

WASHINGTON STATE BAR ASSOCIATION

Budget & Audit Committee Meeting Agenda
November 5th, 2020
1:00pm – 5:00pm
Remote Meeting via Zoom

DISCUSSION/ACTION

1. Approval of September B & A meeting minutes

2. FY 2020 B & A accomplishment presentation: (Carla and Bryn presenting power point)

3. Update on Sub-committee work: Update on WSBA investment strategies:
 - a. Presentation by Chris Jay of Merrill Lynch
 - b. Presentation by Mark Allison of Morgan Stanley

4. 2022 & 2023 Client Protection Fund Fee Discussion

5. 2022 & 2023 License Fee Discussion

MINUTES
WSBA Budget and Audit Committee
Various Remote Locations
Via Zoom
September 10th, 2020

Attendance: All members attended via zoom. In virtual attendance were Governor Thomas McBride, Governor Alec Stephens, Treasurer Dan Clark, Governor Carla Higginson, Governor Bryn Peterson, Governor Brian Tollefson, and Governor PJ Grabicki, and Governor Paul Swegle. Additionally attending were Nancy Hawkins representing Family Law. From the WSBA staff in virtual attendance were Interim Executive Director Terra Nevitt, Chief Financial Officer Jorge Perez, General Counsel Julie Shankland, Chief Disciplinary Counsel Doug Ende, Interim Director of Advancement Kevin Plachy, and Elizabeth Wick Manager of Budget and Planning.

Minutes pertaining to the Budget and Audit Committee meeting of August 10th were presented for approval. Governor Grabicki presented a motion to approve the minutes the same was seconded by Governor McBride A vote ensued on the motion, motion approved 3-0 with two abstentions. Governors Stephens, Sweagle and Tollefson were not available for the vote.

CFO Perez presented an analysis for supporting a proposal for establishing Licenses Fees for 2022 and 2023. The analysis recommended lowering license fees to \$448.00 for both years. A motion supporting the recommendation was set forth by Governor Higginson and seconded by Governor Tollefson. The ensuing vote resulted 7 -1 in favor of the proposal and presenting to the BOG for final approval.

CFO Perez presented the Third Read of the FY – 2021 Budget. Discussions focused on projected ending balances for FY 2021 for all funds. A high level discussion regarding expenses, revenue and general assumptions was also had. CFO Perez advised that the PMC in V3 was not final and would be updated upon final approval of the same. A motion to approve Version 3 of the budget was made by Governor Grabicki and seconded by Governor Stephens. The roll call vote resulted in a 7 -1 majority approving V3 of the budget and subsequent presentation to the BOG.

Interim Director of Advancement Kevin Plachy presented the Sections Per Member Charge (PMC) for 2021. The amount proposed is 18.18 based on the final indirect expenses for WSBA. The vote for approval by presented by Governor Peterson and seconded by Governor Grabicki. The vote resulted in approval of the PMC by 6-1 with one governor absent for the vote.

A discussion related to Real Estate matters for the Bar ensued and a proposal to establish a subcommittee consisting of Governor Peterson, Governor Swegle and Treasurer Clark to examine potential options relating to the WSBA lease, and to work with the long range planning committee and President Sciuchetti to examine the potential for reduction of our current physical office space. A motion was presented by Governor Higginson and Seconded by Governor Sweagle. The resulting vote was unanimous 8 – 0 in favor of establishing the subcommittee.

Adjournment

The meeting was adjourned by Treasurer Clark at 6:00 p.m.

Respectfully submitted,

Jorge Perez, Chief Financial Officer

DRAFT



**FY 2020 WSBA BUDGET AND AUDIT COMMITTEE
& BOARD OF GOVERNORS FINANCIAL REPORT**

Daniel D. Clark, WSBA Treasurer

District 4 Governor & Member of Budget & Audit committee since 2017

November 5, 2020

INTRODUCTION:

- This report is meant to update members of the BOG and WSBA regarding the FY 2020 accomplishments of the Budget and Audit Committee & Board of Governors.
- The FY 2020 Budget & Audit Committee was comprised of: Treasurer Dan Clark, Governor Bryn Peterson, Carla Higginson, Tom McBride, PJ Grabicki, Alec Stephens, Paul Swegle and Brian Tollefson.
- Treasurer Clark would like to thank the hard work and dedication of all of the above committee members, Jorge Perez, Terra Nevitt and the rest of the WSBA financial staff.

