

# AGENDA ITEM

181 JULY 13

**DATE:** July 18, 2013

**TO:** Members, Audit Committee  
Members, Board of Trustees

**FROM:** Peggy Van Horn

**SUBJECT:** Audited Statement of Expenditures of Mandatory Membership for  
Year Ended December 31, 2012

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## EXECUTIVE SUMMARY

The accounting firm of Macias, Gini & O'Connell, LLP, has audited that Statement of Expenditures of Mandatory Membership Fees and prepared its Independent Auditor's Report. After its receipt by the Board of Governors and later in the year when the annual billing statements are mailed to members, the audited statement and the auditor's report will be published by posting on the State Bar's Web site with notice to members in the billing statements and the December 2013 issue of the *California Bar e-Journal*

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## BACKGROUND

To comply with the constitutional requirements for collection of mandatory membership fees under *Keller v. State Bar of California*, 496 U.S. 1 (1990), the State Bar must prepare each year an audited statement of its major categories of expenses showing that no mandatory bar dues were used for political or ideological activities not "necessarily or reasonably incurred for the purpose of regulating the legal profession or improving the quality of legal services available to the people of the State." For the 2014 membership fees, staff has prepared a Statement of Expenditures of Mandatory Membership Fees based on the recently completed audit of the State Bar's 2012 financial statement. The accounting firm of Macias, Gini & O'Connell has audited the statement and issued its report for receipt and publication in conjunction with the annual billing of membership fees for 2014.

## DISCUSSION

### ***Mandatory Dues and Keller Requirements***

State law requires members of the State Bar to pay an annual membership fee as a condition to the practice of law. Cal. Bus. & Prof. Code § 6143. In *Keller v. State Bar of California*, 496 U.S. 1, 14 (1990), the United States Supreme Court held that the First Amendment prohibits the State Bar from compelling its members to pay for any political or ideological bar activities that are not necessarily or reasonably related to regulating the legal profession or improving the quality of legal services available to the people of the state. To comply with this constitutional requirement, the State Bar must provide each member the option to deduct from the annual membership fee the amounts that would be used to support the nonchargeable activities outside of *Keller* purview.

### ***Dues Deductions***

Beginning in 1991, the Board has set a deduction to the membership fee annually, varying between one and five dollars, for activities deemed outside of *Keller* such as certain legislative positions of the State Bar, its former Conference of Delegates and Sections. In his veto message in 1997 of Senate Bill No. 1145, the bill to authorize the State Bar to collect its membership fee, Governor Pete Wilson cited member dissatisfaction with the State Bar's response to *Keller* and allegations that the State Bar continued to spend bar dues on legislative and political positions offensive to some of its members. In 2000, when funding to the State Bar was restored, the California Legislature preempted the Board and imposed a \$5 deduction for legislative and related activities of the State Bar outside of the parameters of *Keller*. Cal. Bus. & Prof. Code § 6140.05. The Legislature further restricted the amount that the State Bar could budget, collect and expend on such legislative activity to the sum paid voluntarily by members electing not to take the \$5 deduction. In addition, the Legislature prohibited the use of any bar dues to fund the Conference or Sections and requiring instead that they be funded separately by their own voluntary fees or donations. Cal. Bus. & Prof. Code § 6031.5. (In 2002, the functions of the Conference were passed on to the newly created Conference of Delegates of California Bar Associations, an organization wholly independent of the State Bar.)

Following the Legislature's example, the Board adopted a similar procedure in response to the 1999 trial court judgment in *Brosterhous v. State Bar of California*, which held that certain other bar activities were outside of *Keller*. These activities included those related to eliminating bias in the legal profession provided by the State Bar's standing committees, such as the Ethnic Minority Relations Committee, Committee on Women in the Law, Committee on Sexual Orientation Discrimination, and the Committee on Legal Professionals with Disabilities; the bar leaders conference and mid-year meeting, various services to local bars, and other activities to maintain relations with other bar associations. To comply with the judgment, the Board has provided an additional \$5 deduction for the bar relations and elimination of bias activities and has limited funding

to the voluntary fee paid by members not taking the deduction or other voluntary sources.<sup>1</sup>

### **Statement of Expenditures of Mandatory Membership Fees**

In addition to these deductions, the State Bar prepares a Statement of Expenditures of Mandatory Membership Fees (formerly “Statement of Chargeable and Nonchargeable Expenses”). See *Keller*, 496 U.S. at 17 citing *Chicago Teachers v. Hudson*, 475 U.S. 292, 310 (1986).

The purpose of the Statement of Expenditures of Mandatory Membership Fees is to provide an explanation of the mandatory membership fees that each bar member must pay under state law in order to practice law in California. It describes and separates expenditures of mandatory membership fees by program into “chargeable” and “nonchargeable” categories. Because of the deductions for the full expense of these programs and the State Bar’s policy to fund them solely with voluntary revenues received from members electing not to take the deductions, the statement does not present any “non-chargeable” activities that are supported by the mandatory portion of the annual membership fees. The statement is prepared using the State Bar’s most recently completed audited financial statement and shows the major categories of expenses with a brief description of each category so that each bar member may gauge whether the expense is justified under the *Keller* standard. See, *Keller*, 496 U.S. at 17; *Chicago Teachers v. Hudson*, 475 U.S. at 307 n. 18.<sup>2</sup> An independent auditor must then verify the Statement of Expenditures of Mandatory Membership Fees. The Statement of Expenditures of Mandatory Membership Fees is then published by posting on the State Bar’s Web site at [www.calbar.ca.gov](http://www.calbar.ca.gov) and notice in the annual membership billing statement to bar members and in the December 2013 issue of the California Bar e-Journal that is e-mailed to members.

