516	1.00%
Subtotal	\$ 51,756	\$ 52,272	\$ 516	1.00%
Total Administrative Expenses	\$ 861,194	\$ 820,815	\$ (40,379)	-4.69%

Mendocino County Employees Retirement Association

Fiscal Year 2016 Budget Comparison

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

	FY 2015	FY 2016		
	July - June	July - June	Difference	
	Actual	Actual	\$	%
Technology				
LRS - PAS Project	\$ -	\$ 165,571	\$ 165,571	100.00%
Linea Solutions Consultant	204,996	133,017	(71,979)	-35.11%
PAS Project Related Expenses	33,573	30,180	(3,393)	-10.11%
LRS - Document Imaging	-	32,294	32,294	100.00%
Subtotal Technology	\$ 238,569	\$ 361,062	\$ 122,493	51.34%
Investment				
Alliance Bernstein Fees	\$ 67,150	\$ 11,274	\$ (55,876)	-83.21%
Mondrian Fees	160,197	164,611	4,414	2.76%
Investment Consultant-Callan	145,600	145,600	-	0.00%
Actuary Services-Segal	155,030	106,394	(48,636)	-31.37%
Custodial Bank - State Street	-	22,424	22,424	100.00%
Other Investment Expense	(2,253)	177	2,430	-107.86%
Subtotal Investments	\$ 525,725	\$ 450,480	\$ (75,245)	-14.31%
Property Maintenance Plan	-	3,148	3,148	100.00%
Subtotal	\$ -	\$ 3,148	\$ 3,148	100.00%
Total MCERA Expenses	\$ 1,625,488	\$ 1,635,505	\$ 10,017	0.62%

Mendocino County Employees Retirement Association

Fiscal Year 2016 Budget Comparison

Schedule 2A: Current Year Quarter vs Current Quarter Budget

	FY 2016	FY 2016	Difference	
	Apr - Jun	Apr - Jun		
	Budget	Actual	\$	%
Personnel				
Gross Regular Salaries	\$ 99,233	\$ 91,389	\$ (7,844)	-7.90%
Extra Help	-	-	-	0.00%
Overtime	-	-	-	0.00%
Retirement	28,240	28,033	(207)	-0.73%
Social Security	5,670	5,652	(19)	-0.33%
Medicare	1,326	1,322	(4)	-0.33%
Retirement Cola	10,933	10,622	(311)	-2.85%
Health Insurance	23,558	20,154	(3,404)	-14.45%
Unemployment Insurance	-	-	-	0.00%
Workers Comp	-	-	-	0.00%
Sub Total Personnel (BU 1920)	\$ 168,960	\$ 157,171	\$ (11,790)	-6.98%
Administrative				
Community Access	\$ 250	\$ 378	\$ 128	51.20%
Recruitment	-	-	-	0.00%
General Insurance	-	-	-	0.00%
Membership	-	-	-	0.00%
Office Expense	5,735	8,931	3,196	55.73%
Legal Expense	28,600	13,256	(15,344)	-53.65%
Contracts	700	-	(700)	-100.00%
Travel In-County	140	82	(58)	-41.43%
Staff Education and Training	8,750	2,416	(6,334)	-72.39%
Audit	-	-	-	0.00%
Subtotal	\$ 44,175	\$ 25,063	\$ (19,112)	-43.26%
Board Expense				
Fiduciary Insurance	-	-	-	0.00%
Board Meeting Stipends	2,100	1,400	(700)	-33.33%
Board Education and Training	11,550	-	(11,550)	-100.00%
Subtotal	\$ 13,650	\$ 1,400	\$ (12,250)	-89.74%
Total Personnel, Administrative & Board Expense	\$ 226,785	\$ 183,634	\$ (43,152)	-19.03%
Disability				
Hearing Preperation	\$ 8,800	\$ -	\$ (8,800)	-100.00%
Hearings	5,200	-	(5,200)	-100.00%
Administrative Review	5,805	2,435	(3,370)	-58.05%
Subtotal Disability	\$ 19,805	\$ 2,435	\$ (17,370)	-87.71%
625-B Kings Court				
Imputed Rent	13,068	13,068	-	0.00%
Subtotal	\$ 13,068	\$ 13,068	\$ -	0.00%
Total Administrative Expenses	\$ 259,658	\$ 199,137	\$ (60,522)	-23.31%

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Fiscal Year 2016 Budget Comparison