UNAUDITED FY 2020 WSBA ENDING FINANCIAL NET INCREASES AND PROJECTED BALANCE BY FUND

- General Fund:

- \$742,695 in net positive fund balance increase for FY 2020
- Projected Fund Balance \$5,479,233

- Client Protection Fund:

- \$851,451 in net positive fund balance increase for FY 2020
- Projected Fund Balance – \$4,710,422

- CLE Fund:

- \$45K in net negative for a fund balance decrease for FY 2020
- Projected Fund Balance - \$480,625

- Sections Fund:

- \$82,898 in net positive fund balance increase for FY 2020
- Projected Fund Balance - \$1,204,122

FY 2020 WSBA GENERAL FUND:

- WSBA netted a **\$742,695** increase to the General Fund. Considering FY 2020 budget called for a loss of **\$594,000**, we ended generating a net increase total of **\$1,336,695** to the unrestricted General Fund over budget.
- Bottom Line - Total WSBA general fund balance including unrestricted and restricted funds is **\$5,479,233** at the end of September 2020.

FY 2013-2020 WSBA HISTORIC FINANCIAL PERFORMANCE

Fiscal Year	Net Income/(Loss)	General Fund Reserves
FY 2013	\$215,655	\$8,960,772
FY 2014	(\$1,157,702)	\$7,803,070
FY 2015	(\$2,700,536)	\$5,102,534
FY 2016	(\$1,723,998)	\$3,918,536
FY 2017	(\$554,785)	\$3,363,751
FY 2018	\$432,107	\$3,795,858
FY 2019	\$940,680	\$4,736,538
FY 2020	\$742,695	\$5,479,233

INCREASED MEMBER BENEFITS

- Permanent **\$5.00** reduction to Client Protect Fund Payments by Members.
- 2021: a total of **\$20.00** one-time reduction in payments by members in license fee renewal.
- FY 2021 license fees for Attorney members kept flat
- Doubled hardship exemption, extended CLE reporting dates, approved military spouse fee exemption and adopted pro bono legal services for license fee waiver for Emeritus members.
- Expanded free CLE's for members and approved increases to legal research tools for members for free Casemaker and Fast Case legal research tools for members uses.

INCREASED WSBA FINANCIAL TRANSPARANCY

- Treasurer Clark created annual Bar News Treasurer Column with routine updates and greatly increased communication on WSBA budget and financial issues including comprehensive written updates in each BOG meeting of WSBA financial matters.
- Adoption of WSBA employee salary transparency posting on WSBA website of salary range and benefits
- Established employee hour tracking between cost centers to improve proper FTE allocations for future budgeting.

IMPROVED EFFICIENCIES & INCREASED INTERNAL CONTROLS

- Successful completion of FY 2020 “Deep Dive” Audit. This was the first extensive deep dive audit of WSBA in WSBA history.
- Successful completion of annual WSBA Audit by Accounting firm Clark Nuber. No significant material findings in their audit of WSBA.
- Successful completion of FY 2020 Budget Reforecast. Resulted in elimination of three (3) FTE employees and reduction in WSBA expenditures for FY 2020.
- New innovative WSBA Financial Software to greatly improve financial forecasting and eliminated one (1) future FTE position.

LLLT BUSINESS PLAN ANALYSIS AND PRESENTATION TO SUPREME COURT

- Budget and Audit Committee reviewed, met with LLLT Board and ultimately voted to reject plan for expansion by 8 to 0 vote.
- Treasurer Clark did comprehensive detailed written analysis of LLLT Business plan and prepared comprehensive report and Power Point Presentation for Supreme Court.
- May 12, 2020, Treasurer Clark and President-Elect Tollefson presented Treasurer Clark's finding to the Supreme Court.
- Supreme Court ultimately voted 7 to 2 to sunset LLLT Program due to non-compliance with revenue cost neutral requirement of license under Court Order 25700-A and/or GR 25 (E).

CONCLUSION:

- FY 2020 **\$742,695** positive net gain in General Fund and overall **\$5,479,233** General Fund Balance.
- WSBA Members are paying \$20 dollars less for the 2021 licensing year due to one time CPF reduction, increased free CLE's, legal research tools, and member benefits.
- WSBA managed to maintain robust programs and services to serve membership and the public and did so more efficiently.



CLIENT PROTECTION FUND

2022 Proposal

CLIENT PROTECTION FUND FINANCIAL FORECAST \$5 REDUCTION

Year	Fee	Active Professionals	Gifts	Contribution to Fund	CPF Balance	Gain and Loss	Gain and Loss @\$20
2019	30	32,801	\$ 800,000	\$ 984,030	\$ 3,816,143	\$ 184,030	
2020	30	32,116	\$ 586,000	\$ 963,486	\$ 4,199,495	\$ 377,486	
2021	10	32,272	\$ 600,353	\$ 322,724	\$ 3,921,867	\$ (277,629)	
2022	20	32,373	\$ 669,778	\$ 647,459	\$ 3,899,547	\$ (22,320)	\$ 117,225
2023	20	32,410	\$ 715,879	\$ 648,202	\$ 3,831,870	\$ (67,677)	\$ 26,697
2024	20	32,395	\$ 673,768	\$ 647,891	\$ 3,805,993	\$ (25,877)	\$ 110,218
2025	20	32,313	\$ 648,522	\$ 646,265	\$ 3,803,736	\$ (2,257)	\$ 157,052
2026	20	32,353	\$ 661,660	\$ 647,053	\$ 3,789,129	\$ (14,607)	\$ 132,549
2027	20	32,369	\$ 673,921	\$ 647,374	\$ 3,762,581	\$ (26,548)	\$ 108,748
2028	20	32,368	\$ 674,750	\$ 647,357	\$ 3,735,188	\$ (27,393)	\$ 107,053

