

OPEN SESSION AGENDA ITEM

54-142 SEPTEMBER 2018 FINANCE AND PLANNING COMMITTEE ITEM III.C.

DATE: September 13, 2018

TO: **Members, Board of Trustees
Members, Finance and Planning Committee**

FROM: Kevin Harper, Interim Chief Financial Officer

SUBJECT: **Office of Finance Multi-Year Budget Variance Report/Projection**

EXECUTIVE SUMMARY

In adherence with the Board Book, Section 4, Tab 4.1, Article 1, Section 2, the Office of Finance has prepared the accompanying reports: 1) the Budget-to-Actual Variance Report reflecting variances greater than \$100,000 at the cost center line item level; and 2) the 2018 Mid-Year Financial Projection.

Both the variance report and the mid-year financial projection are prepared based on operating results through June 30, 2018. When preparing the financial projection, staff evaluated the current revenues and expenses, and estimated the State Bar's financial condition at December 31, 2018 based on historical information and anticipated remaining expenses for the fiscal year. This financial projection estimates that the State Bar will end 2018 \$5.3 million better than budgeted. This improvement is composed of \$2.9 favorable to budget for the General Fund and \$2.4 million favorable to budget for other funds. These favorable budget variances do not represent surpluses, they are simply improvements over the budgeted deficits for 2018 of \$8.8 million for the General Fund and \$19.3 million for other funds.

BACKGROUND

None

DISCUSSION

2018 Budget-to-Actual Variance Report as of June 30, 2018 (Attachment A)

The Budget-to-Actual Variance Report summarizes significant budget variances, both favorable and unfavorable, by comparing actual operating results for revenues and expenses at June 30, 2018 to the year-to-date budget amounts. In accordance with the Board Book, significant budget variances are defined as line item budget-to-actual variances within any cost center that are greater than \$100,000. Significant budget variances are listed and explained in Attachment A.

To facilitate comparisons of amounts discussed in this Budget-to-Actual Variance Report to the quarterly financial statements for the period ended June 30, 2018, the fund and revenue/expense category to which each variance relates is listed.

This analysis identifies a net of \$13.7 million of individual line items with favorable variance compared to budget through June 30. \$9.6 million of these favorable variances appear to be timing differences that will occur in the second half of the year. The difference of \$4.0 million is the estimated amount the Bar is better than budget so far in 2018.

2018 Mid-Year Financial Projection (Attachment B)

To prepare the Mid-Year Financial Projection, staff evaluated current revenues and expenses, and estimated fiscal conditions through December 31, 2018 based on June year-to-date operating results, historical financial results, and anticipated activity for the remainder of 2018. As a result of this analysis, staff projects that the State Bar will finish 2018 better than budget by \$5.3 million. \$2.9 million of this favorable variance is projected for the General Fund and \$2.4 million for other funds. The 2018 Mid-Year Financial Projection is summarized at the fund level in Attachment B.

The projected favorable budget variances for 2018 of \$5.3 million is consistent with the results of the Budget-to-Actual Variance Report that estimated that favorable variances through June 30 are \$4.0 million. The \$5.3 million projected favorable variances for all of 2018 are due primarily to the following:

General Fund:

- Approximately \$1.1 million favorable is due to delayed hiring in the Office of Chief Trial Counsel (OCTC). The 2018 budget provided for 253 full time employees in OCTC. However, in January through May 2018, the actual number of employees has ranged from 222 to 230.
- Approximately \$1.2 million is due to licensee late fees over budget. In 2018, the deadline for paying annual fees returned to February 1 (vs. March 1 in 2017), leading more licensees to pay late.

Other Funds:

- Admissions Fund revenues are approximately \$1.0 million over budget. Approximately \$0.4 million is related to new attorney applications and \$0.3 million is related to multi-jurisdictional practice fees.
- Justice Gap Fund voluntary dues and donations revenues are approximately \$0.5 million over budget.

