

## **AGENDA ITEM D**

**DATE:** September 29, 2015

**TO:** Members, Planning and Budget Committee

**FROM:** Christine Wong, Director of Finance

**SUBJECT:** Proposed 2015 Budget Amendments

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### **EXECUTIVE SUMMARY**

This agenda item requests mid-year adjustments for the State Bar's 2015 adopted budget. When preparing the budget, staff estimated revenues and expenditures based on historical data and information available for assessment at that time. However, unforeseen circumstances and changes in operations necessitate revisions throughout the year. In July staff conducted a mid-year budget review and presented a variance report to the Planning and Budget Committee. During this budget review, staff also identified areas that require additional financial resources for this fiscal year. The purpose of this budget amendment is to capture costs that are beyond what could reasonably have been anticipated at the time of adoption, and to correct any technical and financial inaccuracies in the 2015 adopted budget.

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### **BACKGROUND**

On January 24, 2015, the Board of Trustees adopted the State Bar's three-year budget for calendar years 2015-2017. The Board's action included two provisions: (1) that the spending authority under the budget ends April 30, 2015, subject to further review and action at the Board's March meeting; and (2) that staff is directed to submit a revised budget with spending authority identified by program cost center by April 30, 2015. In addition, the Board directed staff to review existing budget control policies and procedures and to recommend revisions to ensure that the proposed budgets presented to the Board for approval include expenditures by cost center, as well as any recommendations to control variances that may occur in the budget during the year and when amendments to the adopted budget should be made.

On March 12, staff presented to the Board the 2015-17 revised budget with department and cost-center details (MAR 144). The Board fully approved the budget, including the spending authority for 2015 through the end of the fiscal year. At the same meeting, the Board of Trustees adopted staff's recommendation to revise the fiscal control policies and procedures in the Bar's Board Book. According to the revised policy (Board Book, tab 17, art. 1, § 2.), the Office of Finance is required to prepare a mid-year budget amendment for Board's action, along with a Budget Variance Report with explanation of budgeted line item variances greater than \$100,000, and a Financial Forecast for Board review.

To adhere to the revised budget control policies and procedures, on July 23, 2015, staff presented to the Committee a Budget Variance Report with explanation of budgeted line item

variances greater than \$100,000 and a financial forecast for Board review. The purpose of this item is to present to the Committee the proposed 2015 mid-year budget amendment.

## DISCUSSION

The proposed 2015 mid-year budget amendment is attached to this item for Board approval. In this proposal, the budget adjustments were prepared based on the most current actual financial data as of July 31, 2015 and projected revenue and expenditure activities-to-date. The purpose of this proposal is to correct any potential shortfalls due to unforeseen circumstances or technical inaccuracies subsequent to the adoption of the 2015 budget. Adjustments between line items within the same expenditure category and cost center are managed at the administrative level. Only budget amendments that have a positive or negative impact on fund balance or are between two separate funds are presented in this proposal for Board approval. This agenda item is presenting the budget adjustments at both fund level (Attachment A) and cost center level (Attachment B). Below is a summary of the 2015 proposed budget adjustments:

**1. Salary & Benefit Adjustments:** These adjustments are to correct technical inaccuracies in the adopted budget, including unbudgeted executive annual salary increases and the related benefit costs and payroll taxes, salary accruals, vacation cash-out pay, unanticipated severance pay and reallocation of staff between cost centers subsequent to the adoption of the 2015 budget. The proposed adjustment amount is \$1,595,711. This budget amendment is necessary because it reflects the actual personnel costs the Bar will incur in the fiscal year.

In the 2015 adopted budget, salary expenses are budgeted based on full employment. In reality, there are unfilled positions throughout the year. To capture the salary savings from vacant positions, staff budgeted salary savings of \$0.75 million in the adopted budget. However, as of June 30, 2015, total Bar-wide budget-to-actual salary savings from vacant positions are approximately \$2.8 million, with the General Fund accounting for \$1.5 million and other program funds accounting for the remaining \$1.3 million. The proposed budget amendment presented in this agenda does not correct this salary savings variance. The current practice for budget presentation, which is consistent with previous years, is to separate the salary savings variance and not use it to off-set against other budget deficiencies.