*Gifts Starting 2022 Based on Predictive Model dated 11/2019

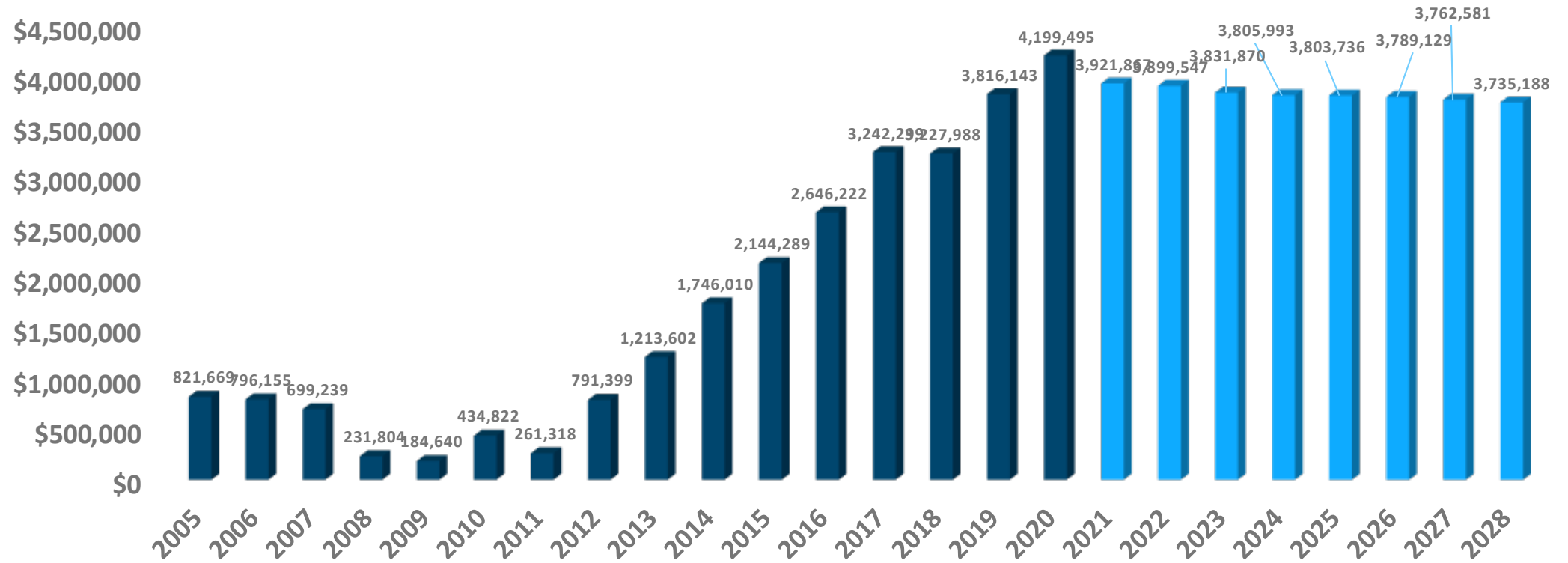
CLIENT PROTECTION FUND FINANCIAL FORECAST \$4 REDUCTION

Year	Fee	Active Professionals	Gifts	Contribution to Fund	CPF Balance	Gain and Loss	Gain and Loss @\$20
2019	30	32,801	\$ 800,000	\$ 984,030	\$ 3,816,143	\$ 184,030	
2020	30	32,116	\$ 586,000	\$ 963,486	\$ 4,199,495	\$ 377,486	
2021	10	32,272	\$ 600,353	\$ 322,724	\$ 3,921,867	\$ (277,629)	
2022	21	32,373	\$ 669,778	\$ 679,831	\$ 3,931,920	\$ 10,053	\$ 149,598
2023	21	32,410	\$ 715,879	\$ 680,612	\$ 3,896,653	\$ (35,267)	\$ 59,107
2024	21	32,395	\$ 673,768	\$ 680,285	\$ 3,903,170	\$ 6,517	\$ 142,612
2025	21	32,313	\$ 648,522	\$ 678,578	\$ 3,933,226	\$ 30,056	\$ 189,366
2026	21	32,353	\$ 661,660	\$ 679,406	\$ 3,950,972	\$ 17,746	\$ 164,902
2027	21	32,369	\$ 673,921	\$ 679,743	\$ 3,956,793	\$ 5,821	\$ 141,117
2028	21	32,368	\$ 674,750	\$ 679,725	\$ 3,961,768	\$ 4,975	\$ 139,421

