

# AGENDA

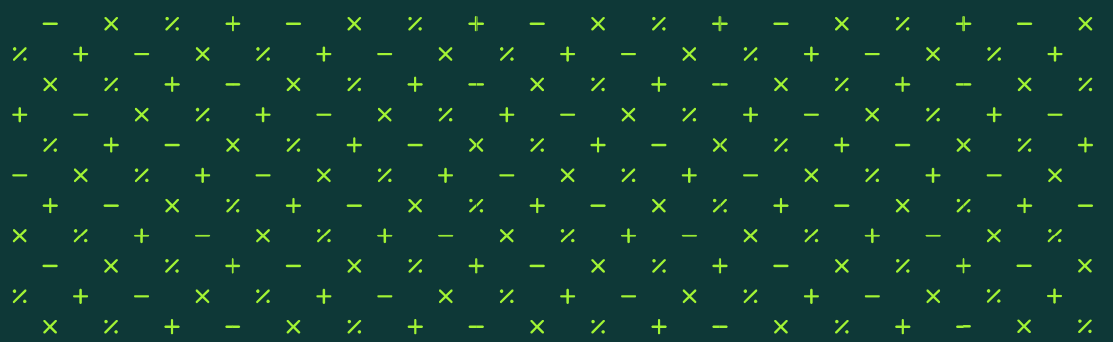
## BOG Budget & Finance Committee

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**Meeting Date:** September 21, 2018  
**Meeting Time:** 9:00 AM  
**Location:** Oregon State Bar Building, Tigard  
**Chair:** David Wade  
**Vice Chair:** Julia Rice  
**Members:** Chris Costantino, Kathleen Rastetter, Kerry Sharp, Eric Foster, Eddie Medina, Traci Rossi, John Grant  
**Guest:** Julie Desimone, Partner, Moss Adams LLP  
**Liaison:** Keith Palevsky

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1. Audit Update. Presentation by Julie Desimone, Partner of Moss Adams LLP, the results of 2016-2017 audit.	Exhibit	<b>Inform</b>
2. 2019 Budget. First pass summary report, and salary pool recommendation.	Exhibit	<b>Inform</b>
3. 2019 Fee Schedule. Fee Schedule recommendation and approval.	Exhibit	<b>Action</b>
4. Section Assessments. Analysis of Section Fee and corresponding offset to Member Fee.	Exhibit	<b>Action</b>
5. Client Security Fund. Update of current pipeline and continued discussion of appropriate level of reserves.	Exhibit	<b>Inform</b>
6. Building. Cost/Benefit analysis of fielding proposal offers.	Exhibit	<b>Inform</b>
7. July 27 <sup>th</sup> meeting minutes for approval for the Budget and Finance Committee meeting, and the Investment Committee meeting.	Exhibit	<b>Action</b>



# Oregon State Bar

## 2016 – 2017 Audit Results

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September 21, 2018

# Nature of Services Provided

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- Audit under Generally Accepted Auditing Standards (GAAS), Generally Accepted Government Auditing Standards (GAGAS)



# Auditor's Opinion & Reports

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- Unmodified financial statement opinion
  - **FINANCIAL STATEMENTS FAIRLY PRESENTED IN ALL MATERIAL RESPECTS**



# Required Communication

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- Auditor's responsibility under auditing standards
- Significant accounting policies
  - **NO SIGNIFICANT CHANGES**
- Management judgments and accounting estimates
- Audit adjustments made and passed - None
- Management's consultation with other accountants
- No disagreements with management
- No difficulties in performing the audit
- Issues discussed with management prior to our retention



# Required Communication

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- No Material Weaknesses
- Best practice recommendations communicated with management



# OREGON STATE BAR

## Budget and Finance Committee

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Meeting Date: September 21, 2018  
 From: Keith Palevsky, Director of Finance and Operations  
 Subject: 2019 Budget

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### Background

In preparation for the upcoming fiscal calendar year, attached is the first draft of the 2019 Budget covering the period from January 1<sup>st</sup> through December 31<sup>st</sup>, 2019. At present, this version of the 2019 budget is balanced for the fiscal year and incorporates the following:

- Increase in total Revenues over the 2018 budget due to:
  - Conservative 2018 budget, and a slight Increase in total 2019 membership of .2%.
  - Previously approved Increase of \$5.00 in the Client Security Fund assessment.
  - Already implemented increase in the Admissions application fee from \$625 to \$750.
  - Increase in Referral services revenue of 20%.
  - Increase in Fanno Creek revenue of 6%.
- Salary pool increase of 3.5%, offset with a generic attrition rate of -1%.
- Overall decrease of -5% in direct department expenditures.

### Summary of Key Activities

#### Membership Fees

Other than the \$5.00 increase to the Client Security Fund line item, there are no further changes to the membership fee structure for 2019, as reflected in the following table, including late fees.

Category	2018 Fee through January 31st	2018 Fee effective February 1st	2019 Fee through January 31st	2019 Fee effective February 1 <sup>st</sup>
Active Over 2 Years	\$552.00	\$652.00	\$557.00	\$657.00
Active Under 2 Years *	\$465.00	\$565.00	\$470.00	\$570.00
Active Pro-Bono	\$125.00	\$125.00	\$125.00	\$125.00
Inactive	\$125.00	\$175.00	\$125.00	\$175.00
Retired	\$125.00	\$175.00	\$125.00	\$175.00

Fee Breakdown:

General	\$ 477.00
Subscription	\$ 10.00
CSF	\$ 15.00
AAP	\$ 45.00
LRAP	\$ 10.00
<b>Total</b>	<b>\$ 557.00</b>

### Admissions

While admissions is anticipating a 2.2% drop in applications from the 2018 budget to 880 total, the application fee increase from \$625 to \$750 has been in effect from August 1, 2018. Thus, revenues from application fees should total \$660K (up 13% from 2018 budget). This coming year is also the first year that attorneys can become members of the Oregon State Bar through reciprocity, which should generate a small increase in investigation fees. Last, an increase in the rebate revenue for exams taken by laptop. The overall net generated by Admissions (after ICA) is expected to increase from \$42K to \$95K.

### Referral Services

Revenue from Referral Services is on pace to exceed \$900K in 2018 (against a budget of \$830K) and continues a strong upward trend. Of particular note are calls that go unattended due to being short-handed on staff. The budget for 2019 comprehends addressing RIS staffing shortage and is projecting revenue of \$994K.

### Fanno Creek

A new tenant has signed a 7 year lease to occupy the vacancy in Suite 175 starting October 1<sup>st</sup>, 2018, and will bring the building to full occupancy for all of 2019. The revenue budget for 2019 is therefore increased \$57K over 2018, however this amount is partially offset by increased maintenance expenses. The next opening in our tenant roster under contract occurs in 2020, when we have 2 tenants whose leases are set to expire; one in June and one in September.

### Wages and Benefits

Total wages and benefits expenses are forecasted to end 2018 at approximately \$9,623K. This is down \$220K from the budget due to preceding long standing employee resignations (and therefore reduced applied pension expense), and the time to fill those and other positions requiring backfill. The total salary expense projected for 2019 is \$9.850M, and is \$227K higher than the total forecasted expense for 2018. This increase is based on a 3.5% salary pool increase, and incorporates a 1% rate of attrition.

### Direct Program Expenses

Direct program expenditures have been reduced significantly in this year's budget, generating a total savings of more than \$400K, through a combination of already in-process cost reduction efforts and other newly identified actions. These activities range from continued focus efforts on the part of staff to operate "paperless" and reduce copying expenditures, lower total postal expenditures, reduction in CLE video expenses, and consolidation of various I/T activities into one central department.

### Other Key activities and Operating Objectives

A critical project objective for the Bar is to continue to upgrade our overall I/T infrastructure while reducing expenses. The implementation of Aptify will be mostly completed by December 31<sup>st</sup> 2018, with some module completion taking place in the first half of 2019. The total cost of the Aptify project at completion is estimated to be \$1.2M, and will be depreciated over a 5 year



period. This will add \$200K of non-cash expense to the P&L. This expense and neutral impact on cash is comprehended in the 2019 budget and the five year projection.