FISCAL/PERSONNEL IMPACT

None

RULE AMENDMENTS

None

BOARD BOOK AMENDMENTS

None

STRATEGIC PLAN GOALS & OBJECTIVES 2017-2022

Goal 3: Improve the fiscal and operational management of the State Bar, emphasizing integrity, transparency, accountability, and excellence.

Objective: f: No later than November 30, 2018, determine whether reallocation of funds to support the discipline system continues to be possible in the light of the fact the Bar has not received a fee increase in 20 years. As part of this effort, reassess the Bar's current Fund classification structure and determine if any changes are needed

RECOMMENDATION

The staff recommends that the Board of Trustees approve the following resolution:

RESOLVED that the Board of Trustees approve the 2018 Budget-to-Actual Variance Report and the 2018 Mid-Year Projection Report in the form this day before the Board, for the six months ended June 30, 2018, as certified by the Interim Chief Financial Officer, and on file with the San Francisco office of the State Bar.

ATTACHMENT(S) LIST

- A.** 2018 Budget-to-Actual Variance Report
- B.** 2018 Mid-Year Projection Report

STATE BAR OF CALIFORNIA
2018 BUDGET-TO-ACTUAL VARIANCE REPORT
BASED ON ACTUAL RESULTS THROUGH JUNE 30, 2018
REVENUE VARIANCES GREATER THAN \$100,000

