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Date: February 18, 2014
To: Board of Retirement
From: Stan Conwell, Financial/Investment Officer
Subject: Quarterly Budget Update

Introduction

Attached is a quarterly budget report for the quarter ending December 31, 2014. The report includes expense line items, the adopted budget for fiscal year 2014/15, expenditures for the quarter as well as the first half of the fiscal year, and percent of budget expended per the object level (e.g., Personnel, Administrative, etc.). The report also includes notes by line item and has been reformatted to group expenses together. In total, mid-fiscal year spending appears to be at or below anticipated levels.

The fiscal year 2014/15 budgeted versus actual expenses for the first six months of the fiscal year are summarized below:

Administrative budget:

- As the board knows, there were savings in personnel costs due mainly to the permanent Retirement Administrator starting in January rather than at the beginning of the fiscal year as budgeted. As you will recall, a significant portion of this savings was allocated to contract with an executive recruiting firm for the Retirement Administrator position.
- As noted in the quarter one update, extra-help Retirement Administrator expense was not budgeted, but anticipated under the employment agreement to not exceed \$40,000.
- As previously communicated to the Board, overtime was needed in order to maintain pace with the project milestones of the pension automation system. This was primarily due to User Acceptance Training #1 (UAT) which both trains staff in use of the system and tests the accuracy of the software. Design phases #2 and #3 will require intensive UAT testing during the remainder of the fiscal year and additional overtime may be needed.
- Total recruitment costs for the Retirement Administrator position are now complete. Please note that the total cost includes candidate travel reimbursement as billed by Alliance Resource Consulting.

- Legal expenses include the nonrecurring expenses of about \$26,000 for Manatt related to the COLA project and about \$8,000 for Hanson Bridgett related to the IRS VCP filing.
- Expenses related to the audit are anticipated to meet the total budgeted amount. Further services may be necessary from our auditor to review the CAFR and assist MCERA in earning the Certificate of Achievement for Excellence in Financial Reporting from the GFOA.
- The full annual fiduciary insurance premium was paid during the second quarter.
- Disability costs are driven by applications. Although disability costs are below budget through the first half of the fiscal year, expenses are expected to normalize as pending disability applications are processed.

Technology budget:

- Consistent with the contractual terms with LRS, automation costs for software and customization will not be paid until the work product is complete. Phase one of the UAT testing is complete. Linea Solutions and staff are currently preparing for phase 2 and 3 of the pension automation project. Total costs are currently at 40% of budget and are anticipated to be within the budgeted amount.

Investment budget:

- MCERA has two investment funds, Alliance Bernstein and Mondrian, that bill directly for management fees. The Mondrian invoice for Q2 has not been received, but is expected to align with the budget. The latest billing from Callan included an overcharge error, but a correcting adjustment will be reflected in the next invoice. Please note that the majority of the budgeted actuary expense for the year is complete.

Conclusion

On the whole, expenditures through the first half of the fiscal year are at or below anticipated levels. However, staff believes revisions and/or reclassifications to the budget may need to occur. It is still unclear at this point if such revisions will impact total budgeted expenses for the full year or be offset by savings to other line items. The third quarter budget update will provide a clearer picture to staff and the Board if revision to the budget is needed.

