AGENDA ITEM

July 141
2008 State Bar Budget - proposed adoption

DATE: June 27, 2007

TO: Board of Governors

FROM: Board Planning, Program Development and Budget Committee

SUBJECT: Recommendation to Adopt the 2008 Proposed State Bar Budget

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Executive Summary

On June 1, 2007, staff met with the Budget Subcommittee of Board Planning, Program Development and Budget Committee (PPDB) to discuss the new budgeting format and methodology and to receive guidance from the Subcommittee for presentation of the 2008 proposed budget to the full committee. The full Committee met on June 13th to consider the budget and during its June 27th conference call, voted to recommend adoption to the Board of Governors.

DISCUSSION:

The 2008 Proposed Budget has been redesigned to link the State Bar's budget with its strategic planning process. The proposed budget is aligned with the Bar's organizational and functional structures and presents basic workload and performance information in the Bar's major program areas. This information highlights how the State Bar uses its resources to serve the public and its membership and is designed to enhance the budget as both a management tool and a channel of communication with all of the Bar's stakeholders.

The proposed budget provides for the continuation of all the State Bar's programs and services through the end of 2008. However, the Bar faces a number of challenges in the coming years and in the absence of increased member fees or the identification of other revenues, the Bar will be forced to curtail the services it provides to its membership and the public.

BUDGET HIGHLIGHTS:

The Proposed Budget for all funds includes expenditures totaling $141.1 million and revenues estimated at $137.1 million, resulting in an operating deficit of $4.0 million. This includes a General Fund deficit of $3.5 million that will be offset by the projected 2007 ending fund balance of $6.0 million. Major assumptions used in the development of the budget are discussed below.

Revenues: Senate bill 686 in its present form eliminates the $10 member building fee assessment and authorizes a three-year special information technology assessment of $10. Member fee revenue in the 2008 budget assumes that the building fee is eliminated and building fund revenues for 2008 are reduced by approximately $1.9 million to reflect the loss of this fee. Revenue associated with the potential information technology assessment is not factored into the 2008 projected revenue. Once SB 686 is approved and if technology assessment is included in the bill, staff will develop a budget proposal for the use of the assessment and present the proposal to the Planning Committee. At that time, the Committee may recommend a budget amendment to include technology funding.

The revenue projections also assume no increases in other program fees such as admissions and certifications.

Expenditures: Personnel expenditures – salaries, health insurance, retirement costs, payroll taxes, and other employee benefits – make up 51% of the Bar's total budget, and over two-thirds of the Bar's direct expenditures (excluding grants and IOLTA program payments). Health insurance costs continue to rise: the 2008 budget reflects an estimated 18% increase, which comes on top of a similar increase in 2007. 2008 will also be the first full year in which the Bar will pay 100% of the "employee share" of retirement contributions to CalPERS. The 2008 budget also includes a prudent provision for the long-term costs of post-employment health benefits.

Non-personnel expenditures are increased over 2006 actual costs by a modest inflationary increase. No new programs or program enhancements are included in the 2008 budget.

FUND ISSUES:

In addition to the General Fund, two other funds are projected to have 2008 deficits. These are the Lawyers' Assistance Program Fund and the Elimination of Bias Fund. Participation in the LAP continues to grow and program activity will be assessed for increased efficiency and consolidation of resources. All LAP revenue and expenditures will be closely monitored in 2008.

In 2007, the Elimination of Bias Fund programs developed a strategy to reduce costs and increase efficiency by eliminating the five separate Access and Fairness Committees and combining their work into a single Commission on Access and Fairness. During 2008, the effectiveness of this strategy will require close monitoring and additional steps may be needed during the year to ensure the ongoing viability of the programs.

FUTURE CHALLENGES:

General Fund: Each year, staff prepares a three-year projection of the General Fund's fiscal condition. Based on the most recent forecast, a fee increase of approximately $25 will be required to offset an anticipated 2009 deficit of $6 million. Absent a fee increase, the General Fund's cash reserves will be totally depleted requiring the use of the Public Protection Reserve. By mid 2010, the Public Protection Reserve will be exhausted.

Technology: The State Bar is facing a number of critical deficiencies in its IT infrastructure that pose a threat to the Bar's ability to perform and provide services. These deficiencies affect all of the Bar's mission critical functions including the Discipline System, Admissions, and Member Services (including member billing). Should these deficiencies remain unresolved or unmitigated, there is a high likelihood that there will be a major disruption in the Bar's ability to perform its essential functions.

SB 686 establishes a three-year special assessment to address some of the Bar's technology needs. Over the three-year period, the special assessment will provide approximately $5.7 million to address a portion of the technology needs. However, this level of funding will only allow the Bar to address some of the most urgent technology needs. In future years, the Bar will need to find additional resources to fully address all the identified technology needs.

Personnel Costs: The State Bar anticipates future union demands for wage increases.

Postretirement Benefits: The State Bar of California offers post retirement health and vision benefits to executive staff employees who have met certain criteria established in the rules and regulations relating to the employment of executive staff. As of the end of 2006, the State Bar's actuarially determined liability for future benefits is $17.6 million of which $7.4 million is currently funded.

In order to better manage and control the cost of this retirement benefit, the State Bar has undertaken a project to analyze the benefits of creating a trust agreement that will account for the funding of the retiree healthcare obligation by utilizing higher yield investment options than those allowed for use in investing general government funds. California Government Code Sections 53620-53622 allows the proposed trust to invest retiree health funds in a diversified, long-term investment portfolio. These code sections explicitly provide the investment discretion necessary to optimize long-term returns while appropriately reflecting risk, liquidity and other objectives.

The current interest rates earned on the Bar's governmental funds are in the 4% range. By contrast, over the past thirty years, equity indexes have averaged an annual return of approximately 11%. A rise in investment income from the current average return for fixed income investments of 4% to a higher return of 7% is expected to reduce the Bar's expenditures by $12 million over a 30-year period. Staff will continue to research this option during 2008.

Long Term Space Needs: The Bar currently leases space for its southern California operations at the AT&T Center in downtown Los Angeles at an annual lease cost of approximately $3.5 million. The lease expires in 2014, by which time the Bar must decide whether to construct, purchase or lease space for its Los Angeles operations. The State Bar has begun a process to analyze these options to assist the Bar in planning for its future space needs.

SUMMARY:

In the long run, the best response to these challenges will be to ensure that the Bar's resources are focused on its highest priorities, that those resources are employed efficiently and economically for all the Bar's stakeholders. The new budgeting methodology provides the foundation to guide the Bar's future resource allocations and should provide justification to the Legislature regarding the need for any future member fee increases.

BOARD BOOK / ADMINISTRATIVE MANUAL:

No impact.

RESOLUTIONS:

The Board's Planning, Program Development and Budgeting Committee unanimously recommended that the 2008 State Bar budget be adopted by the full Board. If the Board concurs with the Board Planning, Program Development and Budget Committee, the following resolution would be in order:

> **RESOLVED,** upon recommendation of the Board Planning, Program Development, and Budget Committee, that the Board of Governors hereby adopts the 2008 State Bar Budget, in the form attached to these minutes and made a part hereof.