A line item has been included in the 2019 budget (and in the five year projection), to migrate from biennial to an annual audit cycle. This should add at most, approximately \$10K to the total audit fees over a two year period as opposed to conducting a single audit every two years. This would reduce the burden considerably on internal staff in supporting the audit.

### **Five Year Projection**

The five year projected budget has been built with the following base conditions:

- Flat membership revenues from 2019 through 2023.
- Salary pool increases of 3.5%, offset by a -1.0% attrition rate.
- Flat direct program expenditures.
- Decrease in operating expenses starting in 2020 of -\$100K due to loan refinancing
- Increase in the G&A offset due to Section assessment increase to \$9.50 in 2020.

Included in the five year projection is a modest refinancing of the current \$13M mortgage loan, to lower the overall annual payments from \$934K to \$790K. This loan has an interest rate of 5.99%, for which we make monthly payments totaling \$934K annually. Interest rates available to the Bar are currently at 4.875% (and likely better). Refinancing the loan, in conjunction with a \$1M - \$2M further pay down of loan principal has the potential to reduce the annual payments from \$934K to \$634K annually. The terms of the current loan carry a balloon payment that is due in 2023. The Director of Finance is researching available refinancing options.

The cumulative impact of these factors, at present, suggests a balanced budget will be attained in the Years 2020 and 2021, however a deficit appears in the Years 2022 and 2023. In the absence of identifying additional sources of revenue in the interim to cover those deficits, executing a favorable refinancing of the mortgage loan, or significant expense savings being identified, a minor increase in fees will need to be approved.

It is the objective of the Bar executive management to present a request for a fee increase only as an option of last resort.

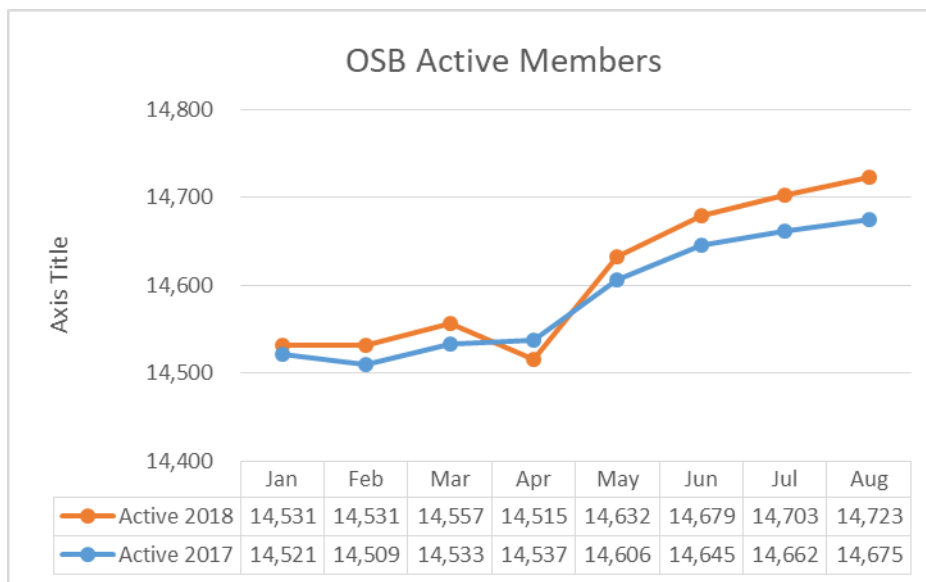
### **Next Steps**

Bar management will continue to review the proposed 2019 budget in further detail over the next month before preparing the final budget for approval at the November 2<sup>nd</sup> meeting. While there may be some minor adjustments to expenses within specific departments and programs, there are presently no significant changes anticipated that would prevent a balanced budget being presented for approval.

## Five Year Projection:

Description	Budget 2018	Budget 2019	Budget 2020	Budget 2021	Budget 2022	Budget 2023	
Membership Fees	\$7,968,200	\$8,143,955	\$8,143,955	\$8,143,955	\$8,143,955	\$8,143,955	Inc 2019 to 2018(F), then flat
Program Fees	3,817,755	4,103,343	4,133,343	4,163,343	4,193,343	4,223,343	Adm +100K/Ref +160K, then +30K/yr
Investment Income	238,766	241,200	230,000	230,000	230,000	230,000	Flat
PLF Grant	200,000	200,000	200,000	200,000	200,000	200,000	Flat
Fanno Creek Place	906,796	957,488	986,212	1,015,799	1,046,273	1,077,661	+49K (Suite 175), and then 3% YoY increase in 2019, then flat
Departments	7,248,800	7,306,660	7,306,660	7,306,660	7,306,660	7,306,660	
<b>TOTAL REVENUE</b>	<b>20,380,317</b>	<b>20,952,645</b>	<b>\$21,000,170</b>	<b>\$21,059,756</b>	<b>\$21,120,230</b>	<b>\$21,181,618</b>	
<b>EXPENSES</b>		3.5%	3.5%	3.5%	3.5%	3.5%	Raise %
		-1.0%	-1.0%	-1.0%	-2.0%	-2.0%	Attrition %
Salaries	6,984,548	7,261,491	7,443,028	7,629,104	7,743,540	7,859,694	
Taxes and Benefits	2,858,665	2,588,399	2,653,109	2,719,437	2,760,228	2,801,632	
<b>Salaries and Benefits</b>	<b>9,843,213</b>	<b>9,849,890</b>	<b>10,096,137</b>	<b>10,348,540</b>	<b>10,503,769</b>	<b>10,661,325</b>	
<b>Direct Program Expense</b>	<b>9,245,486</b>	<b>8,845,199</b>	<b>8,845,199</b>	<b>8,845,199</b>	<b>8,845,199</b>	<b>8,845,199</b>	-\$400K 2019, then flat
<b>Operating Expense</b>	<b>376,840</b>	<b>382,348</b>	<b>384,378</b>	<b>392,065</b>	<b>399,907</b>	<b>407,905</b>	+2% / yr
Depreciation	513,400	761,807	766,807	771,807	776,807	781,807	\$75K capital budget / year
Meeting Rooms Marketing	1,500	1,500	1,500	1,500	1,500	1,500	flat
Mortgage Interest	646,462	628,739	530,000	530,000	530,000	530,000	< refinancing of mortgage loan in 2020
<b>Non-Operating Expense</b>	<b>1,161,362</b>	<b>1,392,046</b>	<b>1,298,307</b>	<b>1,303,307</b>	<b>1,308,307</b>	<b>1,313,307</b>	
<b>General and Administrative Expense</b>	<b>836,258</b>	<b>1,021,757</b>	<b>836,258</b>	<b>836,258</b>	<b>836,258</b>	<b>836,258</b>	flat
Indirect Cost Allocation Net	0	1,899	-	-	-	-	
Less: Support Assessment - Sections	(138,700)	(138,700)	(164,050)	(164,050)	(164,050)	(164,050)	fee increase to \$9.50/member in 2020
Less: Expense offsets	(76,925)	(49,151)	(76,925)	(76,925)	(76,925)	(76,925)	flat
Less: Service Reimbursements	(13,250)	(14,040)	(13,250)	(13,250)	(13,250)	(13,250)	flat
<b>Net General &amp; Admin Offsets</b>	<b>(228,875)</b>	<b>(199,993)</b>	<b>(254,225)</b>	<b>(254,225)</b>	<b>(254,225)</b>	<b>(254,225)</b>	
Contingency	25,000	25,000	25,000	25,000	25,000	25,000	
<b>TOTAL EXPENSE</b>	<b>21,259,284</b>	<b>21,316,248</b>	<b>21,231,054</b>	<b>21,496,145</b>	<b>21,664,215</b>	<b>21,834,769</b>	
<b>NET OPERATING REVENUE (EXP)</b>	<b>(878,967)</b>	<b>(363,603)</b>	<b>(230,885)</b>	<b>(436,389)</b>	<b>(543,985)</b>	<b>(653,151)</b>	
Unrealized Investment Gains /(Losses)	(579,588)	0	-	-	-	-	forecast neutral
Realized Investment Gains/(Losses)	639,417	0	-	-	-	-	forecast neutral
<b>NET REVENUE (EXPENSE)</b>	<b>(819,138)</b>	<b>(363,603)</b>	<b>(230,885)</b>	<b>(436,389)</b>	<b>(543,985)</b>	<b>(653,151)</b>	
Revenue (Expense) 2018 forecast	842,000						
Addback: Depreciation	513,400	761,807	761,807	771,807	776,807	781,807	
Subtract: Capital Projects	(189,000)	(86,495)	(125,000)	(75,000)	(75,000)	(75,000)	
Subtract: Mortgage Principal	(287,846)	(305,569)	(259,507)	(259,507)	(259,507)	(259,507)	
Net Cash Contribution	59,416	6,141	146,416	911	(101,684)	(205,851)	

## Membership:



## Opportunities:

- More robust Non-Bar memberships, for which we can charge \$225 per member.
- Developing other “exchange” based products.
- Charge active fee to over 50-year members.
- Comity Certificate Fee (\$25).
- Reconfigure existing space to allow for more rentable office suites to tenants.

