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Date: May 18, 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 (YTD) ending March 31, 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 has been updated to follow the layout of the FY-16 adopted budget. The updated format breaks out Board Expense into its own category.

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

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

Highlights from FY-15 vs FY-16 actual expense comparison for the current quarter and fiscal YTD are presented below:

- For the quarter and YTD personnel costs were higher due to the addition of the full-time Retirement Administrator that took place in January, 2015. The extra help expense in FY-15 was for MCERA's interim Retirement Administrator. The difference in the unemployment insurance and worker's comp. for the quarter was due to timing.
- Administrative expenses for the quarter and YTD were well below prior period expenditures. The difference in audit expense for the quarter was due to billing occurring earlier in FY-15 versus FY-16. Office expense was higher for the quarter due to County IT costs related to 1099 processing. The 1099 related IT support is expected to be eliminated during the next fiscal year as the Pension Gold system will be fully integrated.

Legal expense was higher for the quarter due mainly to timing. For the YTD, legal expense was higher in FY-15 due to the COLA project. Much of the overall savings in FY-16 in comparison to FY-15 can be attributed to services that were not needed in FY-16. For example, recruitment and accounting expense.

- Board Expense for the quarter is slightly higher as a result of higher board education and training expense. On an YTD basis, board expense is in line with the prior fiscal year.
- Disability activity was very low for the quarter and no expense was recorded. For the YTD, the administrative review portion is above prior year spending levels. The FY-16 total includes a one-time set up fee of \$3,750 from MMRO.
- Technology expense increased in FY-16 due to the delivery of the Pension Gold System in January. Support from Linea decreased during the quarter and YTD offsetting some of the increase. Costs related to the implementation of Pension Gold were higher during the quarter and YTD. The majority of the related expense was due to support from County IT and Segal.
- Investment expense variances for the current quarter are due mainly to timing. Also, as the Board may recall, MCERA is no longer billed directly for Alliance Bernstein investment management fees. The YTD difference in actuary services can be explained by the actuarial experience study that was completed in FY-15. Please note that an estimate of the Mondrian fee has been included in the report. The actual expense will be reflected when the quarterly invoice is received.

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 slightly above budget for the quarter due to higher than expected regular salaries. For the YTD, personnel costs were below budget as a result of the Benefit Specialist I vacancy that has now been filled.
- Administrative expenses for the quarter were below budget largely because of timing differences. On an YTD basis, administrative expenses were well below budget. Legal expense, staff education and training, and audit expense account for most of the difference. Legal expense was below budget mainly due to lower than expected costs related to the tax determination letter filing with the IRS.
- Board Expense was in line with budget for the quarter and below budget for the YTD. Board education and training as well as lower Board stipends account for most of the YTD difference.
- As mentioned earlier, there was no disability expense recorded for the quarter. For the YTD, there was no expense related to disability hearings resulting in substantial savings when compared to the budget. The administrative review portion was in line with budget estimates.

- Technology expense for the quarter was above budget resulting from one-time costs related to the implementation of Pension Gold. For the YTD, technology expense was in line with the budget. Overages in LRS and related project expenses were offset by savings in the Linea vendor category.
- Investment expense is below budget for the quarter and YTD. Investment management fees were below budget due to lower asset levels. The investment consultant contract was extended at the original fee resulting in lower than estimated cost. MCERA has not yet received invoices from our custodial bank, State Street, but they are expected to be in line with budget estimates.
- The Board approved a capital maintenance budget of \$50,000 for FY-16. Some of the work on the smaller projects began this quarter, but the bulk of the expense is expected to begin next quarter and extend into next fiscal year.