**2. Professional Fees Adjustment:** Total proposed budget increase for professional fees is \$450,000. This budget adjustment is due to unanticipated increase in State Auditor's fees and additional financial projects that the Bar has committed to conduct as recommended by the State Auditors in the biennial audit report. This adjustment is necessary because the State audit has already been completed and the Bar has already committed to these financial projects.

**3. SF/LA Capital Improvement Adjustments:** Staff is proposing a \$2.525 million budget increase for capital improvement projects. In the 2015 adopted budget, staff included a \$3.3 million capital improvement budget for both the San Francisco and Los Angeles facilities. However, further development of the scope and sequencing of projects in the Bar's capital improvement plan has resulted in a \$5.825 million cost of projects that should be completed in 2015. Staff is therefore proposing a budget increase of \$2.525 million to bring the \$3.3 million capital improvement budget to a total of \$5.825 million. To support this \$5.825 million budget, staff proposes a budget amendment to deplete the \$4.8 million

reserve in the 180 Howard Building Fund, with the remaining \$1.025 million budget increase supported by rental income from the Howard building. Budgeted rental income for the Howard Building is \$0.8 million; however, staff projects that total rental income will be \$1.25 million for the fiscal year, which will be sufficient to support the capital improvement project costs for 2015. This budget amendment is self-financed by the 180 Howard Building Fund, and therefore will not add any fiscal stress to the indirect costs allocated to individual programs in 2015. However, the total capital improvement project costs for both 180 Howard building and the Los Angeles facility from 2015 to 2019 are approximately \$13.7 million. Fiscal impact to individual program funds will be more noticeable starting in 2016 because there will be no building fund reserve left to finance the remaining infrastructure projects after 2015. The capital improvement budget for 2016 to 2019 will rely on rental income and indirect cost allocation.

In Agenda Item C, staff presented to the Committee an overview of the capital improvement projects.

**Los Angeles:** When the Bar purchased 845 S. Figueroa Street in November 2012, the 43-year-old building was several months into a core and shell renovation initiated by the former owner, after having sat vacant and in "mothballed" condition for more than ten years. The work scope included refurbishment of the original base building HVAC system. Our due diligence effort confirmed that this work was progressing per the former owner's scope, and the Bar received a credit on the building purchase price for the HVAC refurbishment and other core and shell work that continued for several months after close of escrow. The Bar did its tenant improvement in 2013, which included a new HVAC distribution and control system. During the first year and a half of occupancy at 845 S. Figueroa Street, some of the original base building HVAC components, particularly the refurbished compressors, have proven to be operationally unreliable and insufficient for the Bar's occupancy load, and cannot be counted upon for continued long-term use. In conjunction with its general contractor and Mechanical, Electrical and Plumbing Engineers, staff has made a plan to replace the compressors and make selected additional upgrades to ensure long-term operational reliability and to improve energy efficiency. The one-time cost of this project is \$1.4 million.

**San Francisco:** 180 Howard Street is the State Bar's largest physical asset. Since purchasing the building in 1996, the Bar has maintained it in good condition through continuous preventive maintenance, routine repairs and upgrades, and occasional major improvements such as a seismic retrofit, completed in 2006; and roof replacement and facade repairs, both completed in 2014. As the building is 37 years old, additional improvements to its structure and systems are necessary, in order to preserve the asset and ensure that the building functions efficiently and safely. While significant and costly, these required repairs and upgrades are generally standard and predictable, the result of normal aging, wear and tear, technical obsolescence, and code compliance. In conjunction with its property and construction project management firm, and its Mechanical, Electrical and Plumbing engineers, staff has developed a five-year capital improvement plan, which includes the upgrade, replacement or new installation of components of the building's Heating, Ventilation & Air Conditioning (HVAC) System; Fire / Life Safety Systems; and Elevators. Many of these components are original to the building. The combined cost of these projects over five years is \$12.3 million, with \$4.6 million scheduled to be completed in 2015.

