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Date: November 12, 2015
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, 2015. 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. 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. As this is the first budget update of the fiscal year, the quarter and YTD reports are identical. Given that, schedule 1B and 2B were excluded from this report. MCERA's administrative expenses for the quarter were in line with or below budget estimates and prior period costs.

Schedule 1A:

Highlights from FY 2015 vs FY 2016 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 addition of a permanent full-time Retirement Administrator. A portion of the increase in personnel cost was offset by the transitional vacancy in the Retirement Specialist position.
- Reductions in recruitment, legal, and contract expense contributed significantly to the difference in administrative expenses compared to the same period last fiscal year. Legal expenses in Q1 of FY 15 were elevated due to costs related to the COLA project.
- Technology expenses increased slightly this quarter as the implementation of the Pension Automation System continues. Consistent with the contractual terms with LRS, automation costs for software and customization will not be paid until the work product is complete. A portion of the project was delivered during the quarter.

- The Mondrian invoice for the first quarter of FY 16 has not been received. An estimate of the expense was included to reflect the pending liability. The negative other investment expense resulted from securities litigation settlement payment receipts.

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 mainly because of the vacant Retirement Specialist position that has now been filled.
- Administrative expenses are below budget for the first quarter of the fiscal year. Incremental savings in most categories including contracts and board education contributed to the total for the quarter being below budget.
- Disability costs for the quarter were below average. It seems the slow pace in disability applications from FY 15 has continued into FY 16. However, disability costs are difficult to estimate and the savings this quarter could be eliminated by overages later in the fiscal year.
- As you may recall, the Board voted to change the account structure with Alliance Bernstein. The change, which began September 1st, lowered the management fees and also eliminated direct billing for management fees. This change explains the difference in their invoiced fees vs budget estimates. Investment consultant fees are lower due to the extension of the current contract terms with Callan.

Conclusion

Fiscal year 2016 started well from a budget standpoint. In aggregate, total expenditures are down when compared to both the adopted budget and prior period actual costs. With a number of major projects set to be completed this year, the potential for budget overruns in some categories still exists. However, with some budget savings already realized, MCERA is in a better position to absorb any future cost overages should they occur.

Mendocino County Employees Retirement Association				
Fiscal Year 2016 Budget Comparison				
Schedule 1A: Current Year Quarter vs Prior Year Quarter				
	FY 2015	FY 2016		
	Jul - Sept	Jul - Sept	Difference	
	Actual	Actual	\$	%
Personnel				
Gross Regular Salaries	\$ 44,295	\$ 57,076	\$ 12,781	28.85%
Extra Help	11,649	4,705	(6,944)	-59.61%
Overtime	1,327	-	(1,327)	-100.00%
Retirement	10,641	16,153	5,511	51.79%
Social Security	2,590	3,276	686	26.48%
Medicare	792	834	42	5.35%
Retirement Cola	4,062	6,135	2,073	51.04%
Health Insurance	11,261	12,255	994	8.82%
Unemployment Insurance	-	-	-	0.00%
Workers Comp	-	-	-	0.00%
Sub Total Personnel (BU 1920)	\$ 86,617	\$ 100,434	\$ 13,817	15.95%
Administrative				
Community Access	\$ -	\$ -	\$ -	0.00%
Recruitment	14,150	-	(14,150)	-100.00%
General Insurance	-	-	-	0.00%
Membership	3,500	4,000	500	14.29%
Office Expense	5,750	4,311	(1,439)	-25.03%
Legal Expense	47,934	26,180	(21,754)	-45.38%
Contracts	15,549	5,528	(10,021)	-64.45%
Travel In-County	-	87	87	100.00%
Board Meeting Stipends	1,900	1,800	(100)	-5.26%
Board Education and Conferences	3,354	1,290	(2,064)	-61.54%
Staff Education and Training	(650)	1,424	2,074	-319.08%
Audit	15,000	15,000	-	0.00%
Fiduciary Insurance	-	-	-	0.00%
Subtotal Administrative	\$ 106,487	\$ 59,620	\$ (46,867)	-44.01%
Total Personnel & Administrative	\$ 193,104	\$ 160,054	\$ (33,050)	-17.12%
Disability				
Hearing Preparation	\$ -	\$ -	\$ -	0.00%
Hearings	6,226	-	(6,226)	-100.00%
Administrative Review	2,994	7,119	4,125	137.78%
Subtotal Disability	\$ 9,220	\$ 7,119	\$ (2,101)	-22.79%
625-B Kings Court				
Imputed Rent	12,939	13,068	129	1.00%
Subtotal	\$ 12,939	\$ 13,068	\$ 129	1.00%
Total Administrative Expenses	\$ 215,263	\$ 180,241	\$ (35,022)	-16.27%
Technology				
LRS - PAS Project	\$ -	\$ 22,500	\$ 22,500	100.00%
Linea Solutions Consultant	59,091	46,654	(12,437)	-21.05%
PAS Project Related Expenses	5,865	2,662	(3,203)	-54.62%
Subtotal Technology	\$ 64,956	\$ 71,815	\$ 6,860	10.56%
Investment				
Alliance Bernstein Fees	\$ 15,850	\$ 11,274	\$ (4,576)	-28.87%
Mondrian Fees	40,519	40,000	(519)	-1.28%
Investment Consultant-Callan	36,400	36,400	-	0.00%
Actuary Services-Segal	1,500	1,500	-	0.00%
Other Investment Expense	(2,253)	-	2,253	-100.00%
Subtotal Investments	\$ 92,016	\$ 89,174	\$ (2,842)	-3.09%
Total MCERA Expenses	\$ 372,235	\$ 341,230	\$ (31,005)	-8.33%

