



# The State Bar *of California*

---

## **OPEN SESSION**

### **AGENDA ITEM**

#### **54-141 SEPTEMBER 2019**

**DATE:** September 20, 2019

**TO:** Members, Board of Trustees

**FROM:** John Adams, Chief Financial Officer

**SUBJECT:** 2019 Mid-Year Budget Variance and Projection Report

---

### **EXECUTIVE SUMMARY**

In adherence with the Board Book, Section 5.2.1, the Office of Finance has performed a mid-year analysis of the 2019 budget, including projections for the fiscal year ending December 31, 2019. The reports provide budget to actual variances along with projections on each fund. Where there are variances greater than \$100,000, staff has provided detailed explanations.

---

### **BACKGROUND**

The 2019 State Bar Budget was approved by the Board of Trustees on January 25, 2019, and submitted to the Legislature in accordance with Business and Professions Code section 6140.1 on February 27, 2019. The budget projected revenues to be \$167.9 million and expenses to be \$188.9 million, resulting in an overall deficit of \$21.0 million, which included a planned spend down of bank settlement funds of \$9.6 million. The remainder of the deficit was mainly in the General Fund. The General Fund budget was adopted with a deficit of \$10.4 million, with expenses totaling \$86.9 million and revenues totaling \$76.5 million. This deficit is the result of the licensing fee not being increased in over 20 years and expenses increasing at a faster pace than revenues.

### **DISCUSSION**

The mid-year financial projections and variance reports are prepared based on operating results through June 30, 2019. In preparing the financial projection, staff evaluated current revenue and expenses, and took into account the State Bar's financial condition as of December 31, 2018.

The mid-year projection estimates the State Bar will end 2019 with revenues exceeding expenses by \$5.3 million. The overall increase is due to projected revenues from Interest on Lawyer Trust Accounts (IOLTA) exceeding budgeted revenues resulting in revenues in the Legal Services Trust Fund exceeding budget by \$26.5 million. The other two notable changes are occurring in the General Fund and the Justice Gap Fund. General Fund expenses are projected to be \$1.0 million less than budget which is only a 1.1 percent variance. For the General Fund, the budget variance does not represent a surplus, but rather an improvement over the 2019 budgeted deficit of \$10.4 million. For the Justice Gap Fund, \$2.75 million was transferred out to the Legal Services Trust Fund.

### **2019 Budget-to-Actual Fund Summary Projection Report as of June 30 (Attachment A)**

The 2019 Mid-Year Financial Projection is summarized at the fund level in Attachment A. The highlights include the following:

General Fund: \$1.0 million favorable variance of projected to budgeted expenses is primarily due to savings in personnel expenses. These savings are partially offset by increases in the use of supplemental staffing. Projected personnel savings are estimated at \$3.1 million currently.

Professional Services are projected to exceed budget, this is mainly the result of costs related to the implementation and go live of AIMS in the amount of \$0.7 million followed by \$0.3 million for Justice Gap Study/ATILS. Table 1 provides a summary at the expense category level.

**Table 1: General Fund**

<b>Expense Category</b>	<b>2019 Annual Budget</b>	<b>Annual Projection</b>	<b>Projected Savings</b>
Personnel Expenses	\$ 72,822,100	\$ 69,660,875	\$ 3,161,225
Buildings & Equipment	3,432,900	4,030,311	(597,411)
Computers & Software	4,449,400	4,520,591	(71,191)
Debt Service	695,100	695,100	-
Occupancy	5,873,900	5,906,786	(32,886)
Other Expenses	42,100	46,214	(4,114)
Other Outside Services	1,775,900	1,913,230	(137,330)
Professional Services	4,262,400	5,477,669	(1,215,269)
Supplies and Postage	1,302,500	1,361,301	(58,801)
Telecommunications	185,200	201,037	(15,837)
Travel & Training	1,440,400	1,484,004	(43,604)
Indirect Costs	(8,324,000)	(8,324,000)	-
Reimbursements	(1,000,000)	(1,000,000)	-
<b>Total</b>	<b>\$ 86,957,900</b>	<b>\$ 85,973,118</b>	<b>\$ 984,782</b>

\* Excludes Interfund Transfers

Legal Services Trust Fund: The 2019 budgeted revenues are \$29.6 million with projections at \$56.1 million, resulting in a favorable variance of \$26.5 million. The initial budget projection was made in September 2018 and did not include the two rate increases of 0.25 percent to the federal funds rate in late 2018. In addition, several top banks have agreed to increase their IOLTA rates to the Established Compliance Rate (ECR), significantly increasing revenue.