\$4 Dollar Reduction Results in Gain

CLIENT PROTECTION FUND FINANCIAL FORECAST \$5 REDUCTION

CPF Fund Balance





BUDGET AND AUDIT COMMITTEE LICENSE FEES 2022

November 5th 2020

2022-23 LICENSE FEE DISCUSSION HISTORY

- The Budget and Audit Committee at the September B & A Meeting voted 7 to 1 to recommend to the Board of Governors that the 2022 and 2023 WSBA Active Attorney license fees be reduced \$10.00 which would set Attorney fees at \$448 and \$224 for New/Young Attorneys for the 2022 and 2023 license year
- The 2019-20 Board of Governors voted 7 to 6 to table discussion of the license fee vote until the November BOG Meeting

SEPTEMBER BOG COMMENTS

- Approximately half of the 2019-20 Governors strongly supported the \$10 dollar license fee reduction
- Some 2019-20 Governors expressed concerns with passing 2022 and 2023 license fees now with unknown data of how Covid-19 will impact potential membership growth, revenue, and expenses
- Some saw the reduction as a symbolic in nature and worried that the \$10 dollar reduction would not be sustainable for multiple years
- Some Governors wanted more information before they made a decision, which ultimately let to the 7 to 6 vote to table to the November BOG meeting

2022 & 2023 LICENSE FEE DISCUSSION

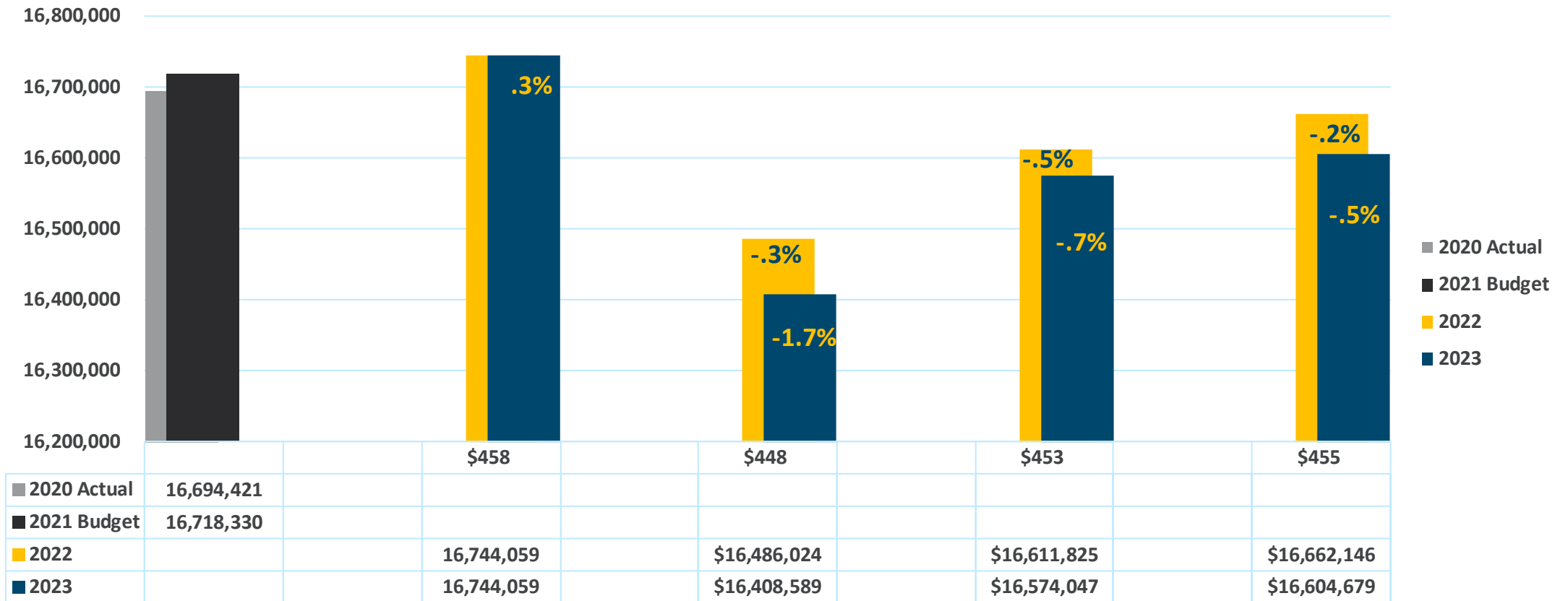
- In wanting to be respectful of all concerns of Governors, Treasurer Clark has asked WSBA staff to prepare potential options for the committee to consider a range from the \$10 dollar reduction, a \$5.00 reduction, \$3.00 reduction and zero reduction
- Treasurer Clark recommends Committee consider only look at 2022 license fees now and defer setting 2023 until next fall when we have more information on how Covid-19 will impact revenue and expenses for WSBA
- Treasurer Clark believes is also important when this committee examines the license fee, to examine potentially looking at continuing to recommend a reduction to the Client Protection Fund to achieve an overall annual reduction to membership