## Challenges

- Wage and Benefits expenses continue to comprise a larger % of the budget.
- High cost of mortgage, interest plus principal equals \$934K annually.
- Reducing travel expenditures and reimbursements.
- Building maintenance.
- Decreasing Legal Publications revenue.

# OREGON STATE BAR

## Budget and Finance Committee

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Meeting Date: September 21, 2018  
From: Keith Palevsky, Director of Finance and Operations  
Subject: Schedule of Member Fees and Due Dates for 2019

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### Background

Per by-law Article 6, Section 6.4, the payment date for annual fees and assessments is set by the Board of Governors. The purpose of this memo is to establish the fee schedule and due dates for the calendar year 2019.

### 2019 Fee Structure and Due Dates

Consistent with the fee structure used in constructing this year's budget, the following fee structure and due dates are proposed for 2019:

Category	2018 Fee through January 31st	2018 Fee effective February 1st	2019 Fee through January 31st	2019 Fee effective February 1 <sup>st</sup>
Active Over 2 Years	\$552.00	\$652.00	\$557.00	\$657.00
Active Under 2 Years *	\$465.00	\$565.00	\$470.00	\$570.00
Active Pro-Bono	\$125.00	\$125.00	\$125.00	\$125.00
Inactive	\$125.00	\$175.00	\$125.00	\$175.00
Retired	\$125.00	\$175.00	\$125.00	\$175.00

\* Based on admission date to ANY jurisdiction, not admission to Oregon.

Schedule of Due Dates for New Admittees to the Bar after January 1st:

	From Admittance Date
Due Date for Status Changes to be submitted	30 Days
Due date for Receipt of member fee payment	90 Days

Schedule of Prorated Fees by Month for New Admittees (based on Admittance Date):

MONTH	CATEGORY	O/2	U/2	MONTH	CATEGORY	O/2	U/2
JANUARY	12 GENERAL	\$ 477.00	\$ 410.00	JULY	6 GENERAL	239.00	205.00
	SUBSCRIPTION	\$ 10.00	\$ 10.00		SUBSCRIPTION	5.00	5.00
	CSF ASSESSMENT **	15.00	15.00		CSF ASSESSMENT **	15.00	15.00
	AAP FEE	45.00	25.00		AAP FEE	23.00	13.00
	LRAP	10.00	10.00		LRAP	5.00	5.00
	TOTAL	\$ 557.00	\$ 470.00		TOTAL	\$ 287.00	\$ 243.00
FEBRUARY	11 GENERAL	437.00	376.00	AUGUST	5 GENERAL	199.00	171.00
	SUBSCRIPTION	9.00	9.00		SUBSCRIPTION	4.00	4.00
	CSF ASSESSMENT **	15.00	15.00		CSF ASSESSMENT **	15.00	15.00
	AAP FEE	41.00	23.00		AAP FEE	19.00	10.00
	LRAP	9.00	9.00		LRAP	4.00	4.00
	TOTAL	\$ 511.00	\$ 432.00		TOTAL	\$ 241.00	\$ 204.00
MARCH	10 GENERAL	398.00	342.00	SEPTEMBER	4 SUBSCRIPTION		
	SUBSCRIPTION	8.00	8.00		GENERAL	159.00	137.00
	CSF ASSESSMENT **	15.00	15.00		SUBSCRIPTION	3.00	3.00
	AAP FEE	38.00	21.00		CSF ASSESSMENT **	15.00	15.00
	LRAP	8.00	8.00		AAP FEE	15.00	8.00
	TOTAL	\$ 467.00	\$ 394.00		LRAP	3.00	3.00
APRIL	9 GENERAL	358.00	308.00	OCTOBER	3 GENERAL	119.00	103.00
	SUBSCRIPTION	8.00	8.00		SUBSCRIPTION	3.00	3.00
	CSF ASSESSMENT **	15.00	15.00		CSF ASSESSMENT **	15.00	15.00
	AAP FEE	34.00	19.00		AAP FEE	11.00	6.00
	LRAP	8.00	8.00		LRAP	3.00	3.00
	TOTAL	\$ 423.00	\$ 358.00		TOTAL	\$ 151.00	\$ 130.00
MAY	8 GENERAL	318.00	273.00	NOVEMBER	2 GENERAL	80.00	68.00
	SUBSCRIPTION	7.00	7.00		SUBSCRIPTION	2.00	2.00
	CSF ASSESSMENT **	15.00	15.00		CSF ASSESSMENT **	15.00	15.00
	AAP FEE	30.00	17.00		AAP FEE	8.00	4.00
	LRAP	7.00	7.00		LRAP	2.00	2.00
	TOTAL	\$ 377.00	\$ 319.00		TOTAL	\$ 107.00	\$ 91.00
JUNE	7 GENERAL	278.00	239.00	DECEMBER	1 GENERAL	40.00	34.00
	SUBSCRIPTION	6.00	6.00		SUBSCRIPTION	1.00	1.00
	CSF ASSESSMENT **	15.00	15.00		CSF ASSESSMENT **	15.00	15.00
	AAP FEE	26.00	15.00		AAP FEE	4.00	2.00
	LRAP	6.00	6.00		LRAP	1.00	1.00
	TOTAL	\$ 331.00	\$ 281.00		TOTAL	\$ 61.00	\$ 53.00

**Recommendations**

A motion is needed to approve the fee structure and due dates for 2019.

**For Additional Consideration**

The current date at which a member is administratively suspended is at 120 days. The submittal period for IOLTA applications, and MCLE class certification is also 120 days. From an administrative perspective, it would be desirable to align all of these 120 day durations, and shorten the window to 90 days. This would remove a round of additional reminder notices for which there is very few payments received between 90 – 120 days.

## Addendum

### Updated Q&A to be posted to the OSB Web Site

#### **Are there changes to the 2019 membership fees?**

The 2019 active membership fee is higher by \$5.00. The Client Security Fund assessment which is included in the membership fee increases from \$10.00 to \$15.00. The assessment is increased this year based on the pipeline of claims. The \$5.00 applies to Active Over Two Years and Active Under Two Years members.

#### **When are the 2019 membership fees due?**

Member fee payments are due on or before January 31, 2019. Payments made on January 31 must be physically received at the bar center office by 5:00pm. A payment received after January 31 is not considered timely made even if the postmark date is on or prior to January 31.

Payments can be made until midnight January 31 if paid online at the bar's website with a credit card. The payment by credit card is complete until the transaction is approved by the bank card authorizer.

A member is administratively suspended if they fail to pay the membership fees when due. A member is in default after 30 days (March 2, 2019) and is suspended if payment is not made by May 1, 2019.

The due date for members admitted during 2019 is 30 days from the date of admission to the Oregon State Bar. A member admitted during 2019 is in default and is suspended if payment is not received 90 days from the date of admission to the Oregon State Bar.