Justice Gap Fund: 2019 budgeted expenses were \$7,000 but are now projected at \$2.8 million. There was a \$2.75 million transfer out to the Legal Services Trust Fund. The transfer out was not included in the adopted budget and represents three years of surpluses accumulated in the Justice Gap Fund.

Equal Access Fund: The 2019 budgeted revenues were \$26.1 million, but are now projected to be \$46.2 million. The variance is the result of additional funding of \$20 million from the State for equal access, with corresponding expenses projected. This is due to the addition of the Homelessness Prevention Funding Grant authorized by the Judicial Council.

Admissions Fund: For 2019, fingerprinting revenue is projected to exceed budget by \$0.5 million, February Exam income by \$0.2 million, MJP Fees by \$0.1 million, and interest income by \$0.2 million. These revenue increases will be off-set by a projected decrease in July bar exam revenue.

The 2019 Budget-to-Actual Fund Summary Projection Report does also show projected reserve levels for each fund based on final operating results from 2018. The General Fund is still projected to be under the 17 percent target set by the Board's Reserve Policy. In addition, there are several funds that are above 30 percent, which include: Elimination of Bias, Lawyers Assistance Program, Legal Activities, Legal Specialization, and Legislative Activities. The reserve policy requires a spending plan for certain funds that have reserves above 30 percent. As part of the 2020 budget process, staff will develop spending plans for each fund listed above.

### **2019 Variance Report as of June 30 (Attachment B)**

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, 2019 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 B.

This analysis identifies a net of \$12.2 million of individual line items with favorable variance compared to budget through June 30. \$8.2 million of these favorable variances are reflected in increased IOLTA funding, with \$3.1 million in personnel savings.

## **RULE AMENDMENTS**

None

## **BOARD BOOK AMENDMENTS**

None

## **STRATEGIC PLAN GOALS & OBJECTIVES**

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

Objective: f: As part of the annual budget development process, determine, consistent with Business and Professions Code section 6140.9, whether there are excess funds in the LAP fund which can be transferred to support the CSF.

## **RECOMMENDATIONS**

**It is recommended that the Finance and Planning Committee and Board of Trustees approve the following resolution:**

**RESOLVED**, that the Board of Trustees approve the 2019 Mid-Year Budget Variance and Projection Report in the form this day before the Board, for the six months ended June 30, 2019, as certified by the Chief Financial Officer, and on file with the San Francisco office of the State Bar.