LICENSE FEES ACTUAL/BUDGET/PROJECTIONS

ACTUALS							
Members	FISCAL YEAR	License Fee Rates	License Fee Revenue	Total General Fund Revenue	Total General Fund Expenses	Net Income/(Loss)	General Fund Reserves
	FY 2013	\$325	\$11,390,193	\$15,349,822	\$15,134,167	\$215,655	\$8,960,772
	FY 2014	\$325	\$10,760,723	\$15,335,749	\$16,493,451	(\$1,157,702)	\$7,803,070
34,211	FY 2015	\$325	\$11,133,170	\$15,266,002	\$17,966,538	(\$2,700,536)	\$5,102,534
34,690	FY 2016	\$385	\$12,819,372	\$16,397,121	\$18,121,119	(\$1,723,998)	\$3,918,536
35,983	FY 2017	\$385	\$13,512,192	\$17,584,851	\$18,139,636	(\$554,785)	\$3,363,751
36,327	FY 2018	\$449	\$15,408,528	\$19,614,585	\$19,182,478	\$432,107	\$3,795,858
36,746	FY 2019	\$458	\$16,217,199	\$21,127,959	\$20,187,279	\$940,680	\$4,736,538
36,475	FY 2020	\$458	\$16,692,516	\$21,173,197	\$20,430,500	\$742,697	\$5,479,235
BUDGET							
37,081	FY 2021	\$458	\$16,713,418	\$20,603,129	\$20,805,908	(\$202,779)	\$5,276,456