Schedule 2A: Current Year Quarter vs Current Quarter Budget

	FY 2016	FY 2016	Difference	
	Apr - Jun	Apr - Jun		
	Budget	Actual	\$	%
Technology				
LRS - PAS Project	\$ -	\$ 3,113	\$ 3,113	100.00%
Linea Solutions Consultant	20,100	8,944	(11,156)	-55.50%
PAS Project Related Expenses	-	3,113	3,113	100.00%
LRS - Document Imaging	115,000	32,294	(82,706)	-71.92%
Subtotal Technology	\$ 135,100	\$ 47,465	\$ (87,635)	-64.87%
Investment				
Alliance Bernstein Fees	\$ -	\$ -	\$ -	0.00%
Mondrian Fees	45,000	43,118	(1,882)	-4.18%
Investment Consultant-Callan	45,500	36,400	(9,100)	-20.00%
Actuary Services-Segal	1,500	18,984	17,484	1165.60%
Custodial Bank - State Street	18,000	22,424	4,424	24.58%
Other Investment Expense	-	177	177	100.00%
Subtotal Investments	\$ 110,000	\$ 121,103	\$ 11,103	10.09%
Property Maintenance Plan	15,000	2,193	(12,807)	-85.38%
Subtotal	\$ 15,000	\$ 2,193	\$ (12,807)	-85.38%
Total MCERA Expenses	\$ 519,758	\$ 369,897	\$ (149,861)	-28.83%

Mendocino County Employees Retirement Association

Fiscal Year 2016 Budget Comparison

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

	FY 2016	FY 2016	Difference	
	July - June	July - June		
	Budget	Actual	\$	%
Personnel				
Gross Regular Salaries	\$ 326,589	\$ 313,018	\$ (13,571)	-4.16%
Extra Help	-	6,766	6,766	100.00%
Overtime	-	-	-	0.00%
Retirement	92,941	89,917	(3,023)	-3.25%
Social Security	18,662	18,550	(112)	-0.60%
Medicare	4,365	4,437	72	1.65%
Retirement Cola	35,983	34,169	(1,814)	-5.04%
Health Insurance	77,533	64,891	(12,643)	-16.31%
Unemployment Insurance	2,219	841	(1,378)	-62.10%
Workers Comp	1,627	2,045	418	25.69%
Sub Total Personnel (BU 1920)	\$ 559,918	\$ 534,634	\$ (25,284)	-4.52%
Administrative				
Community Access	\$ 2,500	1,048	\$ (1,452)	-58.08%
Recruitment	-	-	-	0.00%
General Insurance	1,400	-	(1,400)	-100.00%
Membership	5,000	5,095	95	1.90%
Office Expense	23,000	26,581	3,581	15.57%
Legal Expense	115,000	71,612	(43,388)	-37.73%
Contracts	10,700	6,428	(4,272)	-39.93%
Travel In-County	500	328	(172)	-34.40%
Staff Education and Training	22,220	9,547	(12,673)	-57.03%
Audit	45,250	37,000	(8,250)	-18.23%
Subtotal	\$ 225,570	\$ 157,639	\$ (67,931)	-30.12%
Board Expense				
Fiduciary Insurance	42,000	39,385	(2,615)	-6.23%
Board Meeting Stipends	8,000	6,200	(1,800)	-22.50%
Board Education and Training	30,000	10,730	(19,270)	-64.23%
Subtotal	\$ 80,000	\$ 56,315	\$ (23,685)	-29.61%
Total Personnel, Administrative & Board Expense	\$ 865,488	\$ 748,588	\$ (93,215)	-13.51%
Disability				
Hearing Preperation	\$ 35,000	\$ -	\$ (35,000)	-100.00%
Hearings	20,000	-	(20,000)	-100.00%
Administrative Review	23,970	19,955	(4,015)	-16.75%
Subtotal Disability	\$ 78,970	\$ 19,955	\$ (59,015)	-74.73%
625-B Kings Court				
Imputed Rent	52,272	52,272	-	0.00%
Subtotal	\$ 52,272	\$ 52,272	\$ -	0.00%
Total Administrative Expenses	\$ 996,730	\$ 820,815	\$ (175,915)	-17.65%

Mendocino County Employees Retirement Association

Fiscal Year 2016 Budget Comparison

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

	FY 2016	FY 2016	Difference	
	July - June	July - June		
	Budget	Actual	\$	%
Technology				
LRS - PAS Project	\$ 130,058	\$ 165,571	\$ 35,513	27.31%
Linea Solutions Consultant	201,000	133,017	(67,983)	-33.82%
PAS Project Related Expenses	8,000	30,180	22,180	277.25%
LRS - Document Imaging	115,000	32,294	(82,706)	-71.92%
Subtotal Technology	\$ 454,058	\$ 361,062	\$ (92,996)	-20.48%
Investment				
Alliance Bernstein Fees	\$ 75,000	\$ 11,274	\$ (63,726)	-84.97%
Mondrian Fees	180,000	164,611	(15,389)	-8.55%
Investment Consultant-Callan	182,000	145,600	(36,400)	-20.00%
Actuary Services-Segal	85,000	106,394	21,394	25.17%
Custodial Bank - State Street	66,000	22,424	(43,576)	-66.02%
Other Investment Expense	1,000	177	(823)	-82.30%
Subtotal Investments	\$ 589,000	\$ 450,480	\$ (138,520)	-23.52%
Property Maintenance Plan	50,000	3,148	(46,852)	-93.70%
Subtotal	\$ 50,000	\$ 3,148	\$ (46,852)	-93.70%
Total MCERA Expenses	\$ 2,089,788	\$ 1,635,505	\$ (454,283)	-21.74%