## **ATTACHMENT(S) LIST**

- A. 2019 Budget-to-Actual Fund Variance Report
- B. 2019 Variance Report

## 2019 Mid-Year Fund Summary Financial Projection

Based on Actual Results Through June 30, 2019

Fund Name	Reserve Balance	Revenue			Expense			2019 Totals		Projected Reserve Balance	Projected Reserve Level (%) **	Notes
	12/31/2018	2019			2019			Budget	Projection	12/31/2019	12/31/2019	(1)
		Annual Budget	Annual Projection	Projected Variance	Annual Budget	Annual Projection	Projected Savings	(Rev-Exp) (Surpus/Deficit)	(Rev-Exp) (Surpus/Deficit)			
General Fund	23,080,932	76,515,300	76,304,700	(210,600)	86,957,900	85,973,118	984,782	(10,442,600)	(9,668,418)	13,412,514	16%	(2)
Admissions Fund	8,160,339	20,941,700	21,476,000	534,300	21,861,600	21,609,857	251,743	(919,900)	(133,857)	8,026,482	37%	(6)
Bank Settlement Fund	29,766,767	50,000	329,000	279,000	9,602,900	9,565,352	37,548	(9,552,900)	(9,236,352)	20,530,415	NA	
Client Security Fund	491,622	7,976,700	8,024,900	48,200	8,507,700	8,538,952	(31,252)	(531,000)	(514,052)	(22,430)	0%	
Elimination of Bias Fund	131,856	320,100	327,700	7,600	312,400	312,400	-	7,700	15,300	147,156	47%	
Equal Access Fund	2,762,219	26,089,900	46,167,100	20,077,200	25,841,700	46,241,688	(20,399,988)	248,200	(74,588)	2,687,631	NA	(5)
Grants Fund	469,473	257,500	257,500	-	364,300	364,300	-	(106,800)	(106,800)	362,673	NA	
Info Tech Special Access Fund	-	-	6,600	6,600	-	-	-	-	6,600	6,600	NA	
Justice Gap Fund	4,101,410	1,249,100	1,473,100	224,000	7,000	2,757,000	(2,750,000)	1,242,100	(1,283,900)	2,817,510	NA	(4)
Lawyer Assistance Program Fund	3,570,078	2,127,000	2,173,000	46,000	2,016,900	2,001,253	15,647	110,100	171,747	3,741,825	187%	
Legal Services Trust Fund	19,982,606	29,574,100	56,076,400	26,502,300	29,966,100	29,625,013	341,087	(392,000)	26,451,387	46,433,993	NA	(3)
Legal Specialization Fund	3,410,616	2,074,200	2,199,000	124,800	2,449,300	2,364,872	84,428	(375,100)	(165,872)	3,244,744	137%	
Legislative Activities Fund	387,051	777,400	787,000	9,600	734,000	625,885	108,115	43,400	161,115	548,166	88%	
SF Tenant Improvement Fund	741,550	50,000	50,000	-	340,000	340,000	-	(290,000)	(290,000)	(1,031,550)	-303%	
Other Funds:	72,492,487	91,487,700	139,347,300	47,859,600	102,003,900	124,346,572	(22,342,672)	(10,516,200)	15,000,728	87,493,215		
Totals	95,573,419	(168,003,000)	(215,652,000)	47,649,000	188,961,800	210,319,690	(21,357,890)	(20,958,800)	5,332,310	100,905,729		

## Notes:

1. This summary table includes all revenue, including non-operating such transfers out.

## 2. General Fund

\$0.2 million unfavorable revenue variance driven by: \$1.5 million in licensing fees due to slower licensee growth, offset by \$0.8 million in interest income from favorable interest rates, and \$0.3 million in collection fees.

\$1.8 million favorable variance of projected expenses to budgeted is primarily in the category of personnel expenses.

## 3. Legal Services Trust Fund

**Revenues - 2019 Budget \$29.6 million, Projection \$56.1 Million. Favorable \$26.5 million.**

The initial \$22.85 million was a conservative budget projection. There were two additional rate increases of 0.25% to the federal funds rate in 2018 after the August 2018 projections used in determining the budget (rate increases announced in September and December 2018).

Between August 2018 & June 2019 a number of banks agreed to increase their IOLTA rates significantly. This includes the largest holder of IOLTA accounts (Wells) and the third largest (Chase).

## 4. Justice Gap Fund

**Expenses - 2019 Budget \$0.0 million, Projection \$2.8 million. Unfavorable \$2.8 million.**

\$2.8 million in transfers out to Legal Services Trust Fund, catching up 3 years, was unbudgeted.

## 5. Equal Access Fund

**Revenues - 2019 Budget \$26.1 million, Projection \$46.2 million. Favorable \$20.1 million.**

\$20.0 million additional EAF grants received, with corresponding expenses projected.

## 6. Admissions Fund

**Revenues - 2019 Budget \$20.9 million, Projection \$22.0 Million. Favorable \$1.1 million.**

The favorable \$0.5 million is comprised of \$0.5 million of fingerprinting revenue, \$0.2 million of February application fees, \$0.2 million from investment income, and \$0.1 million in MJP fees.