#### **What is the fee increase if I pay after January 31, 2019?**

Fee increases for members admitted prior to 2019, and who pay after January 31, 2019 are as follows:

<b>Membership Fee Status</b>	<b>Fee Through January 31</b>	<b>Fee Effective February 1</b>
Active Over Two Years	\$ 557.00	\$ 657.00
Active Under Two Years **	\$ 470.00	\$ 570.00
Active Pro Bono	\$ 125.00	\$ 125.00
Inactive	\$ 125.00	\$ 175.00
Retired	\$ 125.00	\$ 175.00

**\*\* Based on admission date to ANY jurisdiction, not admission to Oregon**

# OREGON STATE BAR

## Budget and Finance Committee

Meeting Date: September 21, 2018  
 From: Keith Palevsky, Director of Finance and Operations  
 Subject: Section Assessments

### Background

At the July 22nd meeting, a motion was passed to raise the assessment fee charged by the Bar from \$8.00 to \$9.50 per Section member. Bar management has elected to not present that fee increase to the Sections just yet, as there was one additional analysis set previously requested (but not yet presented) to show what a combination minimum Section assessment fee and corresponding reduction in per member fee would look like. That additional analysis is presented here. It is the intention of the Bar management team to present one comprehensive set of fee changes so that Sections have adequate time to inform their leadership teams.

Previous presentations to the committee noted that Section related expenses total \$340K annually, or approximately \$19 per member based on June 2018 membership numbers. At 50% subsidy this places the Bar assessment at \$9.50 per member.

Many of the Sections have fund balances in excess of 2 or 3 years worth of membership dues. A fundamental expectation is that Sections spend the money that is raised from their members in the year that it is raised, so that members derive the benefit within a reasonable time-frame for the period in which they are paying their dues.

### Current Environment

Currently there are 43 sections, of which (through July 31<sup>st</sup>) only 18 had ending fund balances less than 2 years' worth of membership dues, and 28 Sections had ending balances less than 3 years.

Section	# Memb	Balance	Yrs_	Section	# Memb	Balance	Yrs_
Consumer Law Section	172	18,498	7.2	Animal Law Section	68	2,509	2.5
Constitutional Law Section	173	28,618	6.6	Business Litigation Section	471	21,886	2.3
Diversity Section	253	36,723	5.8	Agricultural Law Section	157	5,435	2.0
Admiralty Section	38	3,137	5.5	Business Law Section	925	53,643	1.9
Health Law Section	331	26,909	5.4	Labor & Employment Law Section	776	35,884	1.8
International Law Section	94	11,878	5.1	Elder Law Section	552	24,381	1.8
Criminal Law Section	575	42,753	3.7	Securities Regulation Section	231	9,906	1.7
Disability Law Section	104	7,589	3.6	Intellectual Property Section	452	19,292	1.7
Indian Law Section	154	11,207	3.6	Sole & Small Firm Pract. Section	728	22,860	1.7
Antitrust, Trade Reg Section	94	8,292	3.5	Government Law Section	455	10,854	1.6
Sustainable Future	265	16,816	3.2	Dispute Resolution Section	251	9,115	1.5
Family Law Section	971	76,979	3.2	Estate Planning & Admin. Section	1274	37,001	1.5
Administrative Law Section	255	15,967	3.1	Environment & Natural Res. Section	514	14,802	1.4
Workers' Compensation Section	329	25,504	3.1	Litigation Section	1162	47,837	1.4
Debtor/Creditor Section	511	53,978	3.0	Computer & Internet Law Section	201	6,201	1.3
Real Estate & Land Use Section	1199	87,620	2.9	Corporate Counsel Section	493	10,552	1.1
Nonprofit Organizations Law	146	10,149	2.8	Energy, Telecom, Utility Law Section	212	5,578	1.0
Military & Veterans Law Section	98	5,376	2.7	Aviation Law Section	51	1,196	0.9
Product Liability Section	121	6,531	2.7	Juvenile Law Section	322	6,885	0.9
Construction Law Section	382	15,186	2.7	Cannabis Law Section	154	2,360	0.8
Taxation Section	464	30,037	2.6	Civil Rights Section	236	2,204	0.3
Appellate Practice Section	369	18,377	2.5				

## Analysis

1. Prior analysis (Analysis A) showed that in the most extreme case, raising the assessment to \$15 per member (just under 80% share of the total cost), would place ten sections in jeopardy of running to a negative fund balance with no other adjustments to their membership fee is ten (10) and are:

Small Firm, Environmental, Construction, Corp Counsel, Govt Law, Juvenile Law, Military, Animal, Civil Rights, and Cannabis.

2. A second prior slice analysis (Analysis B) showed that if a \$1750 assessment per Section was charged in addition to the \$9.50 per member assessment, there were potentially (7) Sections with relatively smaller membership that would likely need to raise their membership fee at least \$10 to cover the cost of the higher assessment, and those are:

Government, Military, Admiralty, Animal, Civil Rights, Cannabis and Aviation.

3. A third prior slice analysis (Analysis C) showed that there are six (6) Sections that currently have a membership less than 100 members (the minimum number to form a Section) and these are (updated with current membership as of July 31<sup>st</sup>):

Military & Veterans Law Section	98
Antitrust, Trade Reg Section	94
International Law Section	94
Animal Law Section	68
Aviation Law Section	51
Admiralty Section	38

The additional analysis that is being provided here is to try and show the impact of a combination fee structure to charge both a minimum Section assessment, and minimum per member fee. The following table shows the trade-off between increasing per Section fee, and corresponding decrease in per member assessment:

<b>Section Fee and Assessment Fee Schedule</b>					
	Total Annual Cost:	\$	339,011		
	Bar Subsidy:		50%		
	Bar Assessment:	\$	169,506		
	Per Member Assessment:	\$	9.50		
	Section Members (7/31/18):		16,783		
Sections	Proposed Per Section Fee		Amount Raised	Per Member Offset	Resulting Assessment Per Member
43	\$ 1,000.00	\$	43,000.00	(2.56)	\$ 6.94
43	\$ 1,250.00	\$	53,750.00	(3.20)	\$ 6.30
43	\$ 1,500.00	\$	64,500.00	(3.84)	\$ 5.66
43	\$ 1,750.00	\$	75,250.00	(4.48)	\$ 5.02
43	\$ 2,000.00	\$	86,000.00	(5.12)	\$ 4.38
43	\$ 2,500.00	\$	107,500.00	(6.41)	\$ 3.09



Two separate cases were run with a two tier fee structure of \$1750 per Section fee and \$5.10 per member fee:

- (a) Projected fund balance in two years starting from end of 2017 actual ending balance.
- (b) Projected fund balance in two years starting end of 2017 with 1 year fund balance.

- A. Scenario (a) there are six (6) Sections that would have negative fund balances and would have to raise membership dues in excess of \$10, and these are:

Energy/Utility, Admiralty, Animal, Cannabis, Civil Rights, Aviation

- B. Scenario (b) there are twelve (12) Sections that would have negative fund balances and would have to raise membership dues in excess of \$10, and these are:

Consumer, International, Indian, Antitrust, Disability, Product Liability, Agricultural, Military/Veterans, Admiralty, Animal, Cannabis, and Aviation.

### **Recommendations**

- A. From the standpoint of administrating the accounting, it would be preferred to NOT implement a two tiered fee structure. Doing so creates two sets of calculations that have to be tended to for each Section, and will add administrative burden (additional time, increased phone calls to walk thru the fee balance, etc.). If motion is passed for a two-tier fee structure we will support it, but it is preferred from an administrative standpoint to maintain a per member fee structure.
- B. Staff recommendation is to consider mandating that Sections maintain at least 100 members. This approach would be consistent in message with the minimum number of members required to form a Section, and would not carry the possible perception of another fee to carry this message to the Section leadership. If a Section falls below 100 members, it is proposed they would be given the option to join another Section or dissolve.
- C. Staff recommendation is to consider mandating that Sections maintain an ending balance no more than 2 or 3 years' worth of membership as of each year end (December 31<sup>st</sup>). Provide a an allowable grace period to get to that level, and if Sections fail to meet that requirement then those Sections would be charged the full \$19 assessment fee until their balance meets the 2 year threshold.







