



The State Bar *of California*

OPEN SESSION AGENDA ITEM FINANCE COMMITTEE III.D

DATE: March 4, 2020

TO: Members, Board of Trustees

FROM: John