**4. Other:** Staff is proposing a total budget increase of \$ 542,628: \$ 452,400 in the Admissions Fund and \$90,228 in the Sections Fund. The Admissions department based its budget requests on anticipated expenditures in 2014. The actual expenditure came in higher than anticipated and this adjustment brings the 2015 budget inline with actual costs experienced by the department. The Sections budget adjustment is necessary to correct a technical inaccuracy in the adopted budget.

**Proposed 2015 Budget Amendment:**

The proposed 2015 budget adjustment is attached to this agenda (Attachment A). Below is a summary of the budget adjustments and working capital projections at consolidated level under the new fund structure:

**A) Consolidated General Fund Projections, December 31, 2015 (\$ in millions)**

Beginning Working Capital Balance, January 1, 2015		\$15.8
• 2015 Budget Revenues		\$76.0
• 2015 Budgeted Expenditures	-\$80.3	
<b>Proposed Budget Amendments/Increases:</b>		
♦ Salary & Benefit Costs (1)	-\$1.3	
♦ Professional Fees (2)	-\$0.5	
♦ Capital Improvement Projects (3)	<u>-\$2.5</u>	
Budgeted Expenditures after Amendments		-\$84.6
Add: Estimated Indirect Costs Charged to Other Funds		<u>\$0.3</u>
Projected Ending Working Capital Balance, December 31, 2015:		<b>\$7.5*</b>

*\* The projected Consolidated General Fund ending working capital balances includes resources committed for OPEB benefits and IT projects.*

**B) Restricted Funds Projections, December 31, 2015 (\$ in millions)**

Beginning Working Capital Balance, January 1, 2015		\$21.0
• 2015 Budget Revenues		\$41.7
• 2015 Budgeted Expenditures	-\$41.6	
• Add: Fund Transfer from IT Special Assessment Fund	-\$1.2	
<b>Proposed Budget Amendments/Increases:</b>		
♦ <b>Salary &amp; Benefit Costs (1)</b>	<b><u>-\$0.2</u></b>	
Budgeted Expenditures after Amendments		-\$43.0
Add: Estimated Indirect Costs Charged to Funds		<u>-\$0.1</u>
Projected Ending Working Capital Balance, December 31, 2015:		<b>\$19.6</b>

**C) Special Revenue Funds Projections, December 31, 2015 (\$ in millions)**

Beginning Working Capital Balance, January 1, 2015		\$11.9
• 2015 Budget Revenues		\$29.1
• 2015 Budgeted Expenditures	-\$30.8	
<b>Proposed Budget Amendments/Increases:</b>		
♦ <b>Salary &amp; Benefit Costs (1)</b>	<b><u>-\$0.1</u></b>	
♦ <b>Other Adjustments (5)</b>	<b><u>-\$0.5</u></b>	
Budgeted Expenditures after Amendments		-\$31.4
Add: Estimated Indirect Costs Charged to Funds		<u>-\$0.2</u>
Projected Ending Working Capital Balance, December 31, 2015:		<b>\$9.4</b>

**FISCAL/PERSONNEL IMPACT:**

Fiscal impacts are summarized in Attachment A.

**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 A.

#### **ATTACHMENT LIST**

- A. Proposed Budget Amendment Summarized By Fund
- B. Proposed Budget Amendment Summarized By Cost Center