Mendocino County Employees Retirement Association				
Fiscal Year 2016 Budget Comparison				
Schedule 2A: Current Year Quarter vs Current Quarter Budget				
	FY 2016	FY 2016		
	Jul - Sept	Jul - Sept	Difference	
	Budget	Actual	\$	%
Personnel				
Gross Regular Salaries	\$ 66,574	\$ 57,076	\$ (9,498)	-14.27%
Extra Help	-	4,705	4,705	100.00%
Overtime	-	-	-	0.00%
Retirement	18,946	16,153	(2,793)	-14.74%
Social Security	3,804	3,276	(528)	-13.89%
Medicare	890	834	(55)	-6.21%
Retirement Cola	7,335	6,135	(1,200)	-16.36%
Health Insurance	15,805	12,255	(3,550)	-22.46%
Unemployment Insurance	-	-	-	0.00%
Workers Comp	-	-	-	0.00%
Sub Total Personnel (BU 1920)	\$ 113,353	\$ 100,434	\$ (12,919)	-11.40%
Administrative				
Community Access	\$ -	\$ -	\$ -	0.00%
Recruitment	-	-	-	0.00%
General Insurance	-	-	-	0.00%
Membership	4,000	4,000	-	0.00%
Office Expense	5,415	4,311	(1,104)	-20.39%
Legal Expense	28,800	26,180	(2,620)	-9.10%
Contracts	10,000	5,528	(4,472)	-44.72%
Travel In-County	120	87	(33)	-27.50%
Board Meeting Stipends	1,900	1,800	(100)	-5.26%
Board Education and Conferences	4,600	1,290	(3,310)	-71.96%
Staff Education and Training	2,000	1,424	(576)	-28.80%
Audit	15,000	15,000	-	0.00%
Fiduciary Insurance	-	-	-	0.00%
Subtotal Administrative	\$ 71,835	\$ 59,620	\$ (12,215)	-17.00%
Total Personnel & Administrative	\$ 185,188	\$ 160,054	\$ (25,134)	-13.57%
Disability				
Hearing Preparation	\$ 8,700	\$ -	\$ (8,700)	-100.00%
Hearings	5,000	-	(5,000)	-100.00%
Administrative Review	8,700	7,119	(1,581)	-18.17%
Subtotal Disability	\$ 22,400	\$ 7,119	\$ (15,281)	-68.22%
625-B Kings Court				
Imputed Rent	13,068	13,068	-	0.00%
Subtotal	\$ 13,068	\$ 13,068	\$ -	0.00%
Total Administrative Expenses	\$ 220,656	\$ 180,241	\$ (40,415)	-18.32%
Technology				
LRS - PAS Project	\$ -	\$ 22,500	\$ 22,500	100.00%
Linea Solutions Consultant	120,600	46,654	(73,946)	-61.32%
PAS Project Related Expenses	4,000	2,662	(1,338)	-33.46%
Subtotal Technology	\$ 124,600	\$ 71,815	\$ (52,785)	-42.36%
Investment				
Alliance Bernstein Fees	\$ 18,750	\$ 11,274	\$ (7,476)	-39.87%
Mondrian Fees	45,000	40,000	(5,000)	-11.11%
Investment Consultant-Callan	45,500	36,400	(9,100)	-20.00%
Actuary Services-Segal	1,500	1,500	-	0.00%
Other Investment Expense	-	-	-	0.00%
Subtotal Investments	\$ 110,750	\$ 89,174	\$ (21,576)	-19.48%
Total MCERA Expenses	\$ 456,006	\$ 341,230	\$ (114,776)	-25.17%