

# AGENDA ITEM

July 141  
2009 State Bar Budget -  
proposed adoption

**DATE:** June 26, 2008  
**TO:** Board of Governors  
**FROM:** Board Planning, Program Development and Budget Committee  
**SUBJECT:** Recommendation to Adopt the 2009 Proposed State Bar Budget

---

## Executive Summary

On June 4, 2008, 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 2009 proposed budget to the full Committee. The full Committee met on June 25th to consider the budget and voted unanimously to recommend adoption to the Board of Governors.

## OVERVIEW

Last year, the State Bar began a process of re-structuring the presentation of the Bar's budget, aimed at making the budget a more informative document, and at aligning the budget's structure with the Bar's strategic direction and management structure. While accounting-oriented information remained (in the document's "Fund Budget" section), the core of the document was the "Planning Category Budget" section, which depicted the Bar's resources by programmatic purpose, rather than by accounting entity. The document also included substantial narrative contributed by staff throughout the Bar, highlighting the functions, accomplishments and new initiatives of the Bar's offices and departments.

The 2009 Proposed Budget document expands the information presented in two key ways. First, it incorporates non-financial data – i.e. performance measures for many of the Bar's operations. Second, it brings a new focus to the Bar's activities: the day-to-day work that actually defines what our staff is doing and how our resources are used. Performance measures and activities complement each other in an important way: activities describe *what* we do, while performance measures focus on *why* we do it. When viewed together, these elements can provide a rich, detailed and meaningful portrait of how the Bar strives to carry out its mission.

This significantly expanded presentation of the State Bar's Proposed Budget represents the next step in the journey begun last year, making the budget both more informative and more strategic in orientation. The new budgeting approach provides the foundation to guide the Bar's future resource allocations and highlights how the State Bar uses its resources to serve the public and its membership.

## **BUDGET HIGHLIGHTS**

The 2009 Proposed Budget totals \$147.1 million, an increase of \$6.1 million (or 4.3%) over the 2008 Adopted Budget. Almost half of this increase is due to a change in the accounting for inter-fund transactions within the Bar itself, reflecting no real change in the Bar's spending. Net of this accounting change, the budget increase totals \$3.1 million, or about 2.2%. This relatively small increase is due, in part, to slower than expected growth in employee health insurance premiums (which came in below the level assumed in the 2008 budget), and in part to changes in budgeting for savings from staff vacancies. As a result of these factors, the Bar-wide personnel budget is virtually unchanged from the prior year (\$71.7 million in 2009, compared with \$71.4 million in 2008).

Total revenues are budgeted at \$143.0 million, also up 4.3% from the prior year (or about 2.1%, net of accounting changes).

Overall, the pace of expenditure growth is in line with revenue growth, but a persistent shortfall remains. We project a Bar-wide operating deficit of \$4.1 million in 2009. While the Bar has reserves that will enable it to absorb this loss, the trend cannot be sustained in the long run.

In the General Fund, total expenditures are budgeted at approximately \$65.2 million, a 1.2% increase from the 2008 level of \$64.5 million. Revenues in the General Fund are projected to total \$61.0 million, essentially unchanged from 2008. The lack of revenue growth is due in part to falling interest income, due to lower market interest rates. The budgeted deficit in the General Fund amounts to \$4.2 million. At the end of 2009, we estimate that the General Fund will have a remaining balance of approximately \$2.1 million.

The Lawyer Assistance Program Fund, whose 2008 deficit was identified as an area of concern, has been brought into balance by a combination of cost reductions and revenue support from the Bar's Affinity & Insurance fund. If current conditions continue, the program will remain on a sound financial footing.

A few items in the 2009 Proposed Budget bear special mention.

- **CYLA Transition:** The budget includes additional support from existing Bar staff for the California Young Lawyers Association (CYLA), to assist the organization as it completes its transition to a new governance structure.
- **Moral Character Staffing:** The budget includes tentative funding for two staff positions in the Moral Character Determinations service area of the Office of Admissions, intended to increase the timeliness of moral character investigations. If approved, financing will come from Admissions fee revenue, with no impact on the Bar's General Fund.
- **Abandoned & Unauthorized Practices Unit:** A distinct service area within the Office of Chief Trial Counsel is created to account for these activities. The staff in this unit is

transferred from other units with OCTC; no new positions are created.

- Information Technology Special Assessment: The 2009 Proposed Budget reflects the revenues generated by the \$10 per-member special assessment for information technology approved by the legislature in 2007. We expect project-level budgets to be established in the near future.

## **FUTURE ISSUES AND CONTINGENCIES**

Looking to the future, the following points highlight the key issues and contingencies facing the Bar.

- 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 \$15 will be required to offset an anticipated 2010 deficit of \$2.7 million. Absent a fee increase, the General Fund's cash reserves will be totally depleted requiring the use of the Public Protection Reserve. Absent any fee increase, the Public Protection Reserve would be exhausted by mid-2011.
- Admissions Fees: Fees charged by the Office of Admissions have not been updated since 2006. We anticipate that an increase in these fees will be needed in 2010 to maintain prudent reserves in the Admissions Fund.
- 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.

In 2007, SB 686 established 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 \$4.8 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's MOU expires at the end of 2008. Negotiations are currently underway for a new contract. Future union demands for wage increases may increase the Bar's personnel cost. In addition, employee health insurance costs may resume their steep upward trend.
- Postretirement Benefits (OPEB): 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 2007, the State Bar's actuarially determined liability for future benefits is \$18 million of which \$9 million has been set aside for

payment of these expenses.

In order to better manage and control the cost of this retirement benefit, we have examined several options available to allow the Bar to pre-fund the liability. Working closely with our outside benefit counsel and with our actuaries, we have designed a 115 trust structure for the Bar and have conducted an analysis of firms who provide investment services for governmental agencies wishing to pre-fund their liabilities. The Chair of Investment Subcommittee has guided staff in this project with the goal of having a formal recommendation from the Subcommittee submitted to the Planning Committee and the Board of Governors during the July 11th meeting.

- 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.

If the building fee assessment is authorized by the legislature later this year, we will propose a new fund structure to the Board to ensure that the fee revenue is accounted for in accordance with the statutory requirements.

- 180 Howard Street Building Restoration: The State Bar's building in San Francisco was built in 1978. The façade of the building has begun to weather and the grout has begun its natural deterioration process. The exterior of the building and the building parapet curtain will have to be waterproofed and restored. The cost of this project is estimated at \$700,000. The 180 Howard Street Fund does not have sufficient reserves to pay for this restoration. In 2009, we will begin a process of obtaining a loan to finance these necessary repairs. The 2009 budget does not reflect this capital cost; once the Bar has obtained cost estimates, we will seek authorization from the Board to enter into a loan. At that time, the 2009 budget will be amended to include this project.

## **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 approach 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 2009 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 2009 State Bar Budget, in the form attached to these minutes and made a part hereof.