# Proposed 2015 Budget Amendment - Summarized By Fund

# Attachment A

	Working Capital Beginning Balance	March Adopted Revenues 2015 Budget	March Adopted Expenditures 2015 Budget	Amendments				Estimated Impact on Indirect Cost	Estimated Ending Working Capital
				1 Salary and Benefits	2 Professional Fees	3 Capital Improvements	4 Other		
Consolidated General Fund									
- Original General Fund	3,102,161	69,321,000	(70,793,117)	(1,248,367)	(450,000)			287,913	219,590
- 180 Howard Street Fund	4,793,896	827,000	(3,405,648)	-	-	(2,525,000)			(309,752)
- Legal Education and Development Fund	4,590,828	2,410,038	(1,244,851)	(4,842)				(4,577)	5,746,596
- LA Facilities Fund	(5,507,284)	3,501,620	(3,501,620)	-	-				(5,507,284)
- Public Protection Fund	1,888,022	-	-	-	-				1,888,022
- Support and Administration Fund	188,330	-							188,330
- Technology Improvement Fund	4,595,350	-	(1,402,400)	-	-				3,192,950
- Fixed Assets Fund	-	-	-					-	-
-Benefit Reserve Fund	2,108,442	-							2,108,442
Total General Fund	15,759,745	76,059,658	(80,347,636)	(1,253,209)	(450,000)	(2,525,000)	-	283,336	7,526,894
Restricted Funds									
Legal Services Trust Fund	4,619,763	12,065,000	(11,814,153)	(38,681)	-			(13,696)	4,818,233
Legislative Activities Fund	462,951	756,338	(628,103)	(12,338)				(5,981)	572,867
Elimination of Bias Fund	856,296	864,524	(1,024,566)	(66,757)				(10,105)	619,392
Client Security Fund	2,231,928	7,713,350	(7,962,910)	(26,809)	-			(17,277)	1,938,282
Lawyer Assistance Fund	1,843,273	2,020,745	(1,844,744)	(33,866)	-			(11,548)	1,973,860
Equal Access Fund	3,738,934	15,075,000	(15,462,100)	-				(399)	3,351,435
Justice Gap Fund	308,837	750,000	(800,000)	-	-				258,837
Legal Specialization Fund	4,482,869	2,457,679	(2,045,807)	(21,890)	-			(16,165)	4,856,686
Technology Special Assessment	1,211,409	-	-						1,211,409
Total Restricted Funds	19,756,260	41,702,636	(41,582,383)	(200,341)	-	-	-	(75,171)	19,601,001
Special Revenue Funds									
Admissions Fund	3,682,735	20,256,168	(21,386,333)	(163,118)	-		(452,400)	(143,457)	1,793,595
Grants Fund	488,541	-	(308,397)	-	-				180,144
Annual Meeting Fund	114,263	949,171	(863,484)	(113,530)	-			(2,154)	84,266
Sections Fund	7,656,216	7,946,473	(8,209,148)	134,487	-		(90,228)	(62,554)	7,375,246
Total Special Revenue Funds	11,941,755	29,151,812	(30,767,362)	(142,161)	-	-	(542,628)	(208,165)	9,433,251
Grand Totals:	47,457,760	146,914,106	(152,697,381)	(1,595,711)	(450,000)	(2,525,000)	(542,628)	-	36,561,146

# Proposed 2015 Budget Amendment - Summarized By Fund

# Attachment A

	Working Capital Beginning Balance	March Adopted Revenues 2015 Budget	March Adopted Expenditures 2015 Budget	Amendments					Estimated Impact on Indirect Cost	Estimated Ending Working Capital
				Salary and Benefits	Finance	Capital Improvements	Technology Assessment	Other		
Consolidated General Fund										
- Original General Fund	3,102,161	69,321,000	70,793,117	1,248,367	450,000				(287,913)	219,590
- 180 Howard Street Fund	4,793,896	827,000	3,405,648	-	-	2,700,000				(484,752)
- Legal Education and Development Fund	4,590,828	2,410,038	1,244,851	4,842					4,577	5,746,596
- LA Facilities Fund	(5,507,284)	3,501,620	3,501,620	-	-					(5,507,284)
- Public Protection Fund	1,888,022	-	-	-	-					1,888,022
- Support and Administration Fund	188,330	-								188,330
- Technology Improvement Fund	4,595,350	-	1,402,400	-	-		(1,211,409)			4,404,359
- Fixed Assets Fund	-	-	-						-	-
-Benefit Reserve Fund	2,108,442	-								2,108,442
Total General Fund	15,759,745	76,059,658	80,347,636	1,253,209	450,000	2,700,000	(1,211,409)	-	(283,336)	8,563,303
Restricted Funds										
Legal Services Trust Fund	4,619,763	12,065,000	11,814,153	38,681	-				13,696	4,818,233
Legislative Activies Fund	462,951	756,338	628,103	12,338					5,981	572,867
Elimination of Bias Fund	856,296	864,524	1,024,566	66,757					10,105	619,392
Client Security Fund	2,231,928	7,713,350	7,962,910	26,809	-				17,277	1,938,282
Lawyer Assistance Fund	1,843,273	2,020,745	1,844,744	33,866	-				11,548	1,973,860
Equal Access Fund	3,738,934	15,075,000	15,462,100	-					399	3,351,435
Justice Gap Fund	308,837	750,000	800,000	-	-					258,837
Legal Specialization Fund	4,482,869	2,457,679	2,045,807	21,890	-				16,165	4,856,686
Technology Special Assessment	1,211,409	-	-				1,211,409			-
Special Revenue Funds										
Admissions Fund	3,682,735	20,256,168	21,386,333	163,118	-			452,400	143,457	1,793,595
Grants Fund	488,541	-	308,397	-	-					180,144
Annual Meeting Fund	114,263	949,171	863,484	113,530	-				2,154	84,266
Sections Fund	7,656,216	7,946,473	8,209,148	(134,487)	-			90,228	62,554	7,375,246
Grand Totals:	47,457,760	146,914,106	152,697,381	1,595,711	450,000	2,700,000	-	542,628	-	36,386,146



