

Admin.

March 17, 1995

Memorandum 95-12

Budget Considerations

BACKGROUND

The Commission's budget is precariously balanced. More than three-fourths of the budget goes to personnel expenses, even though we have reduced staffing in recent years to accommodate a reduced budget allocation. Beginning January 1, 1995, all state employees received a salary increase, to be funded from each agency's existing operating budget. This puts further pressure on the Commission's budget, and calls for a review of our budget situation.

Our budget allocation for the 1994-95 fiscal year is \$417,000. Of this amount, our projected personnel expenditure, taking into account the salary increase, is \$350,000 (including staff salaries, benefits, and Commissioner compensation). This leaves \$67,000 for operating expenses.

Projected operating expenditures for the current fiscal year are:

Office Space	\$25,000
Administrative Services (Accounting, Personnel)	\$22,000
Postage and Shipping	\$12,000
Travel	\$11,000
Photocopier Supplies and Maintenance	\$8,000
Telecommunications	\$2,000
<u>Office Supplies, Miscellaneous</u>	<u>\$5,000</u>
TOTAL	\$85,000

This is a bare minimum operating budget. It does not include any expenditures for consultant contracts, equipment, or printing, and relies on library donations and on stockpiled supplies from last fiscal year. It also leaves us with a shortfall of \$18,000 for the current fiscal year.

Our printing expense for the current fiscal year will be \$30,000. The printing expense is covered by encumbrances of funds from prior fiscal years. We receive annually approximately \$30,000 in receipts for sale of Commission reports and

documents. Although receipts of this nature ordinarily revert to the state's general fund, we have convinced the Department of Finance to treat them as reimbursement to the Commission's budget allocation for our expense of printing and shipping the reports. The reimbursements enable us to continue our printing program for the next fiscal year.

We face two problems — accommodating the \$18,000 deficit for the current fiscal year and planning for the more substantial deficit that will occur in future fiscal years.

CURRENT FISCAL YEAR OPTIONS

There are several options available to us to make up this year's projected budget shortfall:

(1) Cancel a Commission meeting. This would save approximately \$3,500, primarily in travel expenses and Commissioner compensation.

(2) Waive Commissioner compensation. The Commission has done this before, and the suggestion has been made that it could be done for the current fiscal year as well. This would save \$4,200 for the balance of the fiscal year.

(3) Apply printing reimbursement funds to personnel expenses rather than to next year's printing program. This could impair our ability to print our reports in the future.

(4) Further reduce staffing. We have two part-time staff counsel positions — one half-time and the other three-fifths time. A further reduction to two half-time positions would save \$8,500 annually in salary and staff benefits, but only \$1,400 for the balance of the current fiscal year. Consolidation of the two part-time positions into one full-time staff counsel position would save \$5,300 annually if Mr. Murphy fills the position and \$18,000 annually if Ms. Gaal fills the position.

We have one full-time secretarial position. A reduction of this position to half-time would save \$18,500 annually, but only \$3,100 for the balance of the current fiscal year.

I would not recommend consolidation of the two part-time attorney positions into one full-time attorney position, nor would I recommend reduction of the full-time secretarial position to a part-time secretarial position, at this time. It would have too drastic an effect on the current employees and does not appear necessary to make up the current shortfall.

I do not recommend reduction of the time base of either of the Commission's two full-time lawyers. Both of us work far in excess of the standard state 40-hour week, and for the past three years I have been working under a 5% salary and time base reduction. The Commission is completely dependent on its two full-time-plus lawyers for its operation.

To make up the shortfall in the current fiscal year, I recommend that we fund the full amount out of printing reimbursements. I am reluctant to cancel a meeting because the Commission is already operating on a reduced meeting schedule and we need to meet in order to maintain productivity. We are not in a crisis mode this fiscal year that would cause me to suggest that Commissioners might waive their per diems or staff members reduce their salaries. Our printing program reimbursements this year are running ahead of schedule, and I anticipate a reduced printing program during the next fiscal year. This is not a permanent solution, but I feel comfortable in recommending this as a temporary solution for the current fiscal year.

RECOMMENDATIONS FOR NEXT FISCAL YEAR

Whether more drastic actions will have to be taken for next fiscal year depends on our budget allocation for 1995-96, as adopted by the Legislature. This we will not know until around July 1. Assuming the Legislature adopts the Governor's budget as proposed, the Commission's share will be unchanged — \$417,000.

Our personnel expenses for next fiscal year will be \$366,000, leaving only \$51,000 for operating expenses — about half what we normally need. Our operating expenses for next fiscal year will be higher than for the current fiscal year since we are living off stockpiled supplies during the current fiscal year purchased with surplus funds in previous fiscal years. This includes printer and copier paper, toner cartridges, and postage stamps. The current fiscal year operating budget also includes nothing for equipment and software maintenance and upgrades, consultant contracts, or library purchases. Historically, the Commission's operating expenses for normal operations have run about \$100,000 annually.

