

**State Bar of Texas**  
**Minimum Reserves / Commitment of Increase in Fund Balance**  
**FY 2016-2017 Audited Financial Results**

The total General Fund audited fund balance at the end of fiscal year 2016-2017 is \$15,920,657.

The amount shown below as available for Board Commitment. The Board Commitments and non-spendable amounts are as follows:

<b>Total General Fund Balance at May 31, 2017</b>	<b>\$15,920,657</b>
<b>Current Board Commitments:</b>	
Minimum operating expenditures	(9,215,384)
Texas Opportunity and Justice Incubator Program	(1,000,000)
Legal Access Division Programs	(1,102,700)
-Westlaw Legal Research	
-Malpractice Insurance	
-Language Line	
Technology Fund Transfer	(750,000)
ATJF Student Loan Repayment Assistance Program	(350,000)
Presidential initiatives	(301,753)
Sheeran Crowley Memorial Trust	(250,000)
ATJC Statewide Pro Bono Campaign	(174,265)
ATJC Legal Fellowship Program	(4,618)
Referendum Reserve	(100,000)
Supreme Court Equipment Replacement	(100,000)
Archives Digitization Project	(100,000)
Professionalism & Ethics Initiative	(17,131)
Document Preservation	(50,000)
Texas Law Center Building Repair/Replacement	(16,525)
<b>Non-Spendable Funds:</b>	
Prepaid expenditures	(516,490)
Inventories	(8,796)
Fair market value adjustments of investments	10,224
<b>Amount Available for Board Commitment</b>	<b>\$1,873,219</b>

In 2005, the State Bar of Texas Board adopted a minimum reserve policy. That policy specifies certain areas that should be considered when addressing the minimum reserve needs of the State Bar. The items to be considered are the following:

- 1) Operating Expenditures – Consider committing money for 2-4 months of budgeted expenditures.
  - The current \$9,215,384 designated for this purpose represents 2.7 months of budgeted operating expenditures based on the current FY 2018-2019 budget. An

increase of \$653,219 will increase the level prior level of reserves from 2.7 months to 2.8 months and result in a minimum reserve amount of \$9,868,603.

- 2) Litigation Expenditures – Consider setting-aside monies to cover any contingent liabilities for litigation expenditures that are known, but not yet accrued, and expected to require funding within 12-24 months of budgeting.
  - Per the State Bar Legal Counsel’s office, there are no known litigation expenditures at this time that would require an increase in the amount of minimum reserves maintained by the State Bar.
- 3) Capital Assets Replacement/Construction – Consider large capital asset replacement or construction projects planned for the next 1-3 years.
  - In FY 2004-2005, the State Bar Board developed a five year real estate strategic plan to include remodeling and redesigning the interior of the Texas Law Center which has been completed. Pursuant to Section 3.08.03 of the Board Policy Manual, a permanent building or maintenance fund has been established to maintain the Texas Law Center. According to Board policy (see Attachment A), the General Fund shall make an annual transfer to the building fund in an amount representing 80% to 100% of the annual capital equipment straight-line depreciation of those items replaced (see Attachment B) during the remodeling of the Texas Law Center. The FY 2018-2019 General Fund budget includes a transfer of \$288,800 to the building fund which is 80% of the annual capital equipment straight-line depreciation.
- 4) New Programs - Consider committing money for new programs or research and development.
  - The amounts necessary to fund the new programs for the FY 2018-2019 budget year are either funded in the operating budget or will be the subject of a request for funding based on a Board Commitment. Therefore, no additional budget funds are necessary to be set aside in the minimum reserves.

The President-Elect, the Budget Committee, the Audit & Finance Committee, and members of the State Bar staff make the following recommendations to the Budget Committee for the best use of the \$1,873,219 available for Board commitment:

- Commit \$653,219 to increase the minimum reserve to a level of 2.8 months. The goal has been to gradually reach a minimum reserve amount of 3 months budgeted expenditures and operating transfers. This is in line with auditor recommendations to have between 2 to 4 months of operating reserves available.
- Commit \$800,000 to the Client Security Fund. This amount would be over and above the annual \$300,000 transfer made according to the Board Policy Manual included in the FY 2018-2019 budget. The additional \$800,000 would be used to pay claims and/or increase the Client Security Fund’s corpus.

- Commit \$350,000 to the Texas Access to Justice Foundation – Student Loan Repayment Assistance Program (SLRAP). Attorneys are eligible for the SLRAP if they work full-time for any Texas legal aid program that is: a) a recipient of Texas Access to Justice Foundation funds, b) a recipient of Legal Services Corporation funds, or c) a Texas non-profit that provides civil legal services - if at least 50% of the services provided are free to Texans whose income is 200% of federal poverty guidelines or less.
- Commit \$70,000 to establish a reserve for run-off election costs. This reserve would cover the cost of a run-off election if required during member's election of new State Bar leadership. The State Bar estimates that it will cost approximately \$23,000 for the vendor services and \$47,000 in printing and postage costs if a run-off election is held during the member election of the future State Bar President.