

AGENDA ITEM

705 MARCH 2017

DATE: March 10, 2017

TO: Members, Board of Trustees

FROM: Leah Wilson, Chief Operating Officer
Christine Wong, Chief Financial Officer

SUBJECT: Overview of Indirect Cost Allocation Methodology and Presentation in 2017 Budget

EXECUTIVE SUMMARY

The purpose of cost allocation plan (CAP) is to identify the total costs of providing specific service by support centers – indirect costs, and allocate these costs to a specific service program or cost center receiving the benefits based on a fair, formal and consistent methodology. Indirect costs are not readily identifiable with a specific direct operating program, but rather, are incurred for a joint purpose that benefits more than one functional area or program. The Board adopted the current CAP in 2016.

The purpose of this agenda item is to provide the Board with a general overview of the cost allocation methodology, and the application of that methodology in the 2017 budget. In addition, this agenda item provides information regarding actual, versus budgeted, 2016 cost allocation.

BACKGROUND

To ensure that overhead expenses were appropriately charged, in 1999, the State Bar engaged the professional accounting firm of Deloitte & Touche to develop a cost allocation methodology. The State Bar's operational and overhead costs had previously been allocated to State Bar programs on an ad hoc basis. Following the Legislature's enactment of Business & Professions Code section 6031.5, which prohibits the State Bar from funding the Sections activities with mandatory dues collected in the General Fund, the State Bar moved toward a regularized, consistent cost allocation methodology (CAM), that was subject to independent validation and verification.

The initial CAM was adopted by the Board in 2002. In 2015, staff engaged an independent consultant to review and update the methodology due to the passage of time. The study was completed in 2015; the Board adopted a new methodology pursuant to that study in 2016.

The modified methodology, or Cost Allocation Plan (CAP), reflects the following components:

1. Support cost centers will comprise the indirect cost pool.
2. 100% of support cost centers are allocated.
3. Different allocation bases are used for each cost center as appropriate. Bases include:
 - a. Full Time Equivalent
 - b. Office Space Occupancy (in square footage)
 - c. Direct Costs/overhead
 - d. Member Dues Revenues

DISCUSSION

In the 2017 budget the indirect cost pool is comprised of the following support cost centers: Office of Executive Director, Board of Trustees, Appointments, General Services, Office of Human Resources, Office of Information Technology, Office of Finance and Member Billing. The total indirect cost pool is \$31.4 million, which represents approximately 19% of the Bar's entire budget.

Program areas receiving benefits from the the support cost centers are the remaining programs or cost centers that are not classified as support cost centers.

The cost allocation bases for each of these support cost centers are outlined in the table below:

Allocation Bases	Indirect Cost Categories
Full Time Equivalent	General Counsel Human Resources Information Technology
Membership Dues	Member Billing
Direct Costs/Overhead	BOT Appointment Executive Director Finance
Office Space Occupancy	General Services

Indirect costs are allocated using the allocation bases as illustrated in the following table:

Administrative Area/Support Cost Center	Indirect Cost Pools (\$)	Allocation Bases	Program A		Program B		Program C	
			%	\$	%	\$	%	\$
General Counsel	1,000	FTE	50%	500	25%	250	25%	250
Finance	500	Direct Cost	20%	100	60%	300	20%	100
General Services	2,000	Square Footage	60%	1,200	25%	500	15%	300
Human Resources	600	FTE	33%	200	25%	150	42%	250
Member Billing	1,000	Due Revenues	0%	0	50%	500	50%	500
Total:	5,100			2,000		1,700		1,400

The 2017 budget indirect cost allocation by fund is summarized in Attachment A. This summary captures the indirect cost pools by administrative function and demonstrates the percentages and method to calculate each cost component that is allocated to each individual fund.

Attachment B provides information about the 2016 indirect cost allocation including budgeted versus actual amounts; the 2017 cost pool of \$31.04 million compares to the \$31.3 million budgeted level in 2016.

FISCAL/PERSONNEL IMPACT

As reflected in the 2017 adopted Final Budget

RULE AMENDMENTS

None.

BOARD BOOK IMPACT

None.

BOARD GOALS & OBJECTIVES

State Bar's 2016 Strategic Plan Goals and Objectives – Goal 3: Improve fiscal and operational management, emphasizing integrity, transparency and accountability.

BOARD COMMITTEE RECOMMENDATIONS

None.

ATTACHMENT(S) LIST

- A.** Indirect Cost Allocation Plan 2017 Budget
- B.** Indirect Cost Allocation Comparison 2016 vs. 2017