## STATE BAR OF CALIFORNIA

## ATTACHMENT B

2019 BUDGET-TO-ACTUAL VARIANCE REPORT  
 BASED ON ACTUAL RESULTS THROUGH JUNE 30, 2019  
 REVENUE VARIANCES GREATER THAN \$100,000

	Fund	Revenue Category	Cost Center	Object Code	Account Description	2019 YTD Actual	2019 YTD Budget	YTD Variance Fav (Unfav)	Variance Explanation
1	Admin and Discipline Fund	Licensing Fees and Donations	10	30110	Mandatory Membership Dues	\$ 63,821,468	\$ 65,375,600	\$ (1,554,132)	Adopted Budget assumed 1.4% growth; latest forecast has reduced to 0.4%.
2	Admin and Discipline Fund	Licensing Fees and Donations	10	30130	Penalties-Current Year	897,395	1,558,100	(660,705)	Payments were more timely, resulting in fewer late penalties assessed.
3	Admin and Discipline Fund	Law Corporation Registration Fees	10	34030	Annual Report-Law Corp.	434,869	645,400	(210,531)	Switch to paperless system has resulted in fewer timely renewals. Deadline has been extended, with anticipated catch up in 60 days.
4	Building Fund	Investment Income	26	34510	Investment Income	108,729	4,900	103,829	Larger income resulting from higher interest rates, and investment income allocation methodology.
5	Client Security Fund	Licensing Fees and Donations	27	30110	Mandatory Membership Dues	7,847,903	7,724,000	123,903	Budget did not factor in MJP contribution to CSF.
6	Legal Education and Development Fund	Investment Income	18	34510	Investment Income	141,129	-	141,129	Larger income resulting from higher interest rates, and investment income allocation methodology.
7	Justice Gap Fund	Licensing Fees and Donations	32	30120	Voluntary Dues/Donations	1,406,699	1,232,000	174,699	Voluntary Justice Gap donations were conservatively estimated.
8	Admissions Fund	Exam Application & Moral Character Fees	20009	31120	Attorney Applic.-New February	1,763,956	1,548,100	215,856	Attorney Applications for February were 1,800 vs. 1,575 budgeted at a per applicant rate of \$983.
9	Admissions Fund	Investment Income	20009	34510	Investment Income	230,039	3,500	226,539	Larger income resulting from higher interest rates, and investment income allocation methodology.
10	Admin and Discipline Fund	Other Revenue	10	38300	All Other Miscellaneous	246,824	-	246,824	Unbudgeted collections fees of CLA fees and voluntary donations.
11	Legal Services Trust Fund	Investment Income	28002	34510	Investment Income	312,823	11,000	301,823	Larger income resulting from higher interest rates, and investment income allocation methodology.
12	Bank Settlement Fund	Investment Income	37	34510	Investment Income	329,047	12,500	316,547	Larger income resulting from higher interest rates, and investment income allocation methodology.
13	Admin and Discipline Fund	Investment Income	10	34520	Unrealized Gain/Loss on Invest	393,310	-	393,310	Larger income resulting from higher interest rates
14	Admissions Fund	Other Revenue	20009	38105	Fingerprinting Revenue	461,975	-	461,975	Unbudgeted fingerprinting revenue.
15	Legal Services Trust Fund	Interfund Transaction - Revenue	28	39600.32	Trsf In From Justice Gap Fund	2,750,000	-	2,750,000	Transfer in of three years of Justice Gap Voluntary Contributions: 2016-\$850K, 2017-\$900K, 2018-\$1.0M.
16	Legal Services Trust Fund	Trust Account Revenue	28002	32510	Client Trust Account Revenue	20,100,371	11,939,500	8,160,871	A number of banks increased their IOLTA rates significantly including the largest holder of IOLTA accounts (Wells) and the third largest (Chase).
17	Legal Education and Development Fund	Affinity Insurance Revenue	18001	38401	Insurance Passthrough	(43,459)	(526,100)	482,641	The majority of the insurance income allocation will be done at year end.
18	Legal Education and Development Fund	Affinity Insurance Revenue	18002	38401	Insurance Passthrough	(138,442)	(400,000)	261,558	The majority of the insurance income allocation will be done at year end.

STATE BAR OF CALIFORNIA  
2019 BUDGET-TO-ACTUAL VARIANCE REPORT  
BASED ON ACTUAL RESULTS THROUGH JUNE 30, 2019  
EXPENSE VARIANCES GREATER THAN \$100,000

