

FINANCE & AUDIT COMMITTEE (F&AC)

State Bar of Arizona
4201 N. 24th Street, Suite 100
Phoenix, Arizona 85016

September 20, 2018
3 p.m.
Cholla Room

Minutes (Approved)

MEMBER ATTENDANCE:

P = present in person; T = present telephonically; A= absent.

P - Denis Fitzgibbons, Chair

P - Anna Thomasson, Vice Chair

A - Dave Byers

T - Tyler Carrell

T - Jason Cobb

A - Jim Penny (Client Protection Fund Board Liaison/Non-voting F&AC member)

OTHER ATTENDEES:

State Bar Staff:

John Phelps

Maret Vessella

Lisa Deane

Rick DeBruhl

Kathy Gerhart

T - **Gayle Jackson**

Lori Maxwell

Lisa Panahi

Ann Leslie

Martin Gaxiola

Octavius Garrett

Aron Carrico

Guests:

Minutes taken by: Aron Carrico & Octavius Garrett

I. CALL TO ORDER:

Called to Order by: Denis Fitzgibbons
Time: 3:04pm

II. CALL TO THE PUBLIC:

Individuals addressing the Committee: None
Discussion: None

III. Approval of minutes – August 23rd meeting minutes:

Individuals addressing the Committee: Denis Fitzgibbons
Discussion: None

Motion/ moved by: Anna T. motioned to approve the Aug 23rd meeting minutes.

Seconded by: Jason C.

Motion: Passed unanimously

IV. Contribution Request Procedures & Guidelines Revisions

Individuals addressing the Committee: Kathy Gerhart

Discussion: Kathy G. reiterated the objective of the revisions to the contribution request procedures and guidelines brought up in the August 23rd meeting. The goal is to simplify the process, reduce the paperwork/documentation, and shorten the correspondence timeframe. The new process allows the CEO to approve requests up to \$2,500, with all requests over the limit handled by the F&AC. If the CEO denies a request, the F&AC will review the request to either pass or second the denial.

Motion/ moved by: Jason C. motioned to approve the contribution request procedures & guidelines and submit to the BOG for approval.

Seconded by: Anna T.

Motion: Passed unanimously

V. Investment Subcommittee Formation (ISC)

Individuals addressing the Committee: Kathy Gerhart

Discussion: Kathy G. discussed the formation of the ISC, which will include the CEO/ED, the CFO, and up to two additional members with investment experience as determined by the Committee. She also noted that the BOG is responsible for establishing and reviewing the investment objectives, policies, and guidelines. The F&AC is responsible for implementing the investment policies, reviewing performance and compliance of the policies, and reporting the results to the BOG.

Motion/ moved by: Anna T. motioned to appoint Dave B. and Jason C. as additional members to the ISC.

Seconded by: Tyler C.

Motion: Passed unanimously

VI. 24th Street Building – Suite 220 Lease (Prospective New Tenant)

Individuals addressing the Committee: Kathy Gerhart

Discussion: The Building is currently 95% occupied, with Suite 220 having 3,572 rentable square feet. A prospective tenant is interested in leasing our vacant square footage. They have asked the SBA to change the regular 5-year term to a 3-year term. The broker informed the SBA that the reason behind this is due to the new lease accounting rules, and that prospective tenant is wanting to convert all of their leases to the desired 3-year term. Taking this into consideration, the SBA has sent over a revised proposal on Friday September 7th. Updated terms of the proposal were reviewed by the FAC.

Kathy G. is requesting that the F&AC vote to delegate to John P. the authority to continue negotiations and sign the contract if the deal moves forward.

Motion/ moved by: Tyler C. motioned to approve giving John P. the authority to continue negotiations with prospective new tenant, and to sign the contract if the deal moves forward.

Seconded by: Anna T.

Motion: Passed unanimously

VII. 2018 Capital Projects

Individuals addressing the Committee: Kathy Gerhart/John Phelps

Discussion: Kathy G. reviewed additional proposed 2018 capital projects which included: Suite 220 tenant improvements, the 24th Place building lighting upgrade, and the Public Service Center buildout. The 24th Place building lighting upgrade revised budgeted cost is \$142k for the entire building. The lighting upgrade project was approved at the August 23rd F&AC meeting to be paid by reallocating the tenant improvements of Suite 220. However, with a prospective tenant showing interest in Suite 220, the building lighting upgrade will be paid by reallocating 2018 IT Capital budget projects that came in under budget or that were not needed. Kathy G. noted that the upcoming tariff will increase expenditures for this project by 10% if we do not order by Monday September 24th. The Public Service Center buildout is budgeted to cost \$24k and will also be paid by reallocating 2018 IT Capital budget projects that came in under budget or that were not needed. This Capital project is identified as mission enhancing, and not approved in the original 2018 budget.

