

AGENDA ITEM

JULY 143

DATE: July 21, 2016

TO: Members, Planning and Budget Committee
Members, Board of Trustees

FROM: Christine Wong, Chief Financial Officer

SUBJECT: 2016 Semi-Annual Fiscal Forecast, Variance Report & Mid-Year Budget Amendment

EXECUTIVE SUMMARY

In January the Board of Trustees adopted the State Bar's three-year budget covering the period 2016-2018. Pursuant to the State Bar's fiscal policy, the Office of Finance is responsible for monitoring budget spending throughout the fiscal year and providing the Board with a mid-year budget status update with proposals for amendments when necessary. In this agenda item staff presents: 1) a budget variance report for line items with variance greater than \$100,000 as of June 30, 2016; 2) the 2016 proposed budget amendment; and 3) the State Bar's 2016 semi-annual fiscal forecast.

In past years, mid-year budget amendments were primarily focused on increased line item expenditures without looking at the bar's overall fiscal position. In practical terms, this meant that amendments were put forward increasing the budget, even if internal savings in some areas could be captured to offset overages in others. For this fiscal year, staff adopted a more realistic and rational approach by identifying potential budget savings in certain categories and programs and using those resources to close projected gaps in other budget categories that require additional funding. As a result of this approach, only a small number of budget amendments are warranted, most of which relate to Board action regarding cost allocation of Howard Street capital improvements, new grant monies received by the Legal Services Trust Fund, and effectuation of Board decisions regarding the spend-down of excess reserves.

Importantly, as of June 30, 2016, staff projects a \$1.65 million savings in the Consolidated General Fund when comparing budget to forecast. Staff proposes to use \$1 million of this funding to support the procurement and deployment of a case management system for the Office of the Chief Trial Counsel, State Bar Court, and the Office of Probation.

BACKGROUND

In January, 2016, the Board of Trustees adopted the State Bar's three-year budget for calendar years 2016-2018. To adhere to the State Bar's fiscal policies, staff presents the following:

1. Budget Variance Report as of June 30, 2016
2. Proposed 2016 Mid-Year Budget Amendment
3. 2016 Semi-Annual Fiscal Forecast

DISCUSSION

Budget Variance Report as of June 30, 2016 (Attachment A):

The Budget Variance Report summarizes significant budget variances (both favorable and unfavorable) by comparing actual operating results to the adopted budget for each line item. The Bar's fiscal policy (Board Book Policy, Tab 17, Article 1, Section 2) defines significant budget variance as per line item budget-to-actual variance greater than \$100,000. Budget variances are presented in detail in Attachment A, categorized as follows:

- a) Variance – Budget Amendment Required
- b) Follow-up from adopted Board Resolutions - these don't require amendment?
- c) Variance – Result of Timing, Self-Correcting
- d) Variance – Over/Underspending, Corrected with Internal Reallocation
- e) Variance – Others

Proposed 2016 Mid-Year Budget Amendment (Attachment B):

In prior years, budget amendments were primarily focused on expenditure budgets requiring additional fiscal resources regardless of the bar's overall budget position at the time the amendments were put forward. As a result, mid-year budget adjustments have historically resulted in inflated estimates of needed expenditure levels.

When conducting the mid-year fiscal review for the budget amendment proposal this year, staff adopted a modified approach, identifying potential savings in certain budget categories and programs and using these resources to close projected gaps in others. Adjustments between line items within the same expenditure category and cost center are managed at the administrative level in accordance with the bar's budget policies. As a result of this analysis, only a limited number of budget amendments were identified as being necessary. These amendments, reflecting adjustments at both the fund and cost center levels, are described in detail in Attachment B, and outlined below.

- a) **180 Howard Capital Improvement Costs:** The adopted 2016 budget includes \$4.6 million for Howard Street capital improvements. Subsequent to budget adoption, the Board approved the bar's cost allocation plan, and determined that a portion of these improvements would be cost allocated; the specific amount, \$2.67 million, reflects the basis for that allocation (percent of Howard Street occupied by the State Bar versus tenants (58 percent)). This budget amendment effectuates that Board decision. Attachment B Item 9 reflects related adjustments.
- b) **IOLTA/EAF & Bank Settlement Fund:** In February 2016, as a result of a settlement between the U.S. Department of Justice and Bank of America (BoA), BoA awarded the

Legal Services Trust Fund Program (LSTF) a \$44.73 million award. In addition, two settlement grants from BoA and CitiBank for a total of \$6,085,197 were received in 2016. LSTF has approved grant distributions totaling \$3 million. These transactions were unanticipated during the budget process.

In addition, the Judicial Council of California approved a \$5 million grant to the Equal Access Fund (EAF) Program in July. Staff expects that 25 percent or \$1.25 million of this grant money will be received and distributed to grantees in 2016. Staff also expects that 100 percent of this \$1.25M grant revenues will be distributed to grantees in 2016. Related adjustments are reflected in Items 2, 3 and 4 of Attachment B.

- c) **Client Security Fund (CSF) Transfers & Application Payout:** In March, the Board approved a \$2.02 million transfer from the Legislative Activities Fund and the Lawyer Assistance Program to the CSF Fund to mitigate CSF application payout waiting time. As a result, CSF application payouts for the second quarter escalated. Related adjustments are reflected in Items 5, 6 and 7.
- d) **Affinity Insurance Program Commission Revenues:** When preparing the 2016 budget, staff underestimated Affinity Insurance Program revenue by \$650,000. The related adjustment is reflected in Item 8.

Semi-Annual Fiscal Forecast (Attachment C):

This Semi-Annual Fiscal Forecast report summarizes the State Bar's year-to-date budget and actual operating results as of June 30, 2016, with a forecast to reflect the State Bar's expected year-end position both at the individual fund and consolidated level. Attachment C displays the State Bar's 2016 adopted budget and forecast into two segments: The first segment shows the State Bar's 2016 adopted budget as a whole and by fund, including consolidated totals of each fund group and fund balances. The second segment shows the Mid-Year Forecast after incorporating all the budget adjustments listed in Attachment B.

Overall, the semi-annual forecast reflects a net fiscal impact to the State Bar's operating budget of \$45,548,200 (favorable variance). This variance is primarily due to the \$44.7 million in settlement grants received this year.

Consolidated General Fund savings of at least \$1.65 million are projected at this time.¹ This savings primarily results from an increase in Affinity Insurance Program revenue and the impact of the Board's decision to cost allocate a portion of Howard Street improvements. Staff proposes that \$1 million of this savings be used to support the total project costs for the CMS initiative; a budget amendment is not needed to effectuate this recommendation.

For the Special Revenue Fund Group, the net changes are \$733,500 (unfavorable). These changes are attributed primarily to the \$2.67 million building improvement cost allocation adjustments.

For the Restricted Fund Group, the net changes are \$44,630,900 (favorable). This changes are due to a combination of 1) a \$44.7 million settlement grants received from the BoA in 2016; 2) a total of \$2.02 million in interfund transfers from the LAP and Legislative Activities Funds to the

¹ A slow rate of hiring for vacant positions has generated some sizeable salary savings that are not included in the mid-year forecast due to their potential volatility; recommendations regarding any use of these projected savings will be brought to the Board later this year.

Client Security Fund as a result of a Board action in March to spend down the reserve fund balances and to mitigate the CSF application payout waiting time; and 3) an offset of CSF and LSTF grant revenue increases by additional CSF payouts and grant distributions in 2016.

FISCAL/PERSONNEL IMPACT:

Fiscal impacts from the proposed budget amendment are summarized in Attachment B.

BOARD BOOK IMPACT:

None

PROPOSED PLANNING AND BUDGET COMMITTEE RESOLUTION:

Should the Planning and Budget Committee agree with the above recommendation, the following resolution would be appropriate:

RESOLVED, that the Planning and Budget Committee recommends that the Board of Trustees amend the existing budget as provided in Attachment B.

RESOLVED, that the Planning and Budget Committee recommends that the Board of Trustees approve staff's recommendation to use \$1 million in estimated 2016 Consolidated General Fund savings to support the new CMS.

ATTACHMENT(S) LIST

- A. Budget Variance Report as of June 30, 2016**
- B. Proposed 2016 Mid-Year Budget Amendment**
- C. Semi-Annual Fiscal Forecast**