To explain the basis for the 2014 membership fee, staff has prepared a Statement of Expenditures of Mandatory Membership Fees using the recently completed audited financial statement for the period ending December 31, 2012.<sup>3</sup> The accounting firm of Macias, Gini & O’Connell has audited the 2010 Statement of Expenditures of Mandatory Membership Fees and prepared its Independent Auditor’s Report.

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<sup>1</sup> In 2010, the Legislature established a new deduction for three years, beginning in 2011, for those members who do not wish to have that amount of his or her bar dues allocated to the “Temporary Emergency Voluntary Legal Services Assistance Option fund” to provide voluntary financial support for nonprofit organizations that provide free legal services to persons of limited means. Cal. Bus. & Prof. Code § 6140.01 added Cal. Stats. 2010, ch. 476 (AB 2764), § 4. In 2011, the allocation and option to deduct was for \$10 for each member and it was increased to \$20 for 2012 and 2013. Unless extended by the Legislature this year—and currently there are no proposed amendments—the allocation and deduction will expire after December 31, 2013. Because this option is voluntary, it also will not incur any expenditures attributable as “chargeable” or “non-chargeable” to mandatory membership fees.

<sup>2</sup> A member may dispute the State Bar’s determination that the expense may be charged to the member as part of the mandatory dues and have the challenge heard by an independent decision-maker. Rules of State Bar, Rule 2.17; see, *Chicago Teachers v. Hudson*, 475 U.S. at 307.

<sup>3</sup> The statement was prepared with the assumption that the State Bar will continue to use only voluntary fees paid by members not taking the deduction for bar relations and elimination of bias activities to fund those activities.

The following is a brief summary of the expenses included in the Statement of Expenditures of Mandatory Membership Fees.

*Chargeable expenses:* (1) *Discipline* includes the expenses of the Office of the Chief Trial Counsel, the State Bar Court, Client Security Fund; Fee Arbitration; (2) *Administration of Justice* includes only the cost of the Judicial Nominees Evaluation Commission; (3) *Administration of the Profession* includes the expense of membership billing and records; member services; and the Multi-Jurisdiction Practice program (4) *Lawyer Assistance* includes cost of the Lawyer Assistance Program required under Business and Professions Code section 6231; (5) *Competence* refers to Professional Competence, Planning and Development program (including the Ethics Hotline, the Committee on Professional Responsibility and Competence, publication of the Compendium on Professional Responsibility); (6) *Program Development* includes Legal Services Access; California Young Lawyers Association; (7) *Information Technology Special Assessment Fund*, which is used to upgrade the information technology system, including purchasing and maintenance costs and both computer hardware and software; and (8) *Allocated Administrative Overhead* (e.g., human resources, finance and financial planning, information technology and services, printing, mail, legal counsel, executive offices, and the Board of Governors).

*Non-chargeable expenses:* As directed by the Board, expenditures on legislative activities are limited to those member fees paid voluntarily by members not taking the \$5 deduction under Cal. Bus. & Prof. Code §6140.05. Consequently, no mandatory dues are used to fund the State Bars legislative activities, including those of State Bar Sections which must also be separately funded by their voluntary section dues. Similarly, support of the program activities in the area of bar relations and elimination of bias in the legal profession is voluntary and the amount of expenditures limited to the amount collected from those members electing not to take the \$5 deduction that is offered. Because these expenses are restricted to voluntary fees, there were no nonchargeable expenses attributable to mandatory bar dues in 2010.

**FISCAL / PERSONNEL IMPACT:**

None

**RULE AMENDMENTS:**

n/a

**BOARD BOOK IMPACT:**

n/a

## **RECOMMENDATION**

Staff recommends that the Board receive the audited Statement of Expenditures of Mandatory Membership Fees for the year ending December 31, 2012, and Independent Auditor's Report, copies of which are attached. It is further recommended that the Board authorize its publication when the annual billing statements are mailed to members by the posting of the statement and report on the State Bar's Web site together with notice of the posting in the billing statement and the December issue of the California Bar e-Journal.

## **PROPOSED BOARD COMMITTEE RESOLUTION:**

Should the Board Audit Committee agree with the above recommendation, the following resolution would be appropriate:

**RESOLVED**, that the Board Audit Committee recommends that the Board receive the audited Statement of Expenditures of Mandatory Membership Fees for the year ended December 31, 2012, and the accompanying Report of the Independent Auditor, copies of which are attached hereto; and it is

**FURTHER RESOLVED**, that when the billing of the 2014 membership fees is mailed to members of the State Bar, staff is directed to post the Statement and Report on the State Bar's Web site and to notify members of the posting in the December 2013 issue of the State Bar's e-Journal.

## **PROPOSED BOARD RESOLUTION:**

Should the Board concur with the Board Audit Committee's recommendation, the following resolutions would be in order:

**RESOLVED**, that upon the recommendation of the Board Audit Committee, the Board hereby receives the audited Statement of Expenditures of Mandatory Membership Fees for the year ended December 31, 2012, and the accompanying Report of the Independent Auditor, copies of which are attached hereto; and it is

**FURTHER RESOLVED**, that when the billing of the 2014 membership fees is mailed to members of the State Bar, staff is directed to post the Statement and Report on the State Bar's Web site and to notify members of the posting in the December 2013 issue of the State Bar's e-Journal.