Motion/ moved by: Jason C. motioned to approve the building lighting upgrade and public service center buildout by reallocating 2018 capital budget projects that either came in under budget or that are not needed to fund these projects – and move to start the lighting upgrade to avoid additional cost increases from new tariffs.

Seconded by: Anna T.

Motion: Passed unanimously

VIII. Tucson Building Update

Individuals addressing the Committee: John Phelps

Discussion: John P. reviewed the Tucson building information that was discussed during the August 23rd meeting. He noted that having the Tucson building along with the great staff that runs our Tucson facility has helped the SBA establish a great connection with lawyers within the Tucson area. Buzz Isaacson, an independent commercial broker was consulted to run an economic plan/concept on the buildings current options. We asked Buzz to review 3 potential options:

- Improve 2nd floor and rent out the vacant area
- Resident/mixed use (i.e. a studio upstairs)
- Removing the 2nd floor completely

After reviewing all potential solutions, Buzz I. recommended that the SBA leave the Tucson location as is, as the changes did not seem feasible as a good return on investment. However, there was discussion on the potential opportunity to sell the adjacent parking lot.

IX. Bench & Bar fund review

Individuals addressing the Committee: John Phelps

Discussion: John P. reviewed the Bench & Bar funds with the F&AC so that they had a clear understanding of what the funds are and how they are being used. These funds are collected by the Court, which in turn is remitted to the SBA. The SBA acts as an account holder for the funds, which the Court draws directly from to pay for social event items. John P. has asked that we revisit the fund policy and guidelines established by the Court for review of potential optic issues. He recommends that the F&AC update the court order, or provide clarification from the Court to validate our current guidelines.

X. Convention taskforce implementation – Review Structure

Individuals addressing the Committee: Kathy Gerhart/Lisa Deane/John Phelps

Discussion: Kathy G. reviewed the recommendation that was made at the August 23rd meeting, which was to implement a task force to evaluate the current structure & financial data to develop a clearer image of how the Convention impacts the SBA. Lisa D. explained that an extensive analysis of the Convention's current structure has been on the Program Review Working Group's (PRWG) radar as their next big project. They intend to not only review the financial aspect of the Convention, but also the format, member/community engagement, demographics, etc. The changes that come from the PRWG analysis of the Convention will not take place until after 2021. The F&AC are aiming to have the results of the analysis done prior to locking in the 2021 contract for the Convention. The PRWG has asked that a representative from the F&AC join them in the analysis, which is estimated to begin October 2018. Denis F. volunteered to be the F&AC member to join the PRWG team for this analysis.

XI. Go Bold Initiative update

Individuals addressing the Committee: John Phelps

Discussion: John P. spoke to the seven “Go Bold” initiatives that were presented at the BOG retreat, and a background on how the SBA plans to develop them.

- Increase types of specialization for BLS
- Practice 2.0
- CLE market dominance
- Find a lawyer marketing increase
- Finish the API data integration
- Fewer BOG meetings
- Staff reengineering

XII. August 2018 SBA Financial Statements

Individuals addressing the Committee: Kathy Gerhart

Discussion: For the eight months ended August 31, 2018, the Bar’s income statement generated a loss of \$232K excluding Sections. The loss year-to-date is \$144K more than budgeted. This is due to \$60K more in revenues and \$204K more in expenses. Sections Activity reported a year-to-date surplus of \$77K compared to a budgeted deficit of \$25K.

Significant YTD variances:

- Dues Penalty revenue: \$130K less than originally budgeted. Members are paying annual fees earlier than in previous years.
- Subscriber Revenue Share income: \$38K less than budget due to delayed implementation of the Find-a-Lawyer program.
- Court Discipline Operations expense: \$39K higher than budget due to a less-than-anticipated settle-up amount received from the Court based on final 2017 actual expenditures.
- IT expenses: \$200K higher than budgeted. Contract labor was utilized in lieu of filling personnel vacancies. Also personnel and professional services budgeted for end of year were utilized during the first eight months to complete mission critical IT projects. Anticipating IT costs for the year to be over budget by \$200K.
- Legal expenses: \$36K higher than budgeted due to higher than anticipated litigation. Forecasting these expenses will be \$60K over budget at year-end.

All other expense categories reported timing variances to partially offset the aforementioned significant variances.

XIII. Previous 5 Year Projection – Year 2 (2019) Material Changes

Individuals addressing the Committee: Kathy Gerhart

Discussion: Kathy G. reviewed that the Financial Policies Manual required the CEO/ED and CFO to provide the F&AC an assessment of the expected material changes to the current five year projections regarding the upcoming budget year. At this time, the only material changes that are

expected to occur are from the Go Bold initiatives and any unanticipated IT infrastructure failures, upgrades, and licensing.

Meeting adjourned by: Denis Fitzgibbons at 4:15pm