ATTACHMENT B

	Fund	Expense Category	Cost Center	Object Code	Account Description	2019 YTD Actual	2019 YTD Budget	YTD Variance Fav/(Unfav)	Variance Explanation
1	Admin and Discipline Fund	Attorney Regulation and Consumer Resources	10251	40110	Salaries - Regular	\$ 1,018,713	\$ 1,192,800	\$ 174,087	33 positions budgeted. 2019 monthly average is 28.
2	Admin and Discipline Fund	Chief Trial Counsel	10310	40110	Salaries - Regular	11,680,990	13,026,400	1,345,410	256 positions budgeted. 2019 monthly average is 240.
3	Admin and Discipline Fund	Chief Trial Counsel	10310	40140	Payroll Tax Allocation	889,046	996,600	107,554	256 positions budgeted. 2019 monthly average is 240.
4	Admin and Discipline Fund	Chief Trial Counsel	10310	45530	CSF proc. Costs reimb. Collect	(907,136)	(711,000)	196,136	Reimbursements of discipline costs have come in at an accelerated rate compared to budget and prior year actual.
5	Admin and Discipline Fund	Professional Competence	10706	40110	Salaries - Regular	613,049	740,300	127,251	13 positions budgeted. 2019 monthly average is 12.
6	Admin and Discipline Fund	Professional Competence	10706	43510	Professional Services		102,600	102,600	Budget is predominantly e-learning. Not all budgeted funds are expected to be spent this year.
7	Admin and Discipline Fund	State Bar Court	10401	40115	Salaries - Special	120,408		(120,408)	Special/Severance is unbudgeted.
8	Admin and Discipline Fund	State Bar Court	10404	40110	Salaries - Regular	279,766	483,100	203,334	5 positions budgeted. 2019 monthly average is 3.
9	Admissions Fund	Admissions	20002	40240	Proctors-February GBX	712,134	540,000	(172,134)	Attorney Applications for February were 1,800 vs. 1,575 budgeted, resulting in the need for additional proctors.
10	Admissions Fund	Admissions	20013	43870	Graders Book Fee-July		151,900	151,900	July Exam expenses will be captured in the months following the exam.
11	Admissions Fund	Admissions	20019	40110	Salaries - Regular	432,108	607,900	175,792	13 positions budgeted. 2019 monthly average is 11.
12	Building Fund	General and Administrative	26	42010	Building Improvements	1,156,691	1,535,200	378,509	Timing. General Services Office expects actual spending to catch up to budget by end of year.
13	Justice Gap Fund	General and Administrative	32	49600.28	Transfer Out To LSTF	2,750,000		(2,750,000)	Transfer out of three years of Justice Gap Voluntary Contributions to Legal Services Trust Fund: 2016-\$850K, 2017-\$900K, 2018-\$1.0 million.
14	Lawyer Assistance Program Fund	Lawyer Assistance Program	21000	43510	Professional Services	184,185	27,400	(156,785)	Payment to The Other Bar capturing 10% of LAP active licensing fees.
15	Legal Services Trust Fund	General and Administrative	28005	40110	Salaries - Regular	247,794	512,000	264,206	11 positions budgeted. 2019 monthly average is 8.
16	Support and Administration Fund	General and Administrative	23001	40110	Salaries - Regular	1,211,963	1,559,900	347,937	23 positions budgeted. 2019 monthly average is 18.
17	Support and Administration Fund	General and Administrative	23101	40110	Salaries - Regular	582,472	742,900	160,428	14 positions budgeted. 2019 monthly average is 10.
18	Support and Administration Fund	General and Administrative	23101	44560	Outside services-others	20,862	150,000	129,138	Reduced Client Analysis fees due to higher bank balances
19	Support and Administration Fund	General and Administrative	23206	40110	Salaries - Regular	496,650	666,800	170,150	15 positions budgeted. 2019 monthly average is 8.
20	Support and Administration Fund	General and Administrative	23600	40110	Salaries - Regular	1,900,365	2,038,500	138,135	36 positions budgeted. 2019 monthly average is 32.
21	Support and Administration Fund	General and Administrative	23600	41570	Software Maintenance	1,021,680	1,123,700	102,020	Annual Spending projected to catch up to budget.
22	Technology Fund	General and Administrative	19018	43510	Professional Services	680,874	24,800	(656,074)	Unbudgeted Post Go Live Expenses related to Admissions Information System (AIMS)
23	Technology Fund	General and Administrative	19030	43510	Professional Services	110,052		(110,052)	Costs are related to Oracle Fusion Implementation from Sierra-Cedar. Billings will catch up later in the implementation. Budget will be transferred from Hardware Purchase to Professional Services.