LICENSE FEES PROPOSED FEE REDUCTION VS ACTUAL

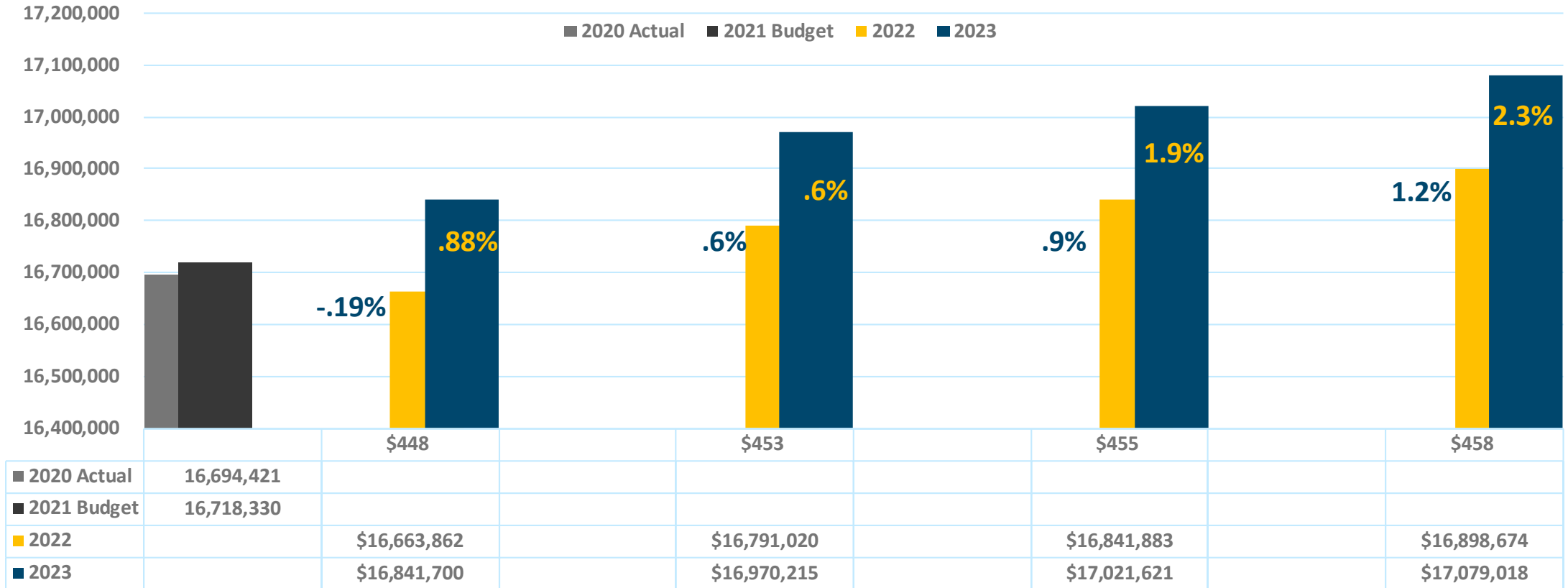
Fees Actuals/Budget/Forecast



LICENSE FEES INCREMENTAL MEMBERSHIP PROPOSED FEE REDUCTION VS ACTUAL

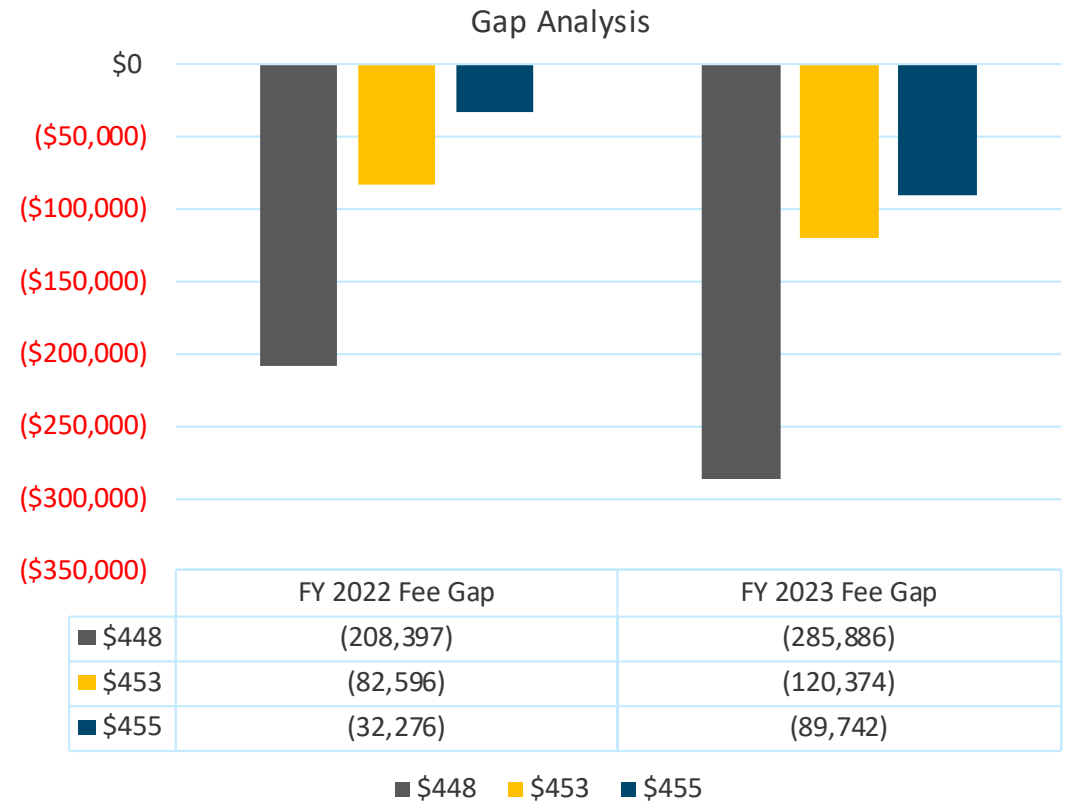
Fees Actuals/Budget/Forecast

Assumes 1% Membership Growth Per Annum
Results in \$180K Increase Per Year



TOTAL BASE COST OF POTENTIAL REDUCTIONS CONSTANT MEMBERSHIP

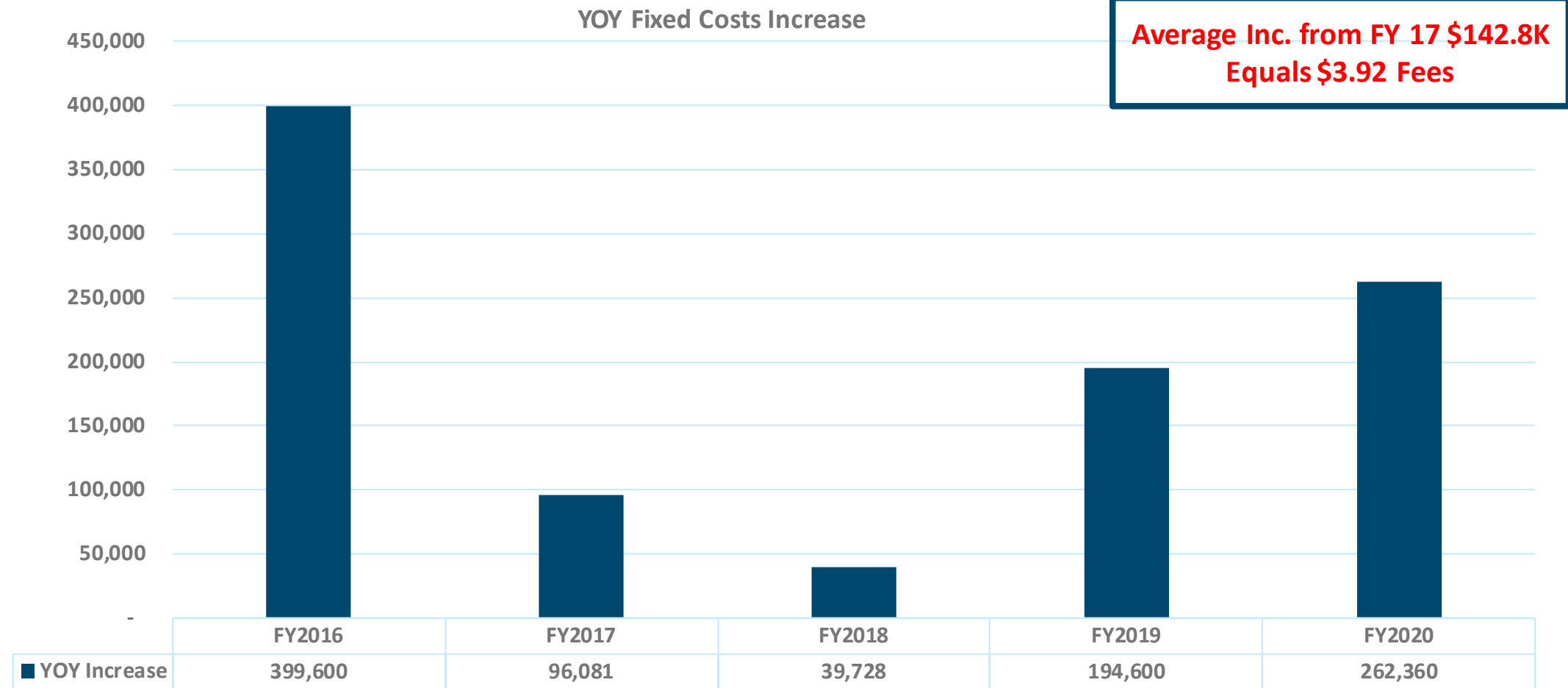
- A \$10 dollar license fee reduction would be -\$208K for 2022 and -\$286K 2023 as compared to 2020 Actual
- A \$5 dollar license fee reduction would be -\$82.6K for 2022 and -\$120.4K for 2023