ATTACHMENT A

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Fund	Revenue Category	Cost Center	Object Code	Account Description	2018 YTD Actual	2018 YTD Budget	YTD Variance Fav (Unfav)	Variance Explanation
Equal Access Fund	EAF AB145 Filing Fee Revenue	29002	36030	AB 145 Filing Fee - EAF	\$ 1,171,778	\$ 1,977,262	\$ (805,484)	Timing. Grants staff expect to receive the full amount budgeted for 2018.
Legal Services Trust Fund	Licensing Fees and Donations	28	30120	Voluntary Dues/Donations	5,937,222	6,600,974	(663,752)	Year to date donations have exceeded Annual Budget by \$220,000 for Justice Gap and \$290,000 for Legal Services.
Equal Access Fund	Grant Revenue	29002	36050	Ptnr Grant - AB145		520,800	(520,800)	Timing. Grants staff expect to receive the full amount budgeted for 2018.
Admissions Fund	Examination Application Fees	20009	31110	Applic. Fees-New February	2,863,931	3,177,500	(313,569)	General Applications for February decreased from 4,282 to 4,265. This is a decrease of 17 year over year (-0.4%).
Equal Access Fund	Grant Revenue	29002	38200	Administrative Cost Reimb-AOC		208,998	(208,998)	Timing. Grants staff expect to receive the full amount budgeted for 2018.
Admissions Fund	Examination Application Fees	20009	31120	Attorney Applic.-New February	1,815,704	1,392,600	423,104	Attorney Applications for February increased from 1,364 to 1,913. This is an increase of 549 year over year (40.2%).
Admissions Fund	Examination Application Fees	20009	31210	Applic. Fees-New July	5,123,028	5,407,200	(284,172)	General Applications for July decreased from 7,981 to 7,632. This is a decrease of 349 year over year (-4.4%).
Admissions Fund	Examination Application Fees	20009	31220	Attorney Applic.-New July	1,870,564	2,027,800	(157,236)	Attorney Applications for July decreased from 2,079 to 1,944. This is a decrease of 135 year over year (-6.5%).
General Fund	Licensing Fees and Donations	10251	39220	Proc. Fee-Certification	4,930	116,370	(111,440)	Timing. Attorney Regulation office expects actual spending to catch up to budget by end of year.
Legal Specialization Fund	Legal Specialization Fees	24001	33020	Specialist Annual Fees	1,725,487	1,517,430	208,057	Timing. Legal Specialization expects actual revenue to catch up to budget by end of year.
General Fund	Licensing Fees and Donations	10253	35770	Late Compliance Fees	388,686	180,000	208,686	Timing. The annual budget was allocated across 12 months but substantially all late fees collected by June 30.
General Fund	Rental Income	26101	37510	Rental Income-180 Howard St	1,048,730	818,424	230,306	Tenants pre-paid rent at June 30 totalling \$147K.
Admissions Fund	Admissions	20009	32050	Determination	2,372,032	2,555,000	(182,968)	Timing. Admissions Office expects actual revenue to catch up to budget by end of year.
Justice Gap Fund	Licensing Fees and Donations	32	30120	Voluntary Dues/Donations	935,023	526,029	408,994	Justice Gap staff expect voluntary dues/donations to equal or exceed 2017 amount of \$1.4 million.
General Fund	Investment Income	10	34520	Unrealized Gain/Loss on Invest	423,054		423,054	Two securities were sold before their maturity to meet cash flow needs.
