

AGENDA ITEM

701 FEBRUARY 1 2016

DATE: February 1, 2016
TO: Members, Board of Trustees
FROM: Leah Wilson, Chief Operating Officer
SUBJECT: Adoption of the 2016-2018 Budget

EXECUTIVE SUMMARY

In March 2015 the Board adopted the State Bar's 2015-2017 budget. This agenda item presents the proposed budget for 2016-18, which revises the existing budgets for 2016 and 2017, and extends the budget to 2018. This budget is presented under the new fund structure adopted by the Board in September 2015. The budget also incorporates revisions to the 2015 fund balance projections to recognize unfunded pension liabilities in compliance with the mandated implementation of Governmental Accounting Standard Board (GASB) Statement 68 regarding financial reporting for pensions.

The overall proposed 2016 budget of \$146.1 million represents a 6.2 percent reduction from the \$155.8 million 2015 budget. Savings were realized in a number of areas including temporary help, travel, and catering costs.

BACKGROUND

The State Bar adopts a three-year "rolling" budget. In March 2015, the Board adopted a budget covering the period 2015-17. This year's proposal revises the previously adopted budgets for 2016 and 2017 and extends the budget through 2018. The 2016-18 budget "flat-lines" for most non-personnel costs with across-the-board budget reductions for travel, catering and temporary help, except in Admissions, where certain cost increases are unavoidable.

Although a 1 percent negotiated salary increase, as well as 5 percent step increases for eligible staff, are included in the 2016 budget, the line item remains virtually flat; 2016 budgeted salaries total \$54.3 million, as compared to \$54.2 million in the 2015 budget. Current year salary increases have been effectively offset by the elimination of 21 full-time-equivalent (FTE) positions that were determined to be highly unlikely to be filled.

Other 2016 budget reductions include travel, catering and temporary help totaling approximately \$2.3 million as follows:

- Travel Expenses: 2015 budget totaled \$3.4 million, 2016 budget totals \$2.4 million
- Catering Expenses: 2015 budget totaled \$2.1 million, 2016 budget totals \$1.6 million
- Temporary Help: 2015 budget totaled \$3.3 million, 2016 budget totals \$2.5 million

Additional budget savings have been realized through reductions in professional services, building improvement and OPEB post-retirement benefit costs.

The 2017 and 2018 budgets are based on flat non-personnel expenses, with an estimated 3 percent annual increase in personnel costs.

The proposed 2016-18 budget is attached as Attachment A.

MAJOR BUDGET ASSUMPTIONS

Employee Salaries

Budgeted Employee salaries, totaling approximately \$54.3 million in 2016, slightly up from \$54.2 million in 2015, are the largest single driver of the State Bar's costs. As in past years, our budget assumptions conform to the terms of our existing MOU, which provides annual "step" increases for bargaining unit employees who have not reached the top of the salary range for their job classification, as well as a 1.0 percent across-the-board increase effective January 1, 2016. Beyond the expiration of the current MOU at the end of 2016, the budget assumes no across-the-board increases. Regular step increases are assumed to continue however.

Other Personnel Costs

Payroll tax costs are assumed to rise along with salaries. CalPERS contribution rates are rising by about one percentage point per year, while health insurance costs have been remarkably stable over the past few years; the budget assumes that these trends will continue.

Non-Personnel Costs

In general, there are no increases in non-personnel costs, with budget reductions for a few expenditure categories. The major exception is in the area of Admissions, which faces substantial uncontrollable non-personnel costs, such as bar exam space rental fees. In 2016, a 15 percent budget reduction for travel and catering is mandated across-the-board. Temporary help has also been reduced by 25 percent in all departments, except for Admissions, as resources have been reallocated to filling vacant positions with permanent staff, wherever possible.

Capital Improvements

The Bar is progressing through a multi-year capital improvement plan for 180 Howard Street, focused primarily on upgrades to the building's Heating, Ventilation & Air Conditioning system. These upgrades are required due to normal aging, wear and tear and technical obsolescence of existing equipment. Capital improvement budgets for 2016, 2017 and 2018 are \$4.6 million, \$2.8 million and \$1.88 million, respectively.

Information Technology Projects

The Bar's contract with Sustain, Inc. was terminated in late 2015. A Request for Proposals (RFP) for a case management system addressing, at a minimum, the needs of the Office of the Chief Trial Counsel and State Bar Court, is currently pending; the Board will be asked to review a cost/benefit analysis of the selected proposal and approve the resulting contract at its March meeting. It is also anticipated that an RFP for the Admissions system CMS will be issued in 2016. The budget will be amended to reflect both of these projects.

Interfund Transfers

Staff recommends two fund transfers in the 2016 budget:

1. Transfer the remaining balance of the Information Technology Special Assessment Fund, totaling approximately \$2.1 million, to the Consolidated General Fund. This fund was initially generated by a special assessment, which expired in 2013. The transfer will help centralize the resources for future budget planning.
2. A \$54,600 transfer from the Sections Fund to the Annual Meeting Fund to subsidize the deficit incurred in 2015.

Indirect Cost Allocation:

Indirect cost allocation is a process by which "indirect costs" are allocated to Departments and programs within the Bar. In 2015, Mr. William Statler was engaged to conduct a comprehensive review of the State Bar's cost allocation methodology. That review, which was completed on January 25, 2016, included several key findings and recommendations as follows:

- The existing cost allocation methodology is technically sound though problems exist:
 - 100% of indirect costs are not allocated
 - Allocation to the cost center level is overly complex and not necessary
 - Monthly versus annual cost allocation is overly complex and not necessary
- All Indirect costs should be allocated
- Costs should be allocated to programs/Departments/funds
- Cost allocation should be done annually, with a retrospective true-up as needed.

For purposes of 2016-2018 budget development, staff has implemented most of Mr. Statler's recommendations.¹ Importantly, Mr. Statler noted that the decision to allocate capital improvement costs is a purely policy one; the 2016-2018 budget as presented does not reflect any allocation of costs associated with improvements being made to the 180 Howard Street building. The Board will be asked to specifically review and formally adopt the entire cost

¹ Mr. Statler's recommendations also address the process by which the Board should consider and adopt the cost allocation plan; the Board's review, and anticipated adoption, of the cost allocation plan at its March meeting will effectuate these process-related recommendations.

allocation methodology at its March meeting, as well as to address the question of whether capital improvement costs should be allocated. Decisions made by the Board at that time may result in modifications to the adopted budget.

GASB 68 Implementation

The implementation of GASB 68 on financial reporting for pensions in 2015 has a significant fiscal impact on all funds. Staff measured the approximately \$19 million unfunded pension liability based on the 2014 CalPERS valuation report. The projected beginning fund balances for the 2016 budget have already incorporated the mandated changes, and the entire \$19 million in unfunded pension liabilities is recognized in the Bar's financial statements. The 2015 valuation from CalPERS will be available by end of January 2016, and may result in budget modification necessitating Board approval.

BOARD BOOK IMPACT:

None

RECOMMENDATION

Staff recommends that the Board of Trustees adopt the budget as provided in Attachment A.

PROPOSED BOARD OF TRUSTEES RESOLUTION:

Should the Board concur with staff's recommendation, the following resolution would be in order:

RESOLVED, that the Board of Trustees hereby adopts the 2016-18 Budget in the form presented to the Board this day.