

# COMMITTEE OF BAR EXAMINERS OPEN SESSION AGENDA ITEM

**AGENDA ITEM:** March 2016 – O-300

**DATE:** March 15, 2016

**TO:** Subcommittee on Operations and Management

**FROM:** Gayle Murphy, Senior Director, Admissions

**SUBJECT:** Indirect Costs and Reserve Policies

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## BACKGROUND

At the January 2016 meeting, the Committee received a report regarding the State Bar's indirect cost allocations. Since that time, the report of the consultant regarding the appropriate allocations has been released and the Board of Trustees considered this matter at its March 10 and 11, 2016 meeting. A copy of the agenda item, which contains the consultant's report as an attachment (along with several other attachments) can be found at:

<http://board.calbar.ca.gov/docs/agendaitem/Public/agendaitem1000014406.pdf>

The agenda item recommending approval of the final version of the 2016 budget, which includes the revised indirect cost assessments, can be found at:

<http://board.calbar.ca.gov/docs/agendaitem/Public/agendaitem1000014407.pdf>

In 2014, the actual indirect costs charged to the Admissions Fund based on the old formula were \$3,977,187. Under the revised cost allocation plan, the indirect cost assessments total jumps to \$5,155,200 in 2016, which includes \$520,900 for capital improvements.

The Board of Trustees also considered an agenda item on the Reserve Policy, which it adopted at its February 1, 2016 meeting. Here is a link to the agenda item:

<http://board.calbar.ca.gov/docs/agendaitem/Public/agendaitem1000014426.pdf>

As noted in the item, it appears that the Admissions Fund is in conformance with the new policy, which can be found online at:

<http://board.calbar.ca.gov/docs/agendaitem/Public/agendaitem1000014409.pdf>

## DISCUSSION

It is difficult to argue that the Admissions Fund shouldn't pay its fair share of the overhead costs, however, there are some additional costs that are now being assessed because of the changes made to the indirect costs policy, which may require the Committee to consider raising the fees it charges to applicants sooner than originally contemplated. Over the past 30+ years, the Admissions Fund has been assessed indirect costs in each of the categories contained in the overhead formula, however, in

accordance with the Board of Trustees’s revised policy, even more will be spent. For instance, the following allocations have been made based as “actual direct costs as % of total State Bar direct costs”:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Board of Trustees Election	\$ 49,360	\$ 48,405	\$ 40,581
Appointments	\$ 20,891	\$ 548	\$ 1,571
Executive Directors Office	\$460,739	\$ 74,928	\$110,543
Finance	\$650,475	\$791,697	\$664,716

The allocations noted above are based on percentages of costs, rather than FTEs or square footage as other categories of costs are allocated, such as Human Resources, General Counsel, General Services, IT, etc. This makes sense for departments such as Finance, which handles the money. Unlike most other State Bar departments, however, the Admissions Fund’s expenses are associated with activities not primarily driven by employee expenses, such as examination related costs, including renting facilities, laptop licenses, electrical, proctors, etc. The Admissions Fund also collects fees from many applicants who will never be able to enjoy the benefits of being a State Bar member as they are unable to pass the First-Year Law Students’ Examination or the California Bar Examination.

With regard to the Reserve Policy, according to the recent Board of Trustees’ agenda item, there is a \$3,884,000 in the Admissions Fund’s reserve, which is 19.26% of the total operating budget. A minimum reserve would be \$3,428,220 and a maximum would be \$6,049,800. Given the unanticipated increase in the allocated costs and raising costs generally, it may be necessary for the Committee to consider again raising fees. The modified bar examination is expected to save money in the future, but that impact may not be realized soon enough to meet the reserve goals and pay for the increased cost allocations.

Leah Wilson, the State Bar’s Chief Operating Officer, will be meeting with the Committee to discuss the revised indirect policy in more detail.

**RECOMMENDATION**

It is recommended that the report on the State Bar’s Indirect Costs and Reserve Policies be received and filed.

**PROPOSED MOTION**

Should the Subcommittee agree with this recommendation, the following motion is suggested:

Move that the report on the revisions to the State Bar’s Indirect Cost Allocation Policies be received and filed.