Conclusion

On the whole, MCERA's total administrative expenses through the first three quarters of the fiscal year were below anticipated levels. MCERA's total expense, including Technology and Investment expense were higher compared with prior periods, but below budgeted estimates. 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 2016 Budget Comparison | | | | |
| Schedule 1A: Current Year Quarter vs Prior Year Quarter | | | | |
| | FY 2015 | FY 2016 | Difference | |
| | Jan - Mar | Jan - Mar | | |
| | Actual | Actual | \$ | % |
| Personnel | | | | |
| Gross Regular Salaries | \$ 73,455 | \$ 79,677 | \$ 6,223 | 8.47% |
| Extra Help | 3,317 | - | (3,317) | -100.00% |
| Overtime | 132 | - | (132) | -100.00% |
| Retirement | 16,414 | 21,291 | 4,877 | 29.71% |
| Social Security | 4,176 | 4,587 | 411 | 9.85% |
| Medicare | 1,025 | 1,073 | 48 | 4.69% |
| Retirement Cola | 5,809 | 8,067 | 2,259 | 38.88% |
| Health Insurance | 15,591 | 15,307 | (284) | -1.82% |
| Unemployment Insurance | 1,627 | - | (1,627) | -100.00% |
| Workers Comp | 2,219 | - | (2,219) | -100.00% |
| Sub Total Personnel (BU 1920) | \$ 123,763 | \$ 130,002 | \$ 6,238 | 5.04% |
| Administrative | | | | |
| Community Access | \$ 310 | \$ 670 | 360 | 116.13% |
| Recruitment | - | - | - | 0.00% |
| General Insurance | - | - | - | 0.00% |
| Membership | 660 | 1,095 | 435 | 65.91% |
| Office Expense | 6,667 | 10,947 | 4,280 | 64.20% |
| Legal Expense | 9,301 | 14,506 | 5,205 | 55.96% |
| Contracts | 15 | 900 | 885 | 5900.00% |
| Travel In-County | 54 | 58 | 4 | 7.41% |
| Staff Education and Training | 1,681 | 1,649 | (32) | -1.90% |
| Audit | 17,877 | - | (17,877) | -100.00% |
| Subtotal | \$ 36,565 | \$ 29,825 | \$ (6,740) | -18.43% |
| Board Expense | | | | |
| Fiduciary Insurance | \$ (50) | \$ (30) | \$ 20 | -40.00% |
| Board Meeting Stipends | 1,800 | 1,700 | (100) | -5.56% |
| Board Education and Training | 3,400 | 5,142 | 1,742 | 51.24% |
| Subtotal | \$ 5,150 | \$ 6,812 | \$ 1,662 | 32.27% |
| Total Personnel, Administrative & Board Expense | \$ 165,478 | \$ 166,639 | \$ (502) | 0.70% |
| Disability | | | | |
| Hearing Preparation | \$ - | \$ - | \$ - | 0.00% |
| Hearings | - | - | - | 0.00% |
| Administrative Review | 3,595 | - | (3,595) | -100.00% |
| Subtotal Disability | \$ 3,595 | \$ - | \$ (3,595) | -100.00% |
| 625-B Kings Court | | | | |
| Imputed Rent | 12,939 | 13,068 | 129 | 1.00% |
| Subtotal | \$ 12,939 | \$ 13,068 | \$ 129 | 1.00% |
| Total Administrative Expenses | \$ 182,012 | \$ 179,707 | \$ (3,968) | -1.27% |
| Technology | | | | |
| LRS - PAS Project | \$ - | \$ 134,708 | \$ 134,708 | 100.00% |
| Linea Solutions Consultant | 28,648 | 13,784 | (14,864) | -51.88% |
| PAS Project Related Expenses | 543 | 10,615 | 10,072 | 1854.88% |
| Subtotal Technology | \$ 29,191 | \$ 159,107 | \$ 129,916 | 445.05% |
| Investment | | | | |
| Alliance Bernstein Fees | \$ 16,485 | \$ - | \$ (16,485) | -100.00% |
| Mondrian Fees | 39,564 | 40,000 | 436 | 1.10% |
| Investment Consultant-Callan | 27,300 | 36,400 | 9,100 | 33.33% |
| Actuary Services-Segal | 22,021 | 11,164 | (10,857) | -49.30% |
| Custodial Bank - State Street | - | - | - | 0.00% |
| Other Investment Expense | - | - | - | 0.00% |
| Subtotal Investments | \$ 105,370 | \$ 87,564 | \$ (17,806) | -16.90% |
| Property Maintenance Plan | | | | |
| | - | 955 | 955 | 100.00% |
| Subtotal | \$ - | \$ 955 | \$ 955 | 100.00% |
| Total MCERA Expenses | \$ 316,573 | \$ 427,333 | \$ 109,097 | 34.99% |

