



## Fiscal Reckoning

### We need to talk!

No, your son isn't leaving school to join a rock band; your daughter did not get a tattoo of Miley Cyrus; and your spouse is not asking for a divorce. Unfortunately, however, the State Bar is headed into difficult financial times.

The increase in the number of dues-paying members is slowing. In FY 2008 (July 1, 2007–June 30, 2008), the number of new admittees dropped to 534 from last year's 763. Since 2004, retirees have increased by 16 percent, judicial members have increased by 13 percent and inactive members have increased by 5 percent. Those three categories of members pay either no dues or reduced dues. The slowdown in active members and the increase in reduced or no-dues-paying members yield reduced revenue.

Historically, we had seen increases of three percent each year in the number of total members. So far in calendar year 2008, that number is just above one

percent. As the baby boomers begin to retire, these numbers will get worse. This trend is not expected to change significantly in the next five years, even if the economy turns around.

Expenses have increased and will continue to increase by much smaller numbers, but regardless, expenses for mandated services and other services have gone up. The bottom line is we will soon be operating at a deficit. Because this is not the federal government or even state government, we cannot operate by borrowing money.

Assuming membership numbers continue to grow at only 1.6 percent annually through 2012, by that time we would face a \$1.4 million loss on revenues of approximately \$9.1 million. As early as 2009, the loss could be \$378,000.

To counteract this trend, the Board of Governors is taking one step immediately. The Board is recommending to the Supreme Court that a portion of dues money that is placed in the Client Protection Fund (CPF) be redirected to the Bar. Currently, \$30 of the dues you pay goes to fund the CPF. The CPF pays out claims to victims of serious attorney misconduct—basically fraud and theft, but not malpractice. The CPF has a surplus in excess of \$3 million. Claims have been paid at an average of \$131,000 for the last five years. As you can see, the CPF is in no trouble. So, with the agreement of the CPF Board of Trustees to lower the Fund assessment to \$10, the Board of Governors is asking the Supreme Court to redirect \$20 of the \$30 to the State Bar.

The redirection of CPF funds alone will only reduce the projected deficits, not eliminate them. Assuming the redirec-

tion occurs and there is no dues increase, the loss in 2009 will be \$23,000. By 2012, it will be up to \$707,000.

Is there some other way, you ask, to increase revenue without increasing dues? There are a number of proposals that may result in increased revenue:

- The most obvious one is admission on motion. This rule change, if approved by the Supreme Court, would increase our membership, but the experience of other states leads us to believe that the increase may only be 100 more lawyers each year. By 2012, that would mean approximately an additional \$170,000.
- The Supreme Court may approve the registration of in-house counsel. That proposal is expected to produce less than \$20,000 each year in dues.
- The Board has been working on a project that would enable lawyers to issue subpoenas from the office without going to the courthouse. This is a big potential benefit to the members, but it may only produce an additional \$40,000 per year after startup costs are covered.
- The Supreme Court also has a proposal before it to require senior lawyers to pay dues. Currently, lawyers over age 70 pay no dues. If approved, the seniors' dues revenue is projected to be \$30,000 in 2009 and rise to \$128,000 by 2012.

So although we can reduce the projected losses, we cannot eliminate them. Over the next three months, the Finance Committee of the Board and then the Board itself will consider many solutions, but a dues increase of \$20 or more beginning in 2010 is a real possibility. The Board will know what action the Supreme Court has taken on various proposals and rule changes by the end of September. Once the financial impact of the Court's actions has been analyzed, the Board will have a better idea of our financial situation and how much of an increase is needed.

I promise to keep you advised, and I look forward to your comments and thoughtful suggestions.

Although we can reduce the projected losses, we cannot eliminate them. ... Is there some other way to increase revenue without increasing dues? There are a number of proposals.