The ultimate solution to our budget problem is a budget increase. However, we could not get one before the 1996-97 fiscal year.

In the past we have considered the possibility of private funding but rejected it for a number of reasons, including legal limitations on acceptance of donations, lack of resources to do fundraising, concern about maintaining the neutrality of the Commission, the likelihood of budget reductions to offset donations, and the impermanence of that source of funding.

From time to time we have tried to save on office space rental by looking into the possibility of subsidized space. Commissioner Gregory has indicated that space could be made available in the Legislative Counsel's office in Sacramento. In addition, if we were located in the Legislative Counsel's office in Sacramento an arrangement might be feasible to have our bookkeeping and accounting done by that office. This would address the two major items of operating expense in the Commission's budget.

We have not pursued this opportunity in the past because if the Commission were relocated to Sacramento (1) it would lose some or all of its experienced staff and (2) the physical proximity to the Legislature could subject the Commission to immediate legislative demands and perhaps ultimately could cause the Commission to lose its independent function and be diverted into a legislative research and drafting support role. The loss of experienced staff would cause a temporary setback, but there are certainly plenty of experienced legislative lawyers in Sacramento who could be brought up to speed fairly quickly. The potential loss of independence is a real concern, and there is precedent for it, since that is what happened to the New York Law Revision Commission, the original law reform commission on which California's and others are modeled.

An alternative is to locate the Commission at a law school that is able to subsidize its operation. In fact the Commission was located at Stanford Law School from the Commission's creation in 1953 until 1980 when Stanford ran out of space for us. I have made inquiries of local law schools. Stanford Law School has no new space available. University of San Francisco may have space available in five years. University of Santa Clara is interested but has a space problem; they are exploring possibilities.

McGeorge Law School in Sacramento is also interested and may well be able to come up with a package. However, this would have similar drawbacks to location in the Legislative Counsel's office. But the greater physical separation from the Capitol and the academic setting could help reduce the swallow-up risk.

The Legislative Counsel's office opportunity is a realistic one for next fiscal year — in fact would need to be decided on now since the Legislative Counsel is

in the process of renegotiating his lease. Although it is a very attractive opportunity, I think on balance I would recommend against it out of a concern that “makes us rather bear those ills we have, than fly to others we know not of.” However, the Commission needs to understand that I have a personal stake in this decision, and the Commission must make the decision that it believes is best for the future of the Commission.

I would continue to explore the law school opportunities. However, it is unlikely as a practical matter that something like this could be worked out for the 1995-96 fiscal year. It would have to remain a long-term possibility.

I recommend for the 1995-96 fiscal year the following reductions, which will yield savings of about \$50,000 — the amount of the projected deficit:

(1) Further reduce the Commission meeting schedule from once every 6 weeks to once every 8 weeks. Estimated savings: \$7,000.

(2) Reduce the three-fifths staff counsel position to half-time. Estimated savings: \$8,500.

(3) Continue the freeze on consultant contracts. Estimated savings: \$7,500.

(4) Encumber no funds for printing. Estimated savings: \$23,000.

(5) Maintain no stock of supplies. Estimated savings: \$4,000.

This is a go-for-broke budget that tries to squeak through the 1995-96 fiscal year without major staffing reductions by depleting resources and mortgaging our future, on the assumption that our operations can be funded on a current basis during the 1996-97 fiscal year and beyond due to a budget increase or rental savings or both. Absent a budget increase or rental savings for the 1996-97 fiscal year, major staffing reductions will be necessary.

RECOMMENDATIONS FOR FUTURE FISCAL YEARS

My major proposal for future fiscal stability for the Commission is to obtain a budget increase for the 1996-97 fiscal year and beyond. We have known for a while that this would be necessary, but have felt that the pressure on the state budget made a budget increase for us a practical impossibility. That may still be the case, but we have no other viable alternative.

I think we can make a strong case for a budget increase, given our circumstances. The recent improvement in the state economy may also help. We will need to submit a budget change proposal to the Department of Finance this summer in order to have it reflected in the Governor’s proposed budget for fiscal

1996-97. I am not sure at this time how much I would ask for; it will depend in part on conversations with Department of Finance personnel this summer.

I also propose to continue investigating relocating the Commission's office to a law school facility. In addition to the rental savings this could generate, location at a law school has other benefits for the Commission in terms of availability of resources and opportunities for faculty and student involvement. It would also help rationalize the Commission's location outside the Capitol.

A San Francisco peninsula location would be best for current staff and I would concentrate my efforts there, but I would not limit the search to the bay area. I would explore leads elsewhere in Northern California as well; a Southern California location is probably not feasible because of the travel demands on staff involved in legislative consultations and hearings.

Respectfully submitted,

Nathaniel Sterling
Executive Secretary