- A \$3 dollar license fee reduction would be -\$32.3K for 2022 and -\$89.7K for 2023
- There would be zero fee reduction if the Board chooses to maintain the \$458.00 license fee for either year



GAP ANALYSIS:

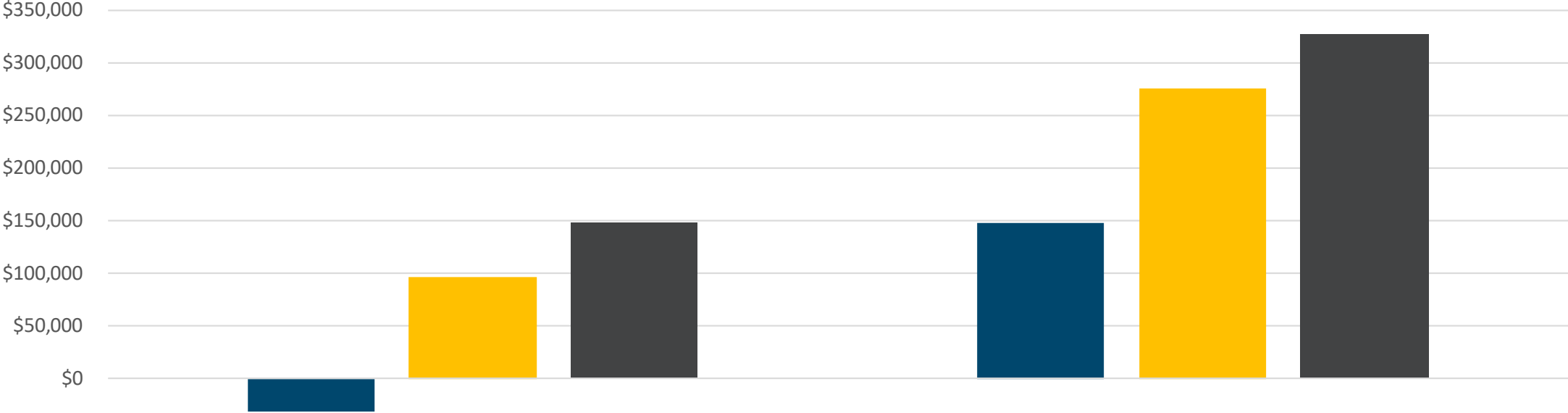
- While the previous slide shows the overall impact to Revenue of reducing license fees, it is important to note that WSBA incurs ongoing fixed cost increases (Rent increases, Lease real estate taxes, etc.) that average an annual increase of \$143,000 a year
- Such costs amount to a per member annual increase of approximately \$3.92 a year
- The following two slides incorporate CFO Perez's estimate of what costs in 2022 and 2023 exist within this Gap analysis

