

AGENDA ITEM

November 112-L
2011 State Bar Budget -
Proposed Adoption

DATE: November 5, 2010

TO: Members of the Board of Governors
Members of the Board Operations Committee

FROM: Board Operations Committee

SUBJECT: Recommendation to Adopt the 2011 Proposed State Bar Budget

Executive Summary

On October 25, 2010, staff met with the Planning, Program Development and Budget Committee to receive guidance on developing the 2011 Budget. At the conclusion of the meeting, the PPDB Committee instructed staff to develop a status quo Budget for 2011. The reasons for this decision are discussed in the background section of this agenda item.

The Proposed Budget includes a request for adjustment to legal specialization fees to supplement revenue for the Legal Specialization program. Detailed information relating to the fee increase request is attached to this agenda item as Attachments C through F.

BACKGROUND

Throughout 2010, the Budget Subcommittee worked with staff to develop a plan to provide long range financial stability for the General Fund without the need for an immediate increase in member dues. However, in September, the Legislature modified the structure of the annual member fees to carve out a \$10 portion to supplement funding for legal service programs in the wake of a significant drop in IOLTA revenues. The effect of this change in fee structure was to divert \$2 million in member dues previously used to finance basic State Bar operations.

Due to the timing of the change in the fee structure, there was inadequate time for the Planning, Program Development, and Budget Committee to develop a balanced and measured approach to address this revenue loss. In order to have a spending plan in place in January 2011, the Budget Subcommittee instructed staff to prepare a "status quo" budget, meaning that personnel costs remain frozen and no new programs or program enhancements are considered.

Adoption of the Proposed 2011 Budget will allow the State Bar to continue operations throughout 2011, while allowing the Board of Governors the time necessary to deliberate the future structure of the Bar and develop a plan to place the Bar on the path to long range financial stability.

OVERVIEW – ALL FUNDS

Revenues: Bar-wide revenues are projected at \$135 million as compared with budgeted revenues of \$139 million for 2010 - a decrease of 3%. After eliminating interfund transfers, the actual revenue decrease is less than 1%. This decline is primarily related to the continuing drop in IOLTA revenues, significantly reduced interest earnings, and a 75% drop in anticipated CalBar Journal advertising revenues.

Expenditures: Bar-wide expenditures are budgeted at \$142.4 million as compared to \$143.8 million for 2010. After eliminating interfund transfers, actual expenditures increased by less than 1%, due primarily to an anticipated increase in Client Security Fund claims expense and grant disbursements.

OVERVIEW – GENERAL FUND

Revenues: Projected revenues for 2011 are \$62.5 million versus 2010 budgeted revenues of \$63.9 million. The major factors in this decline are the loss of \$2 million in membership dues, reduced late payment and MCLE compliance fees and significant declines in interest earnings and CalBar Journal advertising revenues.

To partially offset these major revenue declines, for 2011, we have budgeted an interfund transfer in the amount of \$1.3 million from the Affinity Fund insurance sponsorship revenues - an increase of \$800,000 from 2010. An additional residual equity transfer of approximately \$1 million is also budgeted from the Certification Fund which was closed in 2010. In the 2010 budget, this remaining fund balance was retained within the Certification Fund to provide the Board with a one- time source of funding for special initiatives. It is now needed to provide support to the General Fund. It is important to note that, while the interfund transfer from the Affinity Fund may be maintained for future years, the residual equity transfer from the Certification Fund is a one-time infusion of cash.

Expenditures: Budgeted expenditures for 2011 are \$65.9 million as compared to \$67.4 million in 2010. This decrease is mainly attributable to the fact that no transfer to the Building Improvements Fund is assumed for 2011.

Effect of Deficit on Fund Balance: For 2011, the General Fund will have a deficit of \$3.4 million. This deficit will reduce the General Fund's fund balance to approximately \$2 million at the end of 2011.

A three year forecast of the financial condition of the General Fund is included on page 271 of the document. Assuming no change in personnel costs or program eliminations

and in the absence of a fee increase or new revenue sources, the General Fund's cash will be depleted in early 2012.

OVERVIEW – LEGAL SPECIALIZATION FUND

The Legal Specialization department is responsible for administering the requirements for certification in 11 different areas of law. Program fees assessed to certified specialists and to applicants seeking certification were last increased in 1993. At the current fee level, the fund is projected to deplete its reserves in early 2012.

The Board of Legal Specialization (BLS) has reviewed the financial condition of the program and is recommending to the Board that adjustments be made to the fees effective January 1, 2011. The proposed fee increases are incorporated into the 2011 budget assuming Board concurrence with the BLS recommendations. Detailed information regarding the specific fees is included as Attachments C through F to this agenda item.

SUMMARY

Adoption of the 2010 Proposed Budget will establish the spending authority to continue the Bar's operations.

BOARD BOOK / ADMINISTRATIVE MANUAL

No impact.

RESOLUTIONS

Proposed Board Committee Resolutions re Budget

If the Board Operations Committee agrees that the 2011 Proposed Budget be adopted, the following resolution would be appropriate:

RESOLVED, that the Board Operations Committee recommends that the Board of Governors approve the adoption of 2011 State Bar Budget, in the form attached as Attachment B.

Proposed Board Resolutions re Budget

RESOLVED, that upon the recommendation of the Board Committee on Operations, the Board hereby approves the adoption of the 2011 State Bar Budget in the form attached as Attachment B.

Proposed Board Committee Resolutions Legal Specialization Fund

If the Board Operations Committee agrees that the adjustments in the Legal Specializations fees be approved, the following resolution would be appropriate:

RESOLVED, that upon the recommendation from the Board of Legal Specialization, the Board Operations Committee recommends that the Board of Governors approve the adjustments in Legal Specialization fees, in the form attached as Attachments E effective January 1, 2011.

Proposed Board Resolutions re Legal Specialization Fund

RESOLVED, that upon recommendation of the Board Operations Committee, the Board hereby approves the adjustments in Legal Specialization fees, in the form attached as Attachment E.