CLAIM year	CLAIM #	CLAIMANT	LAWYER	CLAIM AMT	PENDING	AGED (60 days)	AMOUNT PAID	INVESTIGATOR	STATUS
2014	02	Kitchen, Kimberly A.	Wood, Alan K.	\$ 3,000.00			\$ -	Raher	Paid by PLF
2015	39	Boone, Charles P	Morningstar, Jonah	\$ 8,000.00	\$ 8,000.00			Steinberg	9/24/16 CSF stayed. Re-assigned 1/20/18
2016	42	Heredia, Keeley	Krull, Julie	\$ 9,000.00				Atwood / Dippel	11/4/17 CSF Deny 2/23/18 BOG Deny
2016	36	Cruz, Lourdes	Milstein, Jeffrey S.	\$ 1,750.00			\$ 1,750.00	Butterfield	4/12/18 ck sent \$1750
2016	27	Roden, Joseph (Melody Butler POA R	Morningstar, Jonah	\$ 9,385.50	\$ 9,385.50			Steinberg	9/24/16 CSF stayed. Re-assigned 1/20/18
2017	33	Niklas, Louise (Trustee: Eubanks, Anr	Bauer, Henry L. ESTATE	\$ 24,000.00	\$ 24,000.00			Cooper	
2017	07	Clymer, Joseph & Deborah	Campbell, Jefferson G. Jr	\$ 1,235.00			\$ 1,235.00	Ledgerwood	
2017	48	Yovan, Stefan Shawn	Campbell, Jefferson G. Jr	\$ 17,921.57	\$ 17,921.57			Ledgerwood	
2017	29	Vega-Flores, Gustavo	Coran, Theodore C	\$ 10,000.00	\$ 10,000.00			Young	
2017	45	Brown, Carol	Deveny, Lori E.	\$ 66,667.00	\$ 50,000.00			Jones	
2017	28	Yang, Wai Thomas	Gerber, Susan R.	\$ 10,000.00			\$ -	Atwood	11/4/17 CSF Deny 2/23/18 BOG Deny
2017	47	Smarr, Linda for James Lound Trust	Gray, Roger	\$ 2,000.00			\$ 2,000.00	Cooper	
2017	39	Richman, Tommy J. and Nicole	Hall, Brett	\$ 26,000.00	\$ 26,000.00			Cooper	
2017	24	Lopez-Contreras, Rosalina	Hudson, Howard	\$ 6,410.00	\$ -		\$ -	Jones	
2017	26	Jacob, Avishaq	Johnson, Ron	\$ 1,300.00	\$ 1,300.00			Roy	
2017	31	Martinez, Ernesto Vazquez	Martinez, Leslie	\$ 1,800.00		\$ 1,800.00		Braun	3/10/18 CSF approve \$1800, need good CO address
2017	02	McLaren Hall, Rebecca Jean	Merrill, Nick	\$ 2,500.00			\$ 1,500.00	Young	12/21/17 ck sent \$1500
2017	04	Powell, Terry Scott	Milstein, Jeffrey S.	\$ 3,000.00	\$ 3,000.00			Taylor/Stamm	
2017	05	Schwengels-Loe, Denyse Marie	Milstein, Jeffrey S.	\$ 5,100.00	\$ 5,100.00			Taylor/Stamm	
2017	08	Jay, Sandra	Milstein, Jeffrey S.	\$ 2,730.00	\$ 2,730.00			Braun	claimant has rep
2017	09	Tupper, Robert Thompson	Milstein, Jeffrey S.	\$ 2,100.00	\$ 2,100.00			Braun	
2017	10	Frazier, Justin	Milstein, Jeffrey S.	\$ 3,000.00	\$ 3,000.00			Stamm	Ms. Wicht (G'ma) paid.
2017	14	Cooper, James Adam	Milstein, Jeffrey S.	\$ 11,500.00	\$ 11,500.00			Braun	
2017	15	Ashpole, Mathew Thomas	Milstein, Jeffrey S.	\$ 4,800.00	\$ 4,800.00			Braun	
2017	16	Allen, Thomas John Robert	Milstein, Jeffrey S.	\$ 28,000.00	\$ 28,000.00			Braun	
2017	32	Taylor, Marnie	Mitchell-Phillips, Kenneth	\$ 2,500.00			\$ 2,500.00	Braun	
2017	36	Grishkevich, Alex	Mitchell-Phillips, Kenneth	\$ 1,525.54			\$ 1,525.54	Braun	
2017	40	Anderson, Terri Lynn	Mitchell-Phillips, Kenneth	\$ 6,250.00			\$ 10,000.00	Braun	
2017	42	Gardner, Evan	Mitchell-Phillips, Kenneth	\$ 300.00		\$ 300.00		Braun	06/03/2018 no returned paperwork from CO
2017	44	Zuniga, Lourexel	Mitchell-Phillips, Kenneth	\$ 4,454.00			\$ 3,500.00	Braun	
2017	17	Torrance, Glen M	Roller, Dale	\$ 11,000.00	\$ 11,000.00			Stamm	
2017	25	Roebuck, William	Roller, Dale	\$ 7,500.00	\$ 7,500.00			Stamm	
2017	34	Dillon, Tammi lee	Smith, Robert J. ESTATE	\$ 1,500.00			\$ 1,500.00	Roy	
2017	37	Bateman, Donald L	Smith, Robert J. ESTATE	\$ 1,750.00			\$ 1,750.00	Roy	
2017	43	Sherman, Julie Annette	Smith, Robert J. ESTATE	\$ 46,110.93			\$ 46,110.93	Roy	Paid 08/02/2018
2017	46	Wise, Daniel Kevin	Smith, Robert J. ESTATE	\$ 2,000.00	\$ 2,000.00			Roy	05/20 deferred for more investigation
2017	38	Tukhashvili, Givi N.	Vanagas, Timothy	\$ 4,000.00			\$ -	Young	4/9/18 atty pd client in full
2018	11	Williams, Curtis	Bernstein, James E	\$ 2,000.00	\$ 2,000.00			Whitlock	atty has rep
2018	50	Bertoni, Gary	Delaney, John Randall	\$ 97,985.00	\$ 50,000.00			Thompson	
2018	10	Clausen, Ginger Lorraine	Deveny, Lori E.	\$ 51,666.00	\$ 50,000.00			Jones	
2018	20	Getty, Barbara M.	Deveny, Lori E.	\$ 20,000.00	\$ 20,000.00			Jones	
2018	29	Ngai, Stephen	Deveny, Lori E.	\$ 6,000.00	\$ 6,000.00			Jones	
2018	53	Sturn, Rebekah	Deveny, Lori E.	\$ 30,000.00	\$ 30,000.00			Jones	
2018	54	Hamel, Kevin Mitchell	Deveny, Lori E.	\$ 99,728.00	\$ 50,000.00			Jones	
2018	55	Hensey, Jason R	Deveny, Lori E.	\$ 50,000.00	\$ 37,500.00			Jones	
2018	46	Mares, John	Giles, David	\$ 2,500.00	\$ 2,500.00			Braun	
2018	13	Cleaver, Barbara	Hediger, Pamela S.	\$ 18,813.51	\$ 18,813.51			Young	
2018	18	McNeal, Cyndee A.	Hediger, Pamela S.	\$ 111,520.94	\$ 50,000.00			Young	claimant has rep
2018	21	Chavez, Patricia	Hediger, Pamela S.	\$ 1,500.00	\$ 1,500.00			Young	
2018	22	Hangartner, Gwendolyn	Hediger, Pamela S.	\$ 2,749.32	\$ 2,749.32			Young	
2018	23	Hilliard, Muriel ESTATE	Hediger, Pamela S.	\$ 54,607.35	\$ 50,000.00			Young	PR - Lester Whittle
2018	24	Jordan, Roberta	Hediger, Pamela S.	\$ 94,664.22	\$ 50,000.00			Young	
2018	25	Turner, Justin	Hediger, Pamela S.	\$ 29,511.67	\$ 29,511.67			Young	
2018	26	Whipple, Bryan	Hediger, Pamela S.	\$ 1,999.50	\$ 1,999.50			Young	
2018	27	Whittle, Lester	Hediger, Pamela S.	\$ 15,597.39	\$ 15,597.39			Young	
2018	28	Andrews, Emily Toohey	Hediger, Pamela S.	\$ 21,431.67	\$ 21,431.67			Young	
2018	30	Chavez, Aimee	Hediger, Pamela S.	\$ 7,934.93	\$ 7,934.93			Young	
2018	31	Hart, Henry Roy	Hediger, Pamela S.	\$ 70,000.00	\$ 50,000.00			Young	
2018	41	Fuesler, Charles	Hediger, Pamela S.	\$ 18,626.55	\$ 18,626.55			Young	
2018	44	Kapple, Cynthia	Hediger, Pamela S.	\$ 11,993.53	\$ 11,993.53			Young	
2018	47	Sever, Stephen	Hediger, Pamela S.	\$ 5,590.60	\$ 5,590.60			Young	
2018	32	Moore, Mary	Howe, Nancy	\$ 3,500.00	\$ 3,500.00			Sage	Deanna Franco Helping with Estate
2018	42	Metcalf, James	Howe, Nancy	\$ 3,500.00	\$ 3,500.00			Sage	Deanna Franco Helping with Estate
2018	43	Brecht, Jodi	Howe, Nancy	\$ 3,300.00	\$ 3,300.00			Ledgerwood	Deanna Franco Helping with Estate
2018	51	Oliveros, Gregory	Huebner, Jocelyn M	\$ 7,800.00	\$ 7,800.00			Thompson	
2018	15	Petersen, Robert Gary	Johnson IV, Rankin	\$ 5,000.00	\$ 5,000.00			Ledgerwood	pay Robert but send ck to James
2018	03	Evered, Andrea Burke	Johnson, Ron	\$ 3,952.50	\$ 3,952.50			Roy	
2018	36	Tuohy, Brenden	Logsdon, Elizabeth	\$ 1,500.00	\$ 1,500.00			Roy	
2018	38	Kelley, Jonathan	Logsdon, Elizabeth	\$ 2,500.00	\$ 2,500.00			Roy	
2018	01	Gehrke, Brandy	Long, Andrew	\$ 400.00			\$ -	Hisey	03.21.18 withdrew
2018	02	Frackowiak, James	Long, Andrew	\$ 3,400.00	\$ 3,400.00			Hisey	
2018	04	Huebner, Jocelyn M.	Long, Andrew	\$ 200.00	\$ 200.00			Hisey	
2018	05	Grotz, David G	Long, Andrew	\$ 19,581.00	\$ 19,581.00			Hisey	
2018	07	Beutler, Stuart J	Long, Andrew	\$ 1,200.00			\$ 1,200.00	Hisey	
2018	08	Taffese, Aster A.	Long, Andrew	\$ 5,000.00	\$ 5,000.00			Hisey	
2018	12	Stone, Jeffrey Arlo	Long, Andrew	\$ 1,500.00	\$ 1,500.00			Hisey	
2018	14	Harris, Matthew	Long, Andrew	\$ 400.00			\$ 400.00	Hisey	pay spouse: Brandy Gehrke
2018	16	Mitchell, Harold	Long, Andrew	\$ 9,000.00	\$ 9,000.00			Hisey	claimant has rep
2018	17	Mitchell, Harold	Long, Andrew	\$ 9,000.00	\$ 9,000.00			Hisey	claimant has rep
2018	19	Chulim, Miguel Avila	Long, Andrew	\$ 1,640.00	\$ 1,640.00			Hisey	
2018	49	Williams, Shannon	Long, Andrew	\$ 31,689.29	\$ 31,689.29			Hisey	
2018	56	Richman, Tommy J. and Nicole	Long, Andrew	\$ 1,500.00	\$ 1,500.00			Hisey	
2018	37	Elmore, Elizabeth	Oatman, Marcus	\$ 50,000.00					Not CSF was trying to Malpractice
2018	33	Brandenburg, Bruce	Ramirez, Samuel	\$ 4,550.00	\$ 4,550.00			Jones	
2018	39	Guzman Fernandez, Teodora and Guz	Roller, Dale	\$ 3,876.00	\$ 3,876.00			Stamm	
2018	06	Ho, Amy	Solomon, Glenn	\$ 4,575.00	\$ 4,575.00			Whitlock	
2018	52	Pursel, Bonita (rep by Bierly)	Walters, Erin C	\$ 20,070.64	\$ 20,070.64			Steinberg	
2018	09	Lasota, Tom	Wilson, Matthew A.	\$ 50,000.00	\$ 50,000.00			Sage	
		<b>cc Lynn Haynes on all new CSF claims</b>							
				<b>\$ 1,425,144.15</b>	<b>\$ 1,007,720.17</b>	<b>\$ 2,100.00</b>	<b>\$ 74,971.47</b>		
		Funds available for claims and indirect costs allocation as of August 31, 2018			\$ 1,342,394.00				
		<b>Fund Excess</b>			<b>\$ 332,573.83</b>				
		Estimated Activity Payout Factor			70%	60%	50%		
		Weighted \$ Amount			\$ 705,404.12	\$ 604,632.10	\$ 503,860.09		
		Reserve Minimum			\$1,000,000	\$1,000,000	\$1,000,000		
		Calculated Minimum Total Reserve			<b>\$ 1,705,404.12</b>	<b>\$ 1,604,632.10</b>	<b>\$ 1,503,860.09</b>		
		Additional Reserve Needed			\$ 363,010.12	\$ 262,238.10	\$ 161,466.09		