Mendocino County Employees Retirement Association				
Fiscal Year 2014/2015				
Adopted Budget by the Board of Retirement				
	FY 2014/15 Oct - Dec ACTUAL	FY 2014/15 July - Dec ACTUAL	FY 2014/15 ADOPTED BUDGET	Notes
Personnel				
Gross Regular Salaries	\$ 52,796	\$ 97,090	\$ 324,550	1 Staffing level includes 5 Full-Time Equivalent Positions
Extra Help	15,456	27,104	-	2 Interim Administrator
Overtime	1,702	3,029	-	
Retirement	13,741	24,382	80,935	
Social Security	3,044	5,634	19,825	
Social Security B	936	1,728	4,640	
Retirement Cola	5,065	9,127	28,075	
Health Insurance	16,179	27,441	87,580	
Unemployment Insurance	-	-	3,215	3 Single charge per Fiscal Year
Workers Comp	-	-	2,270	4 Single charge per Fiscal Year
Sub Total Personnel (BU 1920)	\$ 108,918	\$ 195,535	\$ 551,090	35%
Other Administrative				
Communications	\$ 1,140	\$ 1,140	3,000	
Recruitment	25,837	39,987	-	5 Alliance Resource Consulting; Includes Candidate Reimbursement
General Insurance	-	-	1,500	6 Single charge per Fiscal Year
Membership	-	3,500	5,000	
Office Expense	5,986	11,735	12,500	7 Includes non recurring expenses: Microsoft Office 2013 Licences and New Computer; County IT support fees are also included.
Legal Expense	25,294	73,228	100,000	8 Includes non recurring expenses: Manatt billing related to COLA project and Hanson Bridgett services related to IRS VCP filing
Contracts	300	15,849	20,000	9 Fetcher&Co Accounting.
Travel In-County	132	132	1,100	
Board Meeting Stipends	2,100	4,000	8,000	
Board Education and Conferences	2,187	5,541	20,000	
Staff Education and Training	2,662	2,012	11,000	
Audit	5,000	20,000	35,250	
Fiduciary Insurance	39,425	39,425	42,000	10 Single charge per Fiscal Year
Subtotal Other Administrative	\$ 110,063	\$ 216,549	\$ 259,350	83%
Total Personnel & Administrative	\$ 218,981	\$ 412,084	\$ 810,440	51%
Disability				
Disability Due Diligence	-	-	35,000	
Disability Hearings	1,600	7,826	20,000	
Medical Reviews	15,576	18,571	35,000	
Subtotal Disability	\$ 17,176	\$ 26,396	\$ 90,000	29% 11 Disability claims are still pending and expenses are expected to normalize
625-B Kings Court				
Building Expenses	-	-	-	
Imputed Rent	12,939	25,878	53,077	12 Building expenses included in 'imputed rent' paid by MCERA to Trust Fund
Subtotal	\$ 12,939	\$ 25,878	\$ 53,077	49%
Total Administrative Expenses	\$ 249,096	\$ 464,359	\$ 953,517	49%
Technology				
LRS - PAS Project	-	-	130,058	13 Payable upon delivery of completed project
Linea Solutions Consultant	92,874	151,965	235,070	
PAS Project Related Expenses	4,825	10,690	37,720	14 Includes training, computers, audio-visual equipment, materials, furniture, other related expenses
Subtotal Technology	\$ 97,700	\$ 162,655	\$ 402,848	40%
Investment				
Alliance Bernstein Fees	\$ 16,364	\$ 32,214	72,000	
Mondrian Fees	40,519	40,519	174,000	
Investment Consultant-Callan	45,500	81,900	151,060	15 December billing included an overcharge. A correcting adjustment will be made on the next quarter's invoice
Actuary Services-Segal	97,268	98,768	127,000	
Other Investment Expense	-	(2,253)	-	16 BONY Securities Litigation Settlement
Subtotal Investments	\$ 199,651	\$ 251,148	\$ 524,060	48%
Total MCERA Expenses	\$ 546,447	\$ 878,162	\$ 1,880,425	47%
Total Administrative Expenses (Total ex Technology & Investment)	\$ 249,096	\$ 464,359	\$ 953,517	
CERL Administrative Cap	\$ 2,000,000	\$ 2,000,000	\$ 2,000,000	17 Government Code Section 31580.2 cap on administrative expenses
(Over)/Under Cap	\$ 1,750,904	\$ 1,535,641	\$ 1,046,483	
MCERA Policy Cap	\$ 1,077,134	\$ 1,077,134	\$ 1,077,134	18 MCERA policy limits administrative expenses at .21% of AAL, without separate Board action
(Over)/Under Cap	\$ 828,038	\$ 612,775	\$ 123,617	
Basis Points Test	0.21%			
AAL	\$512,921,000			19 Actuarial Accrued Liability for June 30, 2013 estimated by Segal Company (\$512,921,000)
Date	6/30/2013 actual			