Admissions Fund	Licensing Fees and Donations	20009	30510	MJP Annual Renewal Fees	609,392	257,700	351,692	Timing. Annual budget was allocated across 12 months but substantially all MJP fees collected by June 30.
General Fund	Licensing Fees and Donations	10	30110	Mandatory Membership Dues	65,212,371	64,732,400	479,971	Budget assumed 12K active attorneys would fee scale reducing their fees by \$83.25 (25%). 9K actually fee scaled resulting in \$250K additional income. Represents less than 2% variance.
General Fund	Licensing Fees and Donations	10	30130	Penalties-Current Year	2,232,587	1,705,000	527,587	Variance is due to reverting to February 1 (vs. March 1 in 2017) as the payment deadline. Additionally, reduced email reminders sent compared to the previous year.
Equal Access Fund	Grant Revenue	29002	36010	Grant Revenue - EAF	9,176,400	8,548,100	628,300	Timing. Grants staff expects to receive the full amount budgeted for 2018.
General Fund	Investment Income	10	34510	Investment Income	1,127,256	99,342	1,027,914	Represents increased yield on investments in 2018 over conservative budget. \$795k to be allocated from General Fund to other funds in August.
Legal Services Trust Fund	Trust Account Revenue	28002	32510	Client Trust Account Revenue	4,559,443	3,164,284	1,395,159	Timing. Grants staff expects to receive the full amount budgeted for 2018.
General Fund	Affinity Insurance Revenue	18001	38400.01	Life	814,602	169,660	644,942	Insurance revenue budgeted as net of \$2 million revenue and \$1.5 million distributed to stakeholders, but recorded at gross amounts
General Fund	Affinity Insurance Revenue	18001	38400	Accidental Death & Dismemberme	6,260	48,898	(42,638)	Insurance revenue budgeted as net of \$2 million revenue and \$1.5 million distributed to stakeholders, but recorded at gross amounts
General Fund	Affinity Insurance Revenue	18001	38400	Workers Compensation	1,240	8,957	(7,717)	Insurance revenue budgeted as net of \$2 million revenue and \$1.5 million distributed to stakeholders, but recorded at gross amounts
General Fund	Affinity Insurance Revenue	18001	38400	Disability	2,480	7,675	(5,195)	Insurance revenue budgeted as net of \$2 million revenue and \$1.5 million distributed to stakeholders, but recorded at gross amounts
General Fund	Affinity Insurance Revenue	18001	38400.1	Long Term Care	2,480	4,516	(2,036)	Insurance revenue budgeted as net of \$2 million revenue and \$1.5 million distributed to stakeholders, but recorded at gross amounts
General Fund	Affinity Insurance Revenue	18001	38400.1	Healthcare 1		476	(476)	Insurance revenue budgeted as net of \$2 million revenue and \$1.5 million distributed to stakeholders, but recorded at gross amounts
General Fund	Affinity Insurance Revenue	18002	38400	Commissions Received-Insurance	553,198	101,326	451,872	Insurance revenue budgeted as net of \$2 million revenue and \$1.5 million distributed to stakeholders, but recorded at gross amounts
General Fund	Affinity Insurance Revenue	18002	38401	Insurance Passthrough	(500,000)		(500,000)	Insurance revenue budgeted as net of \$2 million revenue and \$1.5 million distributed to stakeholders, but recorded at gross amounts