# OREGON STATE BAR

## Budget and Finance Committee

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Meeting Date: September 21, 2018  
From: Keith Palevsky, Director of Finance and Operations  
Subject: Building

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### Background

At the July 22nd meeting, Keith Palevsky presented a letter that was received from a Portland based real estate development company inquiring if the Bar was interested in selling the building. It was encouraged that an analysis be prepared and presented to the committee before the matter was considered further.

### Current Environment

The Bar is the owner of the building that it occupies at 16037 SW Upper Boones Ferry Road in Tigard. The building has 72,500 square feet of office space on three floors. In addition, there are 3 conference rooms on the first floor that are available for Bar use for training classes and events and rentable to outside groups. The Bar occupies most of the second floor, and a significant portion of the third floor. There are two internal Bar related organizations that are tenants; the Oregon Law Foundation (OLF) occupies a small portion of the second floor, and the Oregon Professional Liability Fund (PLF) which occupies the majority area of the third floor. The first floor has five A-level office suites ranging in size from 1,057 square feet to 6,015 square feet. As of October 1<sup>st</sup>, all five tenant suites will be occupied.

The building was constructed in 2008, at a total cost of \$20,138,652. There is a \$13,000,000 mortgage loan, amortized over 30 years at an interest rate of 5.99% that was entered into that same year. At December 31, 2018, the remaining loan principal due will be \$10,635,017. Loan payments are made monthly in the amount of \$77,859, or \$934,308 annually.

There are many benefits that are derived from owning the building that we occupy, including a large functional conference room that can be used for large meetings (HOD) and training classes (CLE) for which we do not have to pay external rental fees. All rent that is collected, including rent from PLF and OLF, goes toward the Bar's General Fund. The cost of common area maintenance and property taxes is proportionally absorbed by the tenants in the building. There is also the opportunity for future appreciation in the value of the building.

The costs associated with building ownership includes being responsible for local compliance, maintenance, building upkeep, and the general satisfaction of our tenants that occupy the

building. The building is managed as a separate profit and loss center within the Bar's financials. The projected net cash contribution for 2019, on total revenue of \$956,000, is forecasted to be a net loss of -\$290,000, however that includes the monthly mortgage payments. If the mortgage payments did not exist, the net benefit to the Bar would be a positive contribution of \$634,000 annually.

The building was constructed for ease of use for the Bar in the sense that there are large conference rooms so that various group meetings and CLE events can be held on site. To further improve profitability, several build-outs could be executed to convert the conference room space and in some cases condense / convert office area into additional office suites that could be rented out for additional revenue.

Day to day issues that are present, that consume much time on the part of the Facilities manager and the Director of Finance, include maintenance of the building grounds, janitorial service, tenant inquiries, and utilities adjustments/failures to name a few. Other time that is spent in managing the building, though not nearly to the same degree, are portions of the time spent on the part of General Counsel to review contract language relating to inquiries, and staff time spent filing and retrieving contract documents.

A sampling of significant issues addressed in the last 2 months includes: a) two hard air-conditioning system failures rendering the entire south half of the building (all three floors) without air conditioning for 4 days and 1 day, b) frequent complaints over the availability of parking for Building 2 on days when heavy conference room attendance is present, c) a third hard air flow failure affecting one of the ground floor tenants for 1 week, and d) annual water flow testing and permit renewal. The time involved with tending to these issues, can be time consuming, disruptive to staff, and counter-productive to running the Bar.

