

FINANCE & AUDIT COMMITTEE (F&AC)

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

May 23, 2019
3 p.m.
Cholla Room

Minutes (Approved)

MEMBER ATTENDANCE:

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

P - Denis Fitzgibbons, Chair

A - Anna Thomasson, Vice Chair

A - Dave Byers

T - Tyler Carrell

A - Jason Cobb

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

OTHER ATTENDEES:

State Bar Staff:

Joel England

Maret Vessella

Lisa Deane

Kathy Gerhart

Lori Maxwell

Lisa Panahi

Ann Leslie

Martin Gaxiola

Elena Nethers

Guests:

Laurel Lewis – NAI/Horizon

Tom Bean – NAI/Horizon

Andy Forsell – Lockton Companies

Judge Pat Norris

Minutes taken by: Martin Gaxiola

I. CALL TO ORDER:

Called to Order by: Denis Fitzgibbons

Time: 3:00pm

Noted that a quorum of F&AC members not present.

II. CALL TO THE PUBLIC:

Individuals addressing the Committee: None

Discussion: None

III. Presentation – NAI/Horizon: Suite 220 Spec Suite Build-Out Proposal

Individuals addressing the Committee: Tom Bean and Laurel Lewis (NAI/Horizon)

Discussion: Based on F&AC feedback from the April 18 meeting, Tom B. and Laurel L. were asked to attend and answer any further questions on the proposed Suite 220 build-proposal. They reinforced the trend that prospective tenants do not do space planning anymore and want spec suites to facilitate quicker move-ins. The market also is showing that non-spec suites can result in a rental rate of \$10 per square foot (psf) less-than-expected. It was also noted that our most recent building tenants (Tyler Allen, Weight Watchers and Lester Norris & Brozina) all moved into spec-ready suites.

The space is currently being marketed at \$22.95 psf which is already at the low end of the market spectrum and has been actively marketed since February 2018 with little to no interest in its current state. Kathy G. reiterated that the proposed \$76.5K spec suite build-out would be apportioned from the \$145.9K in tenant improvements already approved by the Board in the 2019 budget to be utilized contingent upon an executed lease. The budget also assumed that the Bar would have a tenant in Suite 220 tenant by April 1 with \$40,992 in budgeted revenue for the year.

There were no further questions from committee members.

IV. Presentation – Lockton Companies: Annual Insurance Coverage Review

Individuals addressing the Committee: Andy Forsell (Lockton Companies)

Discussion: In compliance with the Financial Policies Manual, Andy F. made his annual insurance coverage review to the F&AC. He noted that all coverages had been moved to the same policy term (October through September) except for the current worker's compensation package (which will be re-written on 10/1/19 to complete the re-alignment process).

Key changes were noted as the following:

- Directors & Officers/Employment Practices Liability Insurance/Employed Lawyers premium increased 5% due to the litigation trends (both locally and nationally).

- Crime & Fiduciary coverage premium decreased 39% resulting from a change in carriers, a credit card fraud limit increase and a lower crime deductible.
- Cyber insurance premium decreased 6.5% from increased marketplace competition among cyber insurance providers even amidst an increase in coverage limits (Reputational Harm coverage increased from \$100K to \$1M and Dependent Business Interruption increase from \$100K to \$250K).

Claims activity was overviewed in the following manner:

- There continues to be a high frequency of lawsuits made alleging unfair business practices, antitrust, credentialing/peer review, etc.
- This activity, while payments have not been made by the carrier, continues to spook the markets and act as a barrier to getting lower retentions and/or higher limits for anti-trust & peer review coverages on the D&O.
- This trend is one that insurers who write State Bar business continue to see, which is what is limiting the market.
- Experience on the “package” lines of business has been clean, <\$5K paid out since 2015.
- Workers Compensation experience clean since 2014.

There were no further questions from committee members.

V. Approval of Suite 220 Spec Suite Build-Out Proposal

Individuals addressing the Committee: Dennis Fitzgibbons

Vote deferred to next F&AC meeting – did not have a quorum present.

VI. Approval of Minutes – April 18, 2019 meeting minutes

Individuals addressing the Committee: Dennis Fitzgibbons

Vote deferred to next F&AC meeting – did not have a quorum present.