STATE BAR OF CALIFORNIA
2018 BUDGET-TO-ACTUAL VARIANCE REPORT
BASED ON ACTUAL RESULTS THROUGH JUNE 30, 2018
EXPENSE VARIANCES GREATER THAN \$100,000

ATTACHMENT A

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Fund	Expense Category	Cost Center	Object Code	Account Description	2018 YTD Actual	2018 YTD Budget	YTD Variance Fav/(Unfav)	Variance Explanation
General Fund	General and Administrative	19018	43510	Professional Services	\$ 349,429		\$ (349,429)	AIMS implemetation costs budgeted in Computer Software Purchase but recorded in Professional Services.
General Fund	General and Administrative	19018	41510	Computer Software Purchase		\$ 919,248	919,248	Timing. Payments related to purchase of the AIMS system expected to catch up to budgeted amount.
Legal Specialization Fund	General and Administrative	24001	41510	Computer Software Purchase	360	255,000	254,640	Timing. Payments related to purchase of the AIMS system expected to catch up to budgeted amount.
General Fund	General and Administrative	23206	40115	Salaries - Special	302,474		(302,474)	Severance payments for eliminated positions. Severance was not budgeted.
General Fund	General and Administrative	18001	43510	Professional Services	160,327		(160,327)	Professional Services to be offset from a reimbursement from Insurance reserves.
Bank Settlement Fund	Grants Expenses	37001	47110	Grants Expenses	9,891,289	9,757,900	(133,389)	Timing. Prior year bank settlement expenses represent less than 2% of amount.
General Fund	General and Administrative	19028	43510	Professional Services	306,000	174,000	(132,000)	\$132,000 budgeted in Equipment-Hardware Purchases but recorded in Professional Services.
General Fund	General and Administrative	19028	41540	Equipment - Hardware Purchases		132,000	132,000	\$132,000 budgeted in Equipment-Hardware Purchases but recorded in Professional Services.
General Fund	General and Administrative	23350	43510	Professional Services	226,716	114,945	(111,771)	Contractual CBRE expenses. Rental waiver of \$9,655/mo recorded in error. Staff to correct in August.
General Fund	Chief Trial Counsel	10310	45530	CSF proc. Costs reimb. Collect	(483,683)	(590,000)	(106,317)	Timing. Annual forecast expected to align with budget based on historical trends.
General Fund	General and Administrative	23350	40110	Salaries - Regular	434,325	538,500	104,175	15 positions budgeted. Actuals have ranged from 11 to 13.
General Fund	Center on Access to Justice	10905	40110	Salaries - Regular	218,840	344,400	125,560	7 positions budgeted. Actuals have ranged from 5 to 6.
General Fund	General and Administrative	23	40300	OPEB/ARC Expenses		127,248	127,248	OPEB budgeted at Fund level overhead cost center, but actuals recorded in different cost center. Budget transfer in August.
General Fund	Governance	10	40300	OPEB/ARC Expenses		241,350	241,350	OPEB budgeted at Fund level overhead cost center, but actuals recorded in different cost center. Budget transfer in August.
Lawyer Assistance Program Fund	Lawyer Assistance Program	21000	40110	Salaries - Regular	319,644	453,200	133,556	9 positions budgeted. 2018 actuals have ranged from 7 to 8.
General Fund	Communications	10801	43510	Professional Services	5,042	146,259	141,217	Timing. Strategic Communications Office expects actual spending to catch up to budget by end of year.
General Fund	General and Administrative	23600	43510	Professional Services	35,668	180,000	144,332	Timing. Information Technology Office expects actual spending to catch up to budget by end of year.
Admissions Fund	Admissions	20001	43510	Professional Services	18,000	170,000	152,000	Timing. Admissions Office expects actual spending to catch up to budget by end of year.
General Fund	State Bar Court	10408	40110	Salaries - Regular	291,652	459,900	168,248	8 positions budgeted. 2018 Actuals have ranged from 5 to 7.
Legal Services Trust Fund	Grant Expenses	28006	47110	Grants Expenses		177,755	177,755	Cost center no longer active. All bank settlement activity is now recorded in Bank Settlement Fund. Budget transfer in August.
Admissions Fund	Admissions	20002	42050	Exam. Room Rental-July GBX	96,695	309,000	212,305	Timing. Admissions Office expects actual spending to catch up to budget by end of year.
General Fund	General and Administrative	23001	40110	Salaries - Regular	1,191,810	1,444,700	252,890	24 positions budgeted. Actuals have ranged from 17 to 19.
Legal Specialization Fund	General and Administrative	24001	43510	Professional Services	8,250	557,700	549,450	Exam Development that is timing related. Legal Specialization Office expects this to catch up by the end of the year.
General Fund	General and Administrative	26	42010	Building Improvements	1,025,099	1,601,528	576,429	Budgeted amount will be spent this year for infrastructure projects and already completed OCTC suite expansion in both cities.
General Fund	Chief Trial Counsel	10310	40150	Fringe Allocation	2,728,410	3,461,600	733,190	253 positions budgeted in OCTC. Actuals have ranged from 222 to 228.
General Fund	Chief Trial Counsel	10310	40110	Salaries - Regular	10,939,403	12,633,800	1,694,397	253 positions budgeted in OCTC. Actuals have ranged from 222 to 228.
Equal Access Fund	Grant Expenses	29002	47110	Grants Expenses	8,727,275	14,461,414	5,734,139	Timing. Q2 grant disbursments of \$5.8 million were budgeted in June, but paid in July. Variance resolved in July
General Fund	General and Administrative	35	43010	Building Depreciation	640,354		(640,354)	Depreciation is not budgeted since it is not a cash outlay.
General Fund	General and Administrative	15	43010	Building Depreciation	228,331		(228,331)	Depreciation is not budgeted since it is not a cash outlay.
General Fund	General and Administrative	35	43040	Furniture Depreciation	191,836		(191,836)	Depreciation is not budgeted since it is not a cash outlay.
General Fund	General and Administrative	15010	43010	Building Depreciation	174,200		(174,200)	Depreciation is not budgeted since it is not a cash outlay.
Admissions Fund	Admissions	20002	45070	Bank Processing Fees	191,621	30,000	(161,621)	State Bar bank processing charges and offsetting convenience fee income recorded in different cost centers. Reclass in August.
Admissions Fund	Admissions	20009	45070	Bank Processing Fees	(176,202)		176,202	State Bar bank processing charges and offsetting convenience fee income recorded in different cost centers. Reclass in August.