### Analysis

Below, the summarized results of two return on investment scenarios using a time value of money approach (i.e. discounted cash flow) are presented:

Scenario 1: Sale of building at break-even, and standard cost of capital.

Scenario 2: Sales price at break-even plus \$1.5M, and standard cost of capital.

The results of the two scenarios are summarized below:

		@break even	@be + \$1.5M
<i>Scenario</i>		<i>1</i>	<i>2</i>
Sale Price	(\$M)	\$ 22.3	\$ 23.8
Amount required to payoff loan	(\$M)	\$ 10.6	\$ 10.6
Remaining cash for investment	(\$M)	\$ 11.7	\$ 13.2
Cost of Capital (discount rate):		4.9%	4.9%
Return rate on cash invested		7.0%	7.0%
Years Payback		19.0	16.5
Internal Rate of Return		0.0%	2.0%
Net Present Value, Total	(\$M)	\$ (0.0)	\$ 2.4

The results of the analysis suggest that if the Bar were offered a price to sell for anything above \$22.3M, it would be in the Bar's best interest from a cash perspective to accept the offer. At this price the Bar would record a \$2.2M book value profit.

If the Bar accepted an offer that was \$23.8M, (i.e. \$1.5M above the break-even price), the cumulative net benefit over 19 year theoretical period of the mortgage loan would allow the Bar to earn an additional \$2.4M cash in today's dollars.

It is worth noting that implicit in this analysis, is the fact that commercial building mortgage interest rates have moved considerably lower since the Bar's current loan was originated at 5.99% in 2008. The analysis performed above used a cost of capital rate of 4.875%, which based on research is a rate that is available currently to the Bar. If rates remain at this level, it would be worthwhile to refinance the loan and pay down some of the principal (perhaps as much as \$2M) which would lower the monthly payments to approximately \$621,000 from the current \$934,000.

## **Recommendation**

It is the recommendation of staff that if the Bar is approached with inquiries to sell the building, we should at least field those offers to the point of receiving a proposal. Just because the Bar receives a proposal, does not mean the Bar will necessarily sell the building. If however we do not field offers when the opportunity presents itself, we will never know if an exceptional opportunity may be at hand.

Any agreement to sell the building would attempt to be coupled with lease-back terms of use that would be favorable to the Bar including; a) identified rent schedule at terms no worse than current, b) free and/or discounted rate use of conference rooms (if available) and c) parking lot access. These additional terms are just as important in calculating the overall value of a potential sale, as the sale price itself.

Any proposal presented to the Bar deemed potentially worthy of sale, would be presented to the Budget and Finance committee and the BOG for separate approval, before any agreement would be signed and executed.





Scenario 2: Sale of the building at break-even plus \$1.5M (\$23.8M) and a return on available cash of 7%.

Asset / Project Summary:		Scenario 2: Sale of the Building at a price that is \$1.5M above break-even, which is equal to \$23.8M. This price above the Bar's cost would generate a profit of \$3.7M that would be realized over the book value of the Land and Building of \$20.1M. A. The use of the funds will be split between paying off the remaining loan principal of \$10,635, and the remainder of \$13,197 to be invested at and capture a return of 7%. B. The lost cash benefit of owning Fanno Creek, which can be taken directly from our P&L statement (net cash) is \$643K, incremental annual appreciation of 2%. C. The second additional net benefit, is the indirect cost savings from not having to manage the building (combination HC and incidental expenses), appreciation of 1%.																			
<b>Setups:</b>																					
Asset Sale Price	\$ 23,832																		Summary:		
Tax Rate	0%	Non-Profit																		NPV:	\$ 2,403
Discount Rate (Cost of Capital)	4.875%																		IRR:	2%	
Asset Life - Years	0																		Years Payback:	16.5	
Asset Salvage Value	\$ -																				
		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Total
Pay off of remaining mortgage principal	A	\$ (10,635)																			\$ (10,635)
<b>Incremental Revenue and Expenses</b>																					
Nominal per year return on \$11.309M remainder	A	\$ 924	\$ 988	\$ 1,058	\$ 1,132	\$ 1,211	\$ 1,296	\$ 1,386	\$ 1,483	\$ 1,587	\$ 1,698	\$ 1,817	\$ 1,944	\$ 2,081	\$ 2,226	\$ 2,382	\$ 2,549	\$ 2,727	\$ 2,918	\$ 3,122	\$ 34,530
Fanno Creek Cash Flow (Lost)	B	\$ (643)	\$ (656)	\$ (669)	\$ (682)	\$ (696)	\$ (710)	\$ (724)	\$ (739)	\$ (753)	\$ (768)	\$ (784)	\$ (799)	\$ (815)	\$ (832)	\$ (848)	\$ (865)	\$ (883)	\$ (900)	\$ (918)	\$ (14,686)
Indirect additional cost savings	C	\$ 109	\$ 110	\$ 111	\$ 113	\$ 114	\$ 115	\$ 116	\$ 117	\$ 118	\$ 119	\$ 121	\$ 122	\$ 123	\$ 124	\$ 126	\$ 127	\$ 128	\$ 129	\$ 131	\$ 2,273
<b>Total Incremental Revenue</b>		\$ 390	\$ 443	\$ 500	\$ 562	\$ 629	\$ 701	\$ 778	\$ 862	\$ 952	\$ 1,049	\$ 1,154	\$ 1,267	\$ 1,388	\$ 1,519	\$ 1,659	\$ 1,810	\$ 1,973	\$ 2,147	\$ 2,335	\$ 22,116
<b>EBITDA</b>		\$ 390	\$ 443	\$ 500	\$ 562	\$ 629	\$ 701	\$ 778	\$ 862	\$ 952	\$ 1,049	\$ 1,154	\$ 1,267	\$ 1,388	\$ 1,519	\$ 1,659	\$ 1,810	\$ 1,973	\$ 2,147	\$ 2,335	\$ 22,116
Less Depreciation		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Income Before Taxes</b>		\$ 390	\$ 443	\$ 500	\$ 562	\$ 629	\$ 701	\$ 778	\$ 862	\$ 952	\$ 1,049	\$ 1,154	\$ 1,267	\$ 1,388	\$ 1,519	\$ 1,659	\$ 1,810	\$ 1,973	\$ 2,147	\$ 2,335	\$ 22,116
Less: Taxes (0%)		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Net Income</b>		\$ 390	\$ 443	\$ 500	\$ 562	\$ 629	\$ 701	\$ 778	\$ 862	\$ 952	\$ 1,049	\$ 1,154	\$ 1,267	\$ 1,388	\$ 1,519	\$ 1,659	\$ 1,810	\$ 1,973	\$ 2,147	\$ 2,335	\$ 22,116
Plus Depreciation		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Less Investment		\$ (10,635)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Net Cash Flow</b>		\$ (10,245)	\$ 443	\$ 500	\$ 562	\$ 629	\$ 701	\$ 778	\$ 862	\$ 952	\$ 1,049	\$ 1,154	\$ 1,267	\$ 1,388	\$ 1,519	\$ 1,659	\$ 1,810	\$ 1,973	\$ 2,147	\$ 2,335	\$ 11,481
<b>Cumulative Net Cash Flow</b>		\$ (10,245)	\$ (9,802)	\$ (9,302)	\$ (8,740)	\$ (8,112)	\$ (7,411)	\$ (6,633)	\$ (5,771)	\$ (4,819)	\$ (3,770)	\$ (2,616)	\$ (1,349)	\$ 39	\$ 1,558	\$ 3,217	\$ 5,027	\$ 7,000	\$ 9,147	\$ 11,481	\$ 11,481
<b>Discounted Cash Flow</b>		\$ (10,245)	\$ 422	\$ 455	\$ 487	\$ 520	\$ 552	\$ 585	\$ 618	\$ 651	\$ 684	\$ 717	\$ 750	\$ 784	\$ 818	\$ 852	\$ 886	\$ 921	\$ 956	\$ 991	\$ 2,403
<b>Cumulative Discounted Cash Flow</b>		\$ (10,245)	\$ (9,823)	\$ (9,368)	\$ (8,881)	\$ (8,361)	\$ (7,809)	\$ (7,224)	\$ (6,607)	\$ (5,956)	\$ (5,272)	\$ (4,556)	\$ (3,805)	\$ (3,021)	\$ (2,203)	\$ (1,351)	\$ (465)	\$ 456	\$ 1,412	\$ 2,403	\$ 2,403
<i>Discounted Payback:</i>		1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.5	-	-	16.5

**Minutes**  
**Budget & Finance Committee**  
July 27, 2018  
Tigard, OR

**Present – Committee Members:** David Wade, chair; Julia Rice (by phone), vice-chair; Chris Costantino; John Grant, Eric Foster, Eddie Medina, Traci Rossi (by phone), Kerry Sharp. **Not Present:** Kathleen Rastetter. **Other BOG:** Vanessa Nordyke. **Staff:** Helen Hirschbiel, Amber Hollister, Jenn Nichols, Dawn Evans, Gonzalo Gonzalez, Susan Grabe, Lisa Ryan, Keith Palevsky. **Other Attendees:** Jeff Crawford (PLF).