| 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 | Difference | |
| | July - Mar | July - Mar | | |
| | Actual | Actual | \$ | % |
| Personnel | | | | |
| Gross Regular Salaries | \$ 170,545 | \$ 221,630 | \$ 51,085 | 29.95% |
| Extra Help | 30,421 | 6,766 | (23,655) | -77.76% |
| Overtime | 3,161 | - | (3,161) | -100.00% |
| Retirement | 40,796 | 61,884 | 21,089 | 51.69% |
| Social Security | 9,810 | 12,899 | 3,089 | 31.49% |
| Medicare | 2,753 | 3,115 | 362 | 13.15% |
| Retirement Cola | 14,936 | 23,547 | 8,611 | 57.66% |
| Health Insurance | 43,031 | 44,736 | 1,705 | 3.96% |
| Unemployment Insurance | 1,627 | 841 | (786) | -48.31% |
| Workers Comp | 2,219 | 2,045 | (174) | -7.84% |
| Sub Total Personnel (BU 1920) | \$ 319,298 | \$ 377,463 | \$ 58,164 | 18.22% |
| Administrative | | | | |
| Community Access | \$ 1,450 | \$ 670 | \$ (780) | -53.79% |
| Recruitment | 39,987 | - | (39,987) | -100.00% |
| General Insurance | - | - | - | 0.00% |
| Membership | 4,160 | 5,095 | 935 | 22.48% |
| Office Expense | 18,399 | 18,530 | 131 | 0.71% |
| Legal Expense | 82,529 | 58,356 | (24,173) | -29.29% |
| Contracts | 15,864 | 6,428 | (9,436) | -59.48% |
| Travel In-County | 186 | 246 | 60 | 32.14% |
| Staff Education and Training | 3,693 | 6,251 | 2,558 | 69.26% |
| Audit | 37,877 | 37,000 | (877) | -2.32% |
| Subtotal | \$ 204,145 | \$ 132,576 | \$ (71,569) | -35.06% |
| Board Expense | | | | |
| Fiduciary Insurance | 39,375 | 39,385 | 10 | 0.03% |
| Board Meeting Stipends | 5,800 | 4,800 | (1,000) | -17.24% |
| Board Education and Training | 8,941 | 10,730 | 1,789 | 20.01% |
| Subtotal | \$ 54,116 | \$ 54,915 | \$ 799 | 1.48% |
| Total Personnel, Administrative & Board Expense | | | | |
| | \$ 577,560 | \$ 564,954 | \$ (12,606) | -2.18% |
| Disability | | | | |
| Hearing Preparation | \$ 8,584 | \$ - | \$ (8,584) | -100.00% |
| Hearings | 7,826 | - | (7,826) | -100.00% |
| Administrative Review | 13,582 | 17,520 | 3,938 | 28.99% |
| Subtotal Disability | \$ 29,992 | \$ 17,520 | \$ (12,472) | -41.58% |
| 625-B Kings Court | | | | |
| Imputed Rent | 38,817 | 39,204 | 387 | 1.00% |
| Subtotal | \$ 38,817 | \$ 39,204 | \$ 387 | 1.00% |
| Total Administrative Expenses | | | | |
| | \$ 646,368 | \$ 621,678 | \$ (24,691) | -3.82% |
| Technology | | | | |
| LRS - PAS Project | \$ - | \$ 162,458 | \$ 162,458 | 100.00% |
| Linea Solutions Consultant | 180,613 | 124,073 | (56,540) | -31.30% |
| PAS Project Related Expenses | 11,233 | 27,067 | 15,833 | 140.95% |
| Subtotal Technology | \$ 191,846 | \$ 313,598 | \$ 121,751 | 63.46% |
| Investment | | | | |
| Alliance Bernstein Fees | \$ 49,201 | \$ 11,274 | \$ (37,927) | -77.09% |
| Mondrian Fees | 79,580 | 118,509 | 38,929 | 48.92% |
| Investment Consultant-Callan | 109,200 | 109,200 | - | 0.00% |
| Actuary Services-Segal | 120,789 | 87,410 | (33,379) | -27.63% |
| Custodial Bank - State Street | - | - | - | 0.00% |
| Other Investment Expense | (2,253) | - | 2,253 | -100.00% |
| Subtotal Investments | \$ 356,517 | \$ 326,393 | \$ (30,124) | -8.45% |
| Property Maintenance Plan | | | | |
| | - | 955 | 955 | 100.00% |
| Subtotal | \$ - | \$ 955 | \$ 955 | 100.00% |
| Total MCERA Expenses | \$ 1,194,732 | \$ 1,262,624 | \$ 67,892 | 5.68% |