State Bar of California
2018 Mid-Year Financial Projection
Based on Actual Results Through June 30, 2018

Attachment B

Fund Name	Revenues			Expenses			2018 Totals		Variance	Notes
	2018 Annual	Annual	Variance	2018 Annual	Annual	Variance	Budget (Rev-Exp)	Projection (Rev-Exp)		
	Budget	Projection		Budget	Projection		(Surplus/Deficit)	(Surplus/Deficit)		
General Fund	\$ 76,362,900	\$ 78,099,000	\$ 1,736,100	\$ 85,151,200	\$ 84,027,200	\$ 1,124,000	\$ (8,788,300)	\$ (5,928,200)	\$ 2,860,100	(1)
Admissions Fund	23,061,300	24,081,600	1,020,300	22,609,000	22,245,500	363,500	452,300	1,836,100	1,383,800	(2)
Annual Meeting Fund	21,000	34,000	13,000	-	-	-	21,000	34,000	13,000	
Bank Settlement Fund	150,000	150,000	-	10,065,200	10,009,700	55,500	(9,915,200)	(9,859,700)	55,500	
Client Security Fund	8,226,700	8,234,300	7,600	10,490,900	10,448,700	42,200	(2,264,200)	(2,214,400)	49,800	
Elimination of Bias Fund	330,100	333,000	2,900	230,500	230,500	-	99,600	102,500	2,900	
Equal Access Fund	26,108,100	26,206,200	98,100	26,233,300	26,233,300	-	(125,200)	(27,100)	98,100	
Grants Fund	16,400	1,800	(14,600)	33,700	34,400	(700)	(17,300)	(32,600)	(15,300)	
Info Tech Special Access Fund	0	1,000	(1,000)	1,217,000	1,217,000	-	(1,217,000)	(1,218,000)	(1,000)	
Justice Gap Fund	911,100	1,404,000	492,900	7,200	7,200	-	903,900	1,396,800	492,900	(3)
Lawyer Assistance Program Fund	2,127,000	2,129,800	2,800	2,484,600	2,315,700	168,900	(357,600)	(185,900)	171,700	
Legal Services Trust Fund	13,585,000	13,093,500	(491,500)	16,689,800	16,480,700	209,100	(3,104,800)	(3,387,200)	(282,400)	
Legal Specialization Fund	2,132,500	2,412,800	280,300	5,546,400	5,590,400	(44,000)	(3,413,900)	(3,177,600)	236,300	
Legislative Activities Fund	777,400	777,400	-	764,700	575,000	189,700	12,700	202,400	189,700	
Sections Funds	0	0	-	-	-	-	-	-	-	
SF Tenant Improvement Fund	50,000	50,000	-	400,000	400,000	-	(350,000)	(350,000)	-	
Other Funds	77,496,600	78,907,400	1,410,800	96,772,300	95,788,100	984,200	(19,275,700)	(16,880,700)	2,395,000	
Projected Totals	\$ (153,859,500)	\$ (157,006,400)	\$ 3,146,900	\$ 181,923,500	\$ 179,815,300	\$ 2,108,200	\$ (28,064,000)	\$ (22,808,900)	\$ 5,255,100	

Notes:

1. General Fund

Revenues - 2018 Budget \$76.4 million, Projection 78.1 million. Favorable \$1.7 million.

:: Penalties and Fees - 2018 Budget \$2.3 million, Projection \$3.5 million. Favorable \$1.2 million.

The \$1.2 million favorable variance is due mainly to reverting back to the usual February 1 as the payment deadline.

Additionally, reduced email reminders sent compared to the previous year contributed to the late fee revenue going up.

:: Unrealized Gain on investments - 2018 Budget \$0K, Projection \$0.4 million. Favorable \$0.4 million.

One-time favorable gain due to sale of two investments prior to scheduled maturity.

Expenses - 2018 Budget \$85.2 million, Projection \$84.0 million. Favorable \$1.1 million.

Personnel Costs - 2018 Budget includes 253 full time employees in the Office of Chief Trial Counsel and the actual number of employees ranged from 222 to 230 in January to June 2018.

2. Admissions Fund

Revenues - 2018 Budget \$23.1 million, Projection \$24.1 Million. Favorable \$1.0 million.

The budget assumed the number of new attorneys would be the same as the prior year. However the actual nubmer of new attorney applications for February increased from 1,364 to 1,913.

This resulted in revenue increase of \$0.4 million. In addition, Multi-Jurisdictional Practice fees are over budget \$0.3 million. This is because the annual budget is spread across the year, but most such fees are collected in the first half of the year.

Expenses - 2018 Budget \$22.6 million, Projection \$22.2 million. Favorable \$0.3 million.

2018 Budget includes 62 full time employees and the actual number of employees ranged from 51 to 55 in January to June 2018.

3. Justice Gap Fund

Revenues - 2018 Budget \$0.9 million, Projection \$1.4 million. Favorable \$0.5 million.

Voluntary dues and donations revenue is exceeding budget. Justice Gap staff expects annual revenues to be close to 2017 actual of \$1.4 million.