

# **OPEN SESSION**

## **AGENDA ITEM**

### **54-145 SEPTEMBER 2018**

#### **FINANCE AND PLANNING COMMITTEE ITEM III.D.**

**DATE:** September 13, 2018

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

**FROM:** Kevin Harper, Interim Chief Financial Officer

**SUBJECT:** Update on 2019 Budget

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#### **EXECUTIVE SUMMARY**

This is an information item regarding the State Bar's 2019 preliminary budget which is required to be filed with the State Legislature by November 15, 2018. It provides a high-level overview of expected revenues and expenses of the General Fund for 2019 and discusses significant changes from the 2018 adopted budget.

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#### **BACKGROUND**

The 2019 Fee Bill will require the State Bar to submit its adopted final budget by February 28 each year to the State Legislature. Previous Fee Bills required the State Bar to submit its baseline budget by November 15 each year and its final budget by February 15. Since the 2019 Fee Bill won't be effective until January 1, 2019, the State Bar is required to follow previous guidance and submit the 2019 baseline budget by November 15, 2018.

The next Board meeting is November 16, a day after the deadline for filing the baseline budget this agenda item is designed to provide the Board with a high level overview of the General Fund portion of the preliminary budget that staff will file by November 15. The item focuses on the General Fund because of its centrality to the Bar's overall fiscal health and the continuation of significant deficit spending that is anticipated with respect to this Fund.

The baseline budget will be presented to the Board for approval on November 16. If the Board wants to make adjustments at that time, these would be incorporated into a budget amendment prior to the final budget being submitted to the State Legislature by February 28, 2019.

#### **DISCUSSION**

The following table shows the preliminary General Fund revenues and expenses for 2019, along with 2018 Budget for reference. Although the 2019 estimates will be refined between now and the time the baseline budget is presented to the Board in November, it represents the starting point for further discussion and refinements.

**Table 1**  
**General Fund Revenues and Expenses**  
**(\$ in thousands)**

	<u><b>2019 Estimates</b></u>	<u><b>2018 Budget</b></u>
<b><u>REVENUES:</u></b>		
Licensee Fees	\$66,526	\$65,583
Other	11,672	8,542
Transfers	<u>0.0</u>	<u>2,238</u>
	<u>78,198</u>	<u>76,362</u>
<b><u>EXPENSES:</u></b>		
Personnel	75,268	70,969
Leases & Rent	5,557	5,532
Services	4,495	4,001
Supplies & Equipment (inc. IT Projects)	12,746	11,792
Debt Service	695	695
Indirect Costs Allocated to Other Funds	(8,000)	(8,001)
Other	<u>630</u>	<u>163</u>
	<u>91,391</u>	<u>85,151</u>
<b>EXCESS OR EXPENSES OVER REVENUES</b>	(13,193)	(8,788)
<b>RESERVES, Beginning of Year (Projected)</b>	<u>19,867</u>	
<b>RESERVES, End of Year</b>	<u><u>\$ 6,674</u></u>	

The preliminary General Fund 2019 amounts indicate that General Fund expenses will exceed revenues by approximately \$13.2 million. Unfortunately, the current estimates would continue the trend of deficit spending which threatens the State Bar's ability to fulfill its mission. The estimated expenses and structural imbalance are projected to draw down reserves to approximately \$6.7 million by the end of 2019. Reserves will be at 7.3 percent of total expenses, which is only 43.0 percent of the board recommendation of 60 days operating costs, which would require a 17.0 percent reserve level. There are certain non-recurring expenses that are included in the above estimates, which are financed out of General Fund reserves.

Below is a brief narrative on each significant category to highlight the current 2019 estimates.

- **Licensee Fees** - The 2019 Fee Bill authorizes the State Bar to collect from active licensees the basic annual fee of \$315, the same as the authorized assessment level in 2018. The 2019 budget assumes the number of active attorneys will grow at 1.4%.
- **Other Revenue** – Other revenue consists of rental income, penalties, other fees from law corporations and LLP's, investment income, and MCLE revenue.
  - Rental Income – The 2019 preliminary amounts show an increase of rental revenue for the 180 Howard Street building floor 1 starting January 2019 (\$928,000) and floor 11 starting April 2019 (\$771,000).
- **Personnel Expenses** – The 2019 estimate is currently \$75.3 million, and includes the following changes from the 2018 Budget:
  - **2018 Cost of Living Adjustment (COLA)** – The COLA given to union employees for 2018 was negotiated after the 2018 budget was adopted. It was therefore not included in the 2018 budget but is included in the 2019 estimate.

- **Staffing** – There are 488.25 FTE employees in the 2019 estimate; which is an increase of 3 FTE's from the 2018 budget of 485.25. The three additional positions are for: additional fingerprinting requirements, enterprise resource planning (ERP) implementation, and addressing IT & Facilities risks and the need to develop a Continuity of Operations Plan (COOP) per the State Bar's recent risk assessment.
  - **Merit Increases** – The 2019 estimate anticipates normal labor negotiated merit increases for approximately 60 percent of staff that are eligible and not at the top of the range.
  - **Pensions** – The 2019 estimate includes approximately \$250,000 in additional pension payments based on the most current actuarial study.
  - **Transfer of Staff** – The 2019 estimate includes the transfer of staff from the Legal Services Trust Fund at a cost of approximately \$600,000 that will be fully off-set by grant revenue.
- **IT Projects** includes \$1.6 million for special projects and implementations, including Oracle Fusion, \$545,000 for hardware and network improvements, and \$1.6 million for licensing and maintenance costs.
  - **Building Projects & Tenant Improvements** are not currently included in the 2019 General Fund estimates. Tenant Improvements are anticipated to be funded by the SF Tenant Improvement Fund and no current building improvements are contemplated initially for 2019.
  - **Risk Assessment** – Costs required to implement elements of the State Bar's risk assessment are included in the 2019 budget: In addition to the one senior program analyst to implement and monitor building and IT risks as discussed in personnel expenses above, the estimated costs includes new software, and workplace violence training.
  - **Strategic plan** – In addition to IT projects discussed above, other costs required to implement strategic plan elements are included in the 2019 budget: They include: a study of online legal services delivery models \$100,000; California Justice Gap study \$150,000; grant writing and subscription services \$60,000; study of online Legal Services delivery models \$50,000, and strategic communications \$50,000.
  - **Indirect costs** – With the separation of the sections January 1, 2018, the administrative operations of the State Bar (management, accounting, human resources, information technology, facilities, Office of General Counsel) are required to reduce their costs to reflect the fact that they are serving a smaller organization. The required cuts are being identified for inclusion in the 2019 budget.

## **FISCAL/PERSONNEL IMPACT**

Described above.

## **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: f: No later than November 30, 2018, determine whether reallocation of funds to support the discipline system continues to be possible in the light of the fact the Bar has not received a fee increase in 20 years. As part of this effort, reassess the Bar's current Fund classification structure and determine if any changes are needed.

## **RECOMMENDATION**

None

## **ATTACHMENT(S) LIST**

None