# Budget Amendment Cost Center Detail

## Attachment B

		2015		
Description		Budget	Changes	New Budget
Salary and Benefit (1)				
Consolidated General Fund				
10001	Executive Director	945,776	46,699	992,475
10002	Appointments Administration	240,155	-24,617	215,538
10004	Deputy Executive Director	574,970	19,643	594,613
10005	Elections	63,147	406	63,553
10101	Judicial Evaluation	734,865	12,187	747,052
10201	Child & Family Support	40,190	706	40,896
10250	Member Svcs.-Senior Executive	167,691	11,240	178,931
10251	Member Services Center	2,332,202	33,712	2,365,914
10301	Trial Counsel-Admin.	208,869	10,412	219,281
10302	Central Administration Unit	4,849,920	88,220	4,938,140
10303	Intake-LA	4,879,340	87,249	4,966,589
10304	Trial Unit-LA	7,992,525	92,299	8,084,824
10305	Trial Unit-SF	4,002,456	-44,857	3,957,599
10308	Abandoned Cases/UPL	270,203	4,467	274,670
10312	Admin Support-SF	1,276,901	30,123	1,307,024
10313	Audit & Review	599,816	9,970	609,786
10314	Investigation-LA	5,813,106	100,443	5,913,549
10315	Investigation-SF	961,444	18,808	980,252
10401	SBC Sr. Executive	550,065	60,061	610,126
10402	Hearing Admin.-SF	1,062,740	27,852	1,090,592
10403	Hearing Counsel LA/SF	1,355,372	25,467	1,380,839
10404	Hearing Judges	1,268,316	14,847	1,283,163
10405	Hearing/Effec./Admin.-LA	1,487,796	25,808	1,513,604
10407	Presiding/Review Judges	690,150	31,576	721,726
10408	Review Counsel/Clerk	1,142,825	21,837	1,164,662
10502	Mandatory Fee Arbitration	636,958	19,165	656,123
10601	Probation	943,440	14,059	957,499
10706	Prof. Resp. & Conduct	1,603,358	27,073	1,630,431
10801	Media & Info. Svcs.	1,393,269	-16,071	1,427,522
10802	Calif. Bar Journal	279,537	4,385	283,922
10903	Calif. Young Lawyers Assoc.	143,935	40,814	184,749
10906	Center on Access to Justice	1,276,540	28,053	1,304,593
18001	Group Insurance Programs	234,509	2,773	237,282
18002	Professional Liab Insurance	204,652	2,069	206,721
23001	General Counsel	4,615,265	3,686	4,618,951
23101	Finance	1,200,608	225,542	1,301,150
23103	Member Billing	1,815,560	20,599	1,836,159
23105	Procurement	453,965	14,666	468,631
23107	Accounting	1,011,128	-5,140	1,005,988
23108	Budget, Perf Measure & I/C	821,203	26,686	847,889
23201	Ben, Classif, Sal & Payrol Adm	195,187	3,767	198,954
23202	Recruit, Training, Measurement	518,147	7,645	525,792
23203	Safety, Employee/Labor Relation	768,169	10,805	778,974
23204	HRIS,Record Mgt, Reg Complianc	653,729	-20,226	633,503
23311	Operations Management	395,286	29,873	425,159
23331	LA Administrative Services	802,632	12,785	815,417
23351	SF Administrative Services	829,729	25,553	855,282
23358	SF Print Shop	218,372	5,389	223,761