**1. Section Administrative Assessment**

Keith Palevsky noted prior presentation of total section to the Bar of \$19.00, and at 50% subsidy the per member assessment was \$9.50. Current distributed analysis was performed showing projected ending balances over 2 year period as a result of per member assessment at \$12 and \$15 per member (i.e. varying the subsidy) and that in the \$15 scenario approximately 10 sections would carry a negative fund balance. A second analysis showing varying minimum fee charge per section of \$1750, \$2000, and \$2500 in the lowest cost example (\$1750) scenario would carry 7 sections to have to charge at  $\geq$  \$10. Last, a list was provided of current Section membership, noting that at present 6 sections have less than 100 members, which per by-law is the minimum number of members required to form a section, as well as a list showing the approximate “number of years balance” currently on hand.

Discussion in the meeting touched on a possible hybrid fee approach to charge both a minimum fee and a section assessment fee. A calculation noted in the meeting was that if a minimum section fee of \$1750 was charged to each section, that the \$’s collected from that fee component (across all 43 sections) would allow for a drop in the per member fee to \$5.00. If a section fee of \$875 was charged to each section, that would allow for a drop in the per member fee to \$7.25. Committee members noted that they still want to see a further analysis looking at varying levels of combined minimum per section assessment and per member assessment. Committee members specifically want to see analysis looking at what each section would pay per member with a split assessment approach of \$875 per section plus \$7.25 per member.

The committee also discussed the potential idea of an additional by-law to close a Section if they are unable to maintain a minimum number of members. An alternative that was also discussed was to charge the full per member assessment fee of \$19 to any Section carrying a balance greater than two (2) years. The Committee would like to see a chart of the sections subject to the full \$19 per member fee if implemented and the total fee to each such section versus their total reserves.

**Motion:** John Grant moved and Eric Foster seconded a motion to raise in the Section assessment fee to \$9.50 per member for 2019. The motion passed unanimously.

## **2. Client Security Fund (CSF) Reserve**

An updated CSF pipeline was distributed showing Pending claims currently total \$869K and that our current reserve level is \$1,398K. At a payout of 70%, the calculated minimum total reserve required would be \$1,608K and require a total assessment of \$13.99 per member (or \$8.99 increase above the current \$5.00 assessment), and at a payout of 50% the total reserve required would be \$1,434K and require a total assessment of \$2.41 per member (or zero increase).

Amber Hollister noted her opinion that a 70% payout is her best rough estimate. David Wade noted that PLF was evaluating the possibility of reducing their assessment by \$10 if at possible, which potentially would neutralize a \$10 increase in the CSF assessment.

**Motion:** Eric Foster moved and John Grant seconded a motion to raise the Client Security Fund assessment of \$10 to \$15.00 per year. The motion passed unanimously.

## **3. Audit Update and June Financial Performance**

Keith Palevsky distributed report updates on both Audit and June (Q2'18) financials.

**Audit Update:** Field work by Moss Adams is progressing well and the auditors are progressing on schedule to deliver their final report to the BOG at the September 21<sup>st</sup> meeting. Keith Palevsky gave a brief description of the three pension related entries posted as of 12/31/2017, and that there was no change to our static cash position and no additional reserves required as a result of these entries.

**Financial Update:** Due to time constraints, the current financial performance was not discussed in detail but a four page summary memo was distributed showing that through June 30, 2018 there is a surplus performance of \$1.5M to budget. That surplus is expected to narrow considerably through the second half of the year as individual departments work on reducing their balance (D&I) and spending that is typically 2<sup>nd</sup> half of the year in nature is executed and recorded (OLIO, CLE).

## **4. Building Update**

Keith Palevsky presented that a letter was received from a Portland based real estate development company inquiring if there was any interest in selling the building. Comments from the committee centered around wanting to see a cost-benefit analysis as a precursor to any entity given an indication to preparing an offer.

## **5. 2019 Salary Pool Percentage**

David Wade noted that the Bar staff recommendation for 2019 Salary percentage was 3.5%. Included in the distribution packet of materials for the meeting was a summary memo containing that recommendation, as well as a projected 5 year budget inclusive of the 3.5% salary recommendation for 2019. Helen Hierschbiel noted that the PLF staff may be making a recommendation for a 4% salary pool for its staff.

## **6. Minutes**

The minutes of the June 22, 2018 Budget and Finance Committee meeting were approved contingent upon in the notes pertaining to the ONLD budget, the word “recommended” was changed to “discussed” (motion John Grant, second Chris Costantino, no opposition).

## **7. Next Meeting**

The next meeting is scheduled for September 21st in Tigard.

**Minutes**  
**Budget & Finance Investment Committee**  
July 27, 2018  
Tigard, OR

**Present – Committee Members:** David Wade, chair; Eric Foster, Kerry Sharp, Keith Palevsky (staff). **Other BOG:** Thomas Peachey. **Other Staff:** Helen Hierschbiel

**1. Presentation by Washington Trust**

Summary of the Oregon State Bar Q2'2018 performance was delivered by Rick Cloutier, Chief Investment Strategist for Washington Trust, and was assisted by Sarie Crothers, VP and Trust Officer for the Oregon State Bar account.

Current asset allocation for our portfolio with Washington Trust is:

Equities:	60%
Fixed Income:	39%
Cash:	1%

Total year to date performance (6 months) is -1.22%, 2 Year: 7.28%, Inception to date: 6.11%.

Topics discussed were the current trend toward imposing tariffs on goods imported from China, and the effect of anticipated increases in interest rates by the Federal Reserve Bank. Mr. Cloutier noted that his indicators are that the U.S. economy is currently very strong and performing better than international markets, and that any rise in interest rates is in part to temper strong economy and to check inflation. Additionally, he noted the objective of Trump's tariffs was to get China to lower or remove Chinese tariffs on US goods, which if achieved would strengthen the US economy. Mr. Cloutier explained that a trade war, if it developed, would hurt international and large cap stocks. He also mentioned that the performance of WT's market neutral manager was not good and that he was possibly looking at a change in manager.

He opined that at present there was no need to change from the current asset allocation of 60/39/1.

**2. Presentation by Becker Capital**

Summary of the Oregon State Bar Q2'2018 performance was delivered by Jay Dyer, Regional Marketing and Client Manager for the Oregon State Bar account.

Current asset allocation for our portfolio with Beck Capital / Columbia Trust:

Equities:	70%
Fixed Income:	29%
Cash:	1%

Total year to date performance (6 months) is 0.5%, 2 Year: 10.5%, Inception to date: 8.2%.

Mr. Dyer noted similar themes in strong U.S. economy, expected increases in interest rates by the Federal Reserve Bank, and underperformance in international equities. Mr. Dyer agreed that a trade war would hurt international and large cap and that Becker's relatively low international and large cap allocations are a hedge for that possible development. Mr. Dyer did note that while there is currently no recommended change in asset allocation, his team is internally discussing a lowering of equity allocation from the current 70% level.

### **3. Discussion and Ratification of any changes to the Investment Portfolio**

There were no motions presented for any change to:

- A. Current allocation of assets between Washington Trust and Becker Capital (appx 50/50)
- B. Investment objective Washington Trust (balanced growth) and Becker Capital (growth)
- C. Asset allocation at Washington Trust (60/39/1) and Becker Capital (70/29/1)

### **4. Next meeting**

The next meeting will be scheduled at a future point for 2019.