VII. Investment Sub-committee – Investment Review Update

Individuals addressing the Committee: Kathy Gerhart

Discussion: Kathy G. informed the committee that, due to scheduling conflicts, she is working on a revised timeline to complete the relocation of the capital and membership fee reserves. Further updates will be communicated accordingly before the next meeting.

VIII. Senior Lawyer Task Force Update

Individuals addressing the Committee: Kathy G., Joel E. & Lisa D.

Discussion: Kathy G., Joel E. and Lisa D. reviewed the initial cost analysis completed at the request of the Senior Lawyer Task Force (SLTF). Implementation of the SLTF recommendations

would result in a total estimated five-year cost of \$1.06M. However, utilizing existing resources to fund those expenses would only result in an estimated five-year budget impact of \$228.3K.

In addition to the SLTF recommendations an analysis was completed regarding proposed Rule 38 changes that have been submitted by a Court Task force to the Courts for consideration regarding estimated revenue reductions as a result of the proposed changes:

- 10% member participation = \$315.4K in reduced membership fees over five years.
- 50% member participation = \$1.6M in reduced membership fees over five years.
- 90% member participation = \$2.8M in reduced membership fees over five years.

The information presented to the F&AC will also be presented as an informational item at tomorrow's Board of Governors meeting. There were no further questions from committee members.

IX. Consolidated SBA & CPF 2018 Audited Financial Statements Update

Individuals addressing the Committee: Kathy G

Discussion: Kathy updated the F&AC on the final revisions made to Consolidated SBA & CPF 2018 Audited Financial Statements.

- One immaterial accrual of income taxes payable was not accounted for in the final presentation (totaling \$11,448 at 12/31/18).
- The term "dues" was replaced with "membership fees" throughout the audited financial statements.
- Footnotes to the financial statements included more specific cite references for the program categories used.

Kathy G. also communicated that both the Arizona Supreme Court and Wells Fargo received copies of the final audited statements (as separately required). The consolidated financial statements were also posted on azbar.org.

There were no further questions from committee members.

X. April 2019 SBA Financial Statements

Individuals addressing the Committee: Martin G. & Kathy G.

Discussion: For the four months ended April 30, 2019, the Bar's income statement generated a surplus of \$75K excluding sections. The surplus year-to-date is \$512K more than budgeted. This is due to \$200K more in revenues and \$312K less in expenses. Current revenue and expense variances relate to timing differences in actual vs. budgeted amounts. Sections Activity reported a surplus of \$116K compared to a budgeted surplus of \$59K.

Significant variances included the following:

- CLE Registration (Live) Revenue: \$158K favorable variance to budget resulting from \$46K more in revenues for classes held from January through April and \$112K in advance payments for live seminars for the remainder of the calendar year.
- Dues Penalties: \$62K less than budget due to less members paying late fees. (2019 budgeted late fees are based on 2018 actual late fees).
- Pro Hac Vice Fees: \$20K more due to an increase in applications during the first quarter compared to budgeted amounts.
- Professional Services: \$152K less related to timing differences between actual expenses incurred vs. budget. Most of this variance relates to special projects for IT infrastructure/network and developer support.

XI. 2018 Supreme Court/PDJ Operating Reconciliation & Remittance to SBA

Individuals addressing the Committee: Kathy G.

Discussion: Kathy G. reviewed the annual reconciliation remittance from the Arizona Supreme Court for the Office of the Presiding Disciplinary Judge operations. The reconciliation reflects actual 2018 costs vs. the projected amount remitted by the SBA to cover those annual costs, offset by any collections for Letters of Good Standing issued by the Court. The SBA received a total refund of \$19,377 from the Court which reflected a 2.4% decrease in actual costs compared to 2017.

XII. June Finance Committee Meeting

Individuals addressing the Committee: Kathy Gerhart

Discussion: Historically, the F&AC did not schedule a June meeting due to conflicts with the annual SBA convention. Kathy G. recommended that the F&AC meet to vote on the action items not voted on at today's meeting, review the investment subcommittee action plan, and review the request for proposal process for the line of credit renewal and additional banking services. It was suggested that Kathy reach out to F&AC members about meeting during the week of June 17th.

Meeting adjourned by: Denis Fitzgibbons at 4:14pm