FIXED COSTS ARE NOT FIXED



GAP ANALYSIS INCREASED MEMBERSHIP \$10.00,\$5.00,\$3.00 REDUCTIONS

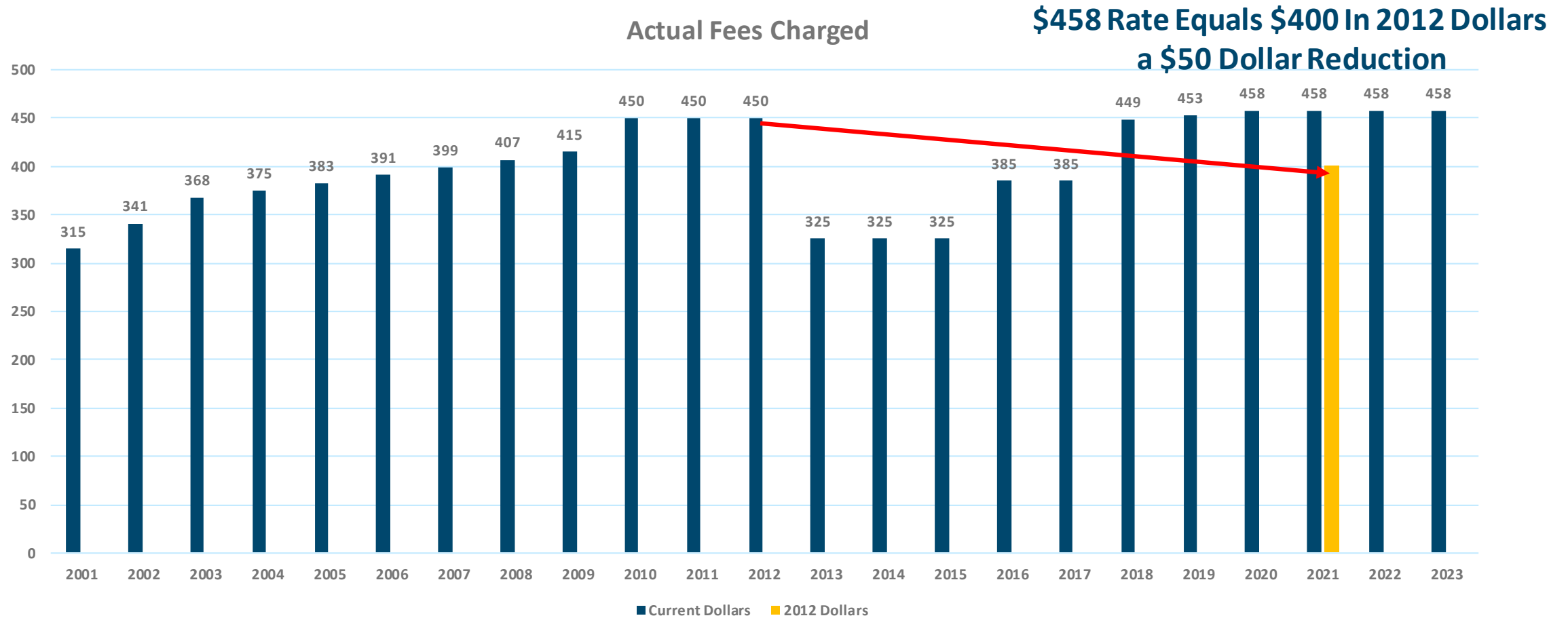
Gap Analysis



	FY 2022 Fee Gap	FY 2023 Fee Gap
■ 455	(30,559)	147,279
■ 453	96,599	275,794
■ 448	147,462	327,200

■ 455 ■ 453 ■ 448

HISTORICAL LICENSE FEES CONSTANT DOLLAR ANALYSIS



LICENSE FEE DATA DISCUSSION SUMMARY

WSBA's General fund reserve balance is such that allow for a reduction in the FY 2022 License Fees by \$3.00 with minimal risk. A \$5.00 reduction can also be accommodated given the current balances but with increased risk. A \$10.00 dollar reduction can be accomplished for FY 2022 and 2023 but it will significantly reduce WSBA's general fund balance and is not sustainable long term without significant reductions to current WSBA financial expenditures.

- Risk
 - Financially the risk is acceptable at the \$3.00 and \$5.00 proposed reduction. However other considerations specifically the risk of a referendum is always present. However, the risk of this seems slight. The \$10.00 reduction poses obviously higher risk due to the greater reduction in revenue
- Possibility
 - Maintain Fee Constant for 5 Years, provides stability and an ongoing commitment of the Bar to manage costs