

OPEN SESSION AGENDA ITEM

54-143 2018 BUDGET AMENDMENT F&P COMMITTEE ITEM III. D.

DATE: March 9, 2018

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

FROM: Kevin Harper, Interim Chief Financial Officer

SUBJECT: 2018 Budget Amendment

EXECUTIVE SUMMARY

In January the Board of Trustees adopted the State Bar's 2018 Final budget and authorized staff to make technical adjustments and corrections as necessary prior to filing with the State Legislature on February 15. The 2018 Final Budget was filed with the Legislature as adopted by the Board. This agenda item seeks approval for a technical adjustment to increase budgeted expenses of the Client Security Fund (CSF).

BACKGROUND

Pursuant to the State Bar's Board Book, the Office of Finance is responsible for monitoring budget spending throughout the fiscal year and providing the Board with budget status updates and proposals for amendments when necessary.

The Board Book's Reserve Policy requires the State Bar to maintain a minimum reserve balance that equates to two months (17 percent) of expenses for all non-grant funds. Funds subject to the policy are the General Fund, Legislative Activities Fund, Elimination of Bias Fund, Lawyer Assistance Program Fund, Legal Specialization Fund, Client Security Fund, Legal Services Trust Fund, and Admissions Fund. Whenever a fund's reserve level surpasses 30 percent for a consecutive six-month period, a reserve spend-down plan shall occur in accordance with the Reserve Policy.

DISCUSSION

In January the Board of Trustees adopted the State Bar's 2018 Final budget and authorized staff to make technical adjustments and corrections as necessary prior to filing with the State Legislature on February 15. Staff identified several potential technical adjustments, most of which do not merit a budget amendment, because their amount is not likely to cause a fund to go over the approved budget. These potential technical adjustments included:

- Delay of the shift to CalPERS health plans from April to May 2018

- Correction in calculation of salaries and benefits related to collective bargaining agreement
- Severance for departing employees
- Reimbursement from California Lawyers Association for collection costs
- Increase payouts from Client Security Fund to reduce reserve balance to comply with the Reserve Policy

Only the last item merits a budget amendment at this time.

The 2018 Final Budget adopted by the Board in January projected a 2018 ending reserve of \$3.8 million (47.4%) for the CSF. At that time, we informed the Board that staff would bring a proposal to address the fact that the reserve level exceeded the Board's maximum per the Reserve Policy. The budget amendment proposed herein addresses the CSF reserves.

The objective of the Office of the CSF is to protect the public and maintain public confidence in the legal profession by reimbursing clients who have lost money or property due to theft by a California lawyer. As of December 31, 2017, the CSF had 3,431 applications pending for processing, totaling approximately \$52.3 million. This compared to 4,253 applications pending, totaling approximately \$50.9 million at December 31, 2016.

Staff proposes to increase 2018 CSF payouts by \$800,000 for 2018; indirect costs will increase to CSF by approximately \$200,000 due to this increase in payouts. A summary of the CSF revenues, expenses and reserves per the 2018 Final Budget and per this budget amendment is shown below (in thousands):

	<i>Previously Budgeted</i>	<i>Proposed Amendment</i>	<i>Revised Budget</i>
Budgeted Revenues	\$ 7,977	\$ -	\$ 7,977
Budgeted Payouts	(6,600)	(800)	(7,400)
Budgeted Expenses	(856)		(856)
Budgeted Indirect Costs	<u>(585)</u>	<u>(200)</u>	<u>(785)</u>
Net change	(64)	<u>\$(1,000)</u>	(1,064)
Projected Balance 1/1/2018*	<u>3,879</u>		<u>3,089</u>
Projected Balance 12/31/2018	<u>\$ 3,815</u>		<u>\$(2,025)</u>
Percent of Expenses	47%		22%

* The projected balance at January 1, 2018 was revised downward by \$790,000 since the 2018 Final Budget was adopted. The Final Budget was based on actual amounts through October 2017 and projected amounts for November and December 2017. During those final two months, CSF mandatory fees revenue came in below projection by 130,000 payouts exceeded projection by \$335,000 and reimbursements were below projection by \$325,000.

The increased funding proposed herein will allow us to continue to mitigate the average waiting period for payment on CSF payouts.

FISCAL/PERSONNEL IMPACT

Net budget increase for the Client Security Fund of \$1,000,000.

RULE AMENDMENTS

None

BOARD BOOK AMENDMENTS

None

STRATEGIC PLAN GOALS & OBJECTIVES

Goal: 3. Improve the fiscal and operational management of the State Bar, emphasizing integrity, transparency, accountability, and excellence.

Objective: d. Reallocate funds to support the discipline system based on expenditure review, revenue enhancement measures, implementation of the Bar's reserve policy, and other reengineering efforts.

RECOMMENDATION

It is recommended that the Finance and Planning Committee and Board of Trustees approve the following resolution:

RESOLVED, that the 2018 Budget be amended to increase budgeted expenses of the Client Security Fund by \$1,000,000.

ATTACHMENT(S) LIST

None