| Mendocino County Employees Retirement Association | | | | |
|---|-------------------|-------------------|--------------------|-----------------|
| Fiscal Year 2016 Budget Comparison | | | | |
| Schedule 2A: Current Year Quarter vs Current Quarter Budget | | | | |
| | FY 2016 | FY 2016 | Difference | |
| | Jan - Mar | Jan - Mar | | |
| | Budget | Actual | \$ | % |
| Personnel | | | | |
| Gross Regular Salaries | \$ 75,367 | \$ 79,677 | \$ 4,310 | 5.72% |
| Extra Help | - | - | - | 0.00% |
| Overtime | - | - | - | 0.00% |
| Retirement | 21,448 | 21,291 | (157) | -0.73% |
| Social Security | 4,307 | 4,587 | 280 | 6.51% |
| Medicare | 1,007 | 1,073 | 66 | 6.51% |
| Retirement Cola | 8,304 | 8,067 | (236) | -2.85% |
| Health Insurance | 17,892 | 15,307 | (2,585) | -14.45% |
| Unemployment Insurance | - | - | - | 0.00% |
| Workers Comp | - | - | - | 0.00% |
| Sub Total Personnel (BU 1920) | \$ 128,324 | \$ 130,002 | \$ 1,677 | 1.31% |
| Administrative | | | | |
| Community Access | \$ 1,000 | \$ 670 | \$ (330) | -33.00% |
| Recruitment | - | - | - | 0.00% |
| General Insurance | - | - | - | 0.00% |
| Membership | 1,000 | 1,095 | 95 | 9.50% |
| Office Expense | 6,115 | 10,947 | 4,832 | 79.02% |
| Legal Expense | 28,800 | 14,506 | (14,294) | -49.63% |
| Contracts | 700 | 900 | 200 | 28.57% |
| Travel In-County | 120 | 58 | (62) | -51.67% |
| Staff Education and Training | 4,090 | 1,649 | (2,441) | -59.68% |
| Audit | 20,250 | - | (20,250) | -100.00% |
| Subtotal | \$ 62,075 | \$ 29,825 | \$ (32,250) | -51.95% |
| Board Expense | | | | |
| Fiduciary Insurance | - | (30) | (30) | -100.00% |
| Board Meeting Stipends | 1,900 | 1,700 | (200) | -10.53% |
| Board Education and Training | 4,750 | 5,142 | 392 | 8.25% |
| Subtotal | \$ 6,650 | \$ 6,812 | \$ 162 | 2.44% |
| Total Personnel, Administrative & Board Expense | \$ 197,049 | \$ 166,639 | \$ (30,573) | -15.43% |
| Disability | | | | |
| Hearing Preparation | \$ 8,700 | \$ - | \$ (8,700) | -100.00% |
| Hearings | 4,800 | - | (4,800) | -100.00% |
| Administrative Review | 4,305 | - | (4,305) | -100.00% |
| Subtotal Disability | \$ 17,805 | \$ - | \$ (17,805) | -100.00% |
| 625-B Kings Court | | | | |
| Imputed Rent | 13,068 | 13,068 | - | 0.00% |
| Subtotal | \$ 13,068 | \$ 13,068 | \$ - | 0.00% |
| Total Administrative Expenses | \$ 227,922 | \$ 179,707 | \$ (48,378) | -21.15% |
| Technology | | | | |
| LRS - PAS Project | \$ 130,058 | \$ 134,708 | \$ 4,650 | 3.58% |
| Linea Solutions Consultant | 20,100 | 13,784 | (6,316) | -31.42% |
| PAS Project Related Expenses | - | 10,615 | 10,615 | 100.00% |
| Subtotal Technology | \$ 150,158 | \$ 159,107 | \$ 8,949 | 5.96% |
| Investment | | | | |
| Alliance Bernstein Fees | \$ - | \$ - | \$ - | 0.00% |
| Mondrian Fees | 45,000 | 40,000 | (5,000) | -11.11% |
| Investment Consultant-Callan | 45,500 | 36,400 | (9,100) | -20.00% |
| Actuary Services-Segal | 11,500 | 11,164 | (336) | -2.92% |
| Custodial Bank - State Street | 18,000 | - | (18,000) | -100.00% |
| Other Investment Expense | - | - | - | 0.00% |
| Subtotal Investments | \$ 120,000 | \$ 87,564 | \$ (32,436) | -27.03% |
| Property Maintenance Plan | | | | |
| | 15,000 | 955 | (14,045) | -93.63% |
| Subtotal | \$ 15,000 | \$ 955 | \$ (14,045) | -93.63% |
| Total MCERA Expenses | \$ 513,080 | \$ 427,333 | \$ (71,865) | -16.71% |