# Budget Amendment Cost Center Detail

## Attachment B

Description	Budget	2015	
		Changes	New Budget
23601 IT Administration	394,851	<b>20,173</b>	415,024
23602 Library/Archives-SF&LA	533,981	<b>4,072</b>	538,053
23605 IT Project Management	210,015	<b>12,181</b>	222,196
23606 IT Operations	2,942,055	<b>-4,905</b>	2,937,150
23607 IT Application	2,862,758	<b>33,178</b>	2,895,936
<b>Totals:</b>	<b>71,469,678</b>	<b>1,253,209</b>	<b>72,648,212</b>

### Restricted Funds

16001 Legal Activities Assistance	323,721	<b>12,338</b>	336,059
17001 Voluntary Bar Support	237,369	<b>62,086</b>	299,455
17007 Center for Access & Fairness	376,581	<b>4,671</b>	381,252
21001 Lawyer Assist Program	1,292,495	<b>33,866</b>	1,326,361
24001 Legal Specialization	1,545,598	<b>21,890</b>	1,567,488
27001 CSF Administration	7,202,150	<b>26,809</b>	7,228,959
28001 LSTF Administration	652,021	<b>30,581</b>	682,602
28004 LSTF Accounting	552,030	<b>8,100</b>	560,130
<b>Totals:</b>	<b>12,181,965</b>	<b>200,341</b>	<b>12,382,306</b>

### Special Revenue Funds

14001 Annual Meeting Admin.	764,129	<b>113,530</b>	877,659
20001 Admissions Overhead	890,735	<b>20,112</b>	910,847
20002 Admission Operations	7,636,222	<b>48,158</b>	7,684,380
20004 Admissions Administration	880,932	<b>9,206</b>	890,138
20007 Law School Regulation	321,577	<b>14,014</b>	335,591
20008 Application Processing	1,375,224	<b>25,939</b>	1,401,163
20011 Examination Development	1,036,504	<b>14,876</b>	1,051,380
20013 Examination Grading	2,733,789	<b>-7,037</b>	2,726,752
20019 Moral Character Determinations	1,632,641	<b>30,922</b>	1,663,563
20022 MCLE Provider Certification	170,022	<b>3,224</b>	173,246
20023 Special Admissions	180,434	<b>3,705</b>	184,139
70001 Sections Administration	500	<b>-134,487</b>	-133,987
<b>Totals:</b>	<b>17,622,709</b>	<b>142,161</b>	<b>17,764,870</b>

**Salary and Benefit Grand Totals: 101,274,352 1,595,711 102,795,388**

### Professional Fees (2)

23101 Finance	1,200,608	<b>450,000</b>	1,650,608
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### Capital Improvements (3)

26121 SF Capital Improvement Project	3,405,648	<b>2,525,000</b>	5,930,648
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### Other (4)

77001 Intel. Prop. Sections Admin.	635,063	<b>90,228</b>	725,291
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### Admissions Fund

20001 Admissions Overhead	1,161,466	<b>20,000</b>	1,181,466
20002 Admission Operations	8,741,329	<b>193,700</b>	8,935,029
20004 Admissions Administration	1,152,713	<b>4,500</b>	1,157,213

# Budget Amendment Cost Center Detail

## Attachment B

Description	Budget	2015	
		Changes	New Budget
20008 Application Processing	2,061,133	<b>13,000</b>	2,074,133
20011 Examination Development	1,190,734	<b>-15,000</b>	1,175,734
20013 Examination Grading	3,173,749	<b>230,000</b>	3,403,749
20019 Moral Character Determinations	2,291,764	<b>3,700</b>	2,295,464
20022 MCLE Provider Certification	266,466	<b>1,000</b>	267,466
20023 Special Admissions	277,439	<b>1,500</b>	278,939
<b>Totals:</b>	<b>20,316,793</b>	<b>452,400</b>	<b>20,769,193</b>
<b>Other Grand Totals:</b>	<b>20,951,856</b>	<b>542,628</b>	<b>21,494,484</b>