| 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 - Mar | July - Mar | | |
| | Budget | Actual | \$ | % |
| Personnel | | | | |
| Gross Regular Salaries | \$ 229,868 | \$ 221,630 | \$ (8,239) | -3.58% |
| Extra Help | - | 6,766 | 6,766 | 100.00% |
| Overtime | - | - | - | 0.00% |
| Retirement | 65,416 | 61,884 | (3,531) | -5.40% |
| Social Security | 13,135 | 12,899 | (237) | -1.80% |
| Medicare | 3,072 | 3,115 | 43 | 1.40% |
| Retirement Cola | 25,326 | 23,547 | (1,779) | -7.03% |
| Health Insurance | 54,571 | 44,736 | (9,835) | -18.02% |
| Unemployment Insurance | 1,627 | 841 | (786) | -48.31% |
| Workers Comp | 2,219 | 2,045 | (174) | -7.84% |
| Sub Total Personnel (BU 1920) | \$ 395,235 | \$ 377,463 | \$ (17,772) | -4.50% |
| Administrative | | | | |
| Community Access | \$ 2,250 | 670 | \$ (1,580) | -70.22% |
| Recruitment | - | - | - | 0.00% |
| General Insurance | - | - | - | 0.00% |
| Membership | 5,000 | 5,095 | 95 | 1.90% |
| Office Expense | 17,265 | 18,530 | 1,265 | 7.33% |
| Legal Expense | 86,400 | 58,356 | (28,044) | -32.46% |
| Contracts | 10,700 | 6,428 | (4,272) | -39.93% |
| Travel In-County | 360 | 246 | (114) | -31.67% |
| Staff Education and Training | 13,470 | 6,251 | (7,219) | -53.59% |
| Audit | 45,250 | 37,000 | (8,250) | -18.23% |
| Subtotal | \$ 180,695 | \$ 132,576 | \$ (48,119) | -26.63% |
| Board Expense | | | | |
| Fiduciary Insurance | 42,000 | 39,385 | (2,615) | -6.23% |
| Board Meeting Stipends | 5,900 | 4,800 | (1,100) | -18.64% |
| Board Education and Training | 18,450 | 10,730 | (7,720) | -41.84% |
| Subtotal | \$ 66,350 | \$ 54,915 | \$ (11,435) | -17.23% |
| Total Personnel, Administrative & Board Expense | \$ 642,280 | \$ 564,954 | \$ (65,891) | -12.04% |
| Disability | | | | |
| Hearing Preparation | \$ 26,200 | \$ - | \$ (26,200) | -100.00% |
| Hearings | 14,800 | - | (14,800) | -100.00% |
| Administrative Review | 18,165 | 17,520 | (645) | -3.55% |
| Subtotal Disability | \$ 59,165 | \$ 17,520 | \$ (41,645) | -70.39% |
| 625-B Kings Court | | | | |
| Imputed Rent | 39,204 | 39,204 | - | 0.00% |
| Subtotal | \$ 39,204 | \$ 39,204 | \$ - | 0.00% |
| Total Administrative Expenses | \$ 740,649 | \$ 621,678 | \$ (107,536) | -16.06% |
| Technology | | | | |
| LRS - PAS Project | \$ 130,058 | \$ 162,458 | \$ 32,400 | 24.91% |
| Linea Solutions Consultant | 180,900 | 124,073 | (56,827) | -31.41% |
| PAS Project Related Expenses | 8,000 | 27,067 | 19,067 | 238.33% |
| Subtotal Technology | \$ 318,958 | \$ 313,598 | \$ (5,360) | -1.68% |
| Investment | | | | |
| Alliance Bernstein Fees | \$ 18,750 | \$ 11,274 | \$ (7,476) | -39.87% |
| Mondrian Fees | 135,000 | 118,509 | (16,491) | -12.22% |
| Investment Consultant-Callan | 136,500 | 109,200 | (27,300) | -20.00% |
| Actuary Services-Segal | 83,500 | 87,410 | 3,910 | 4.68% |
| Custodial Bank - State Street | 18,000 | - | (18,000) | -100.00% |
| Other Investment Expense | - | - | - | 0.00% |
| Subtotal Investments | \$ 391,750 | \$ 326,393 | \$ (65,357) | -16.68% |
| Property Maintenance Plan | | | | |
| | 15,000 | 955 | (14,045) | -93.63% |
| Subtotal | \$ 15,000 | \$ 955 | \$ (14,045) | -93.63% |
| Total MCERA Expenses | \$ 1,466,357 | \$ 1,262,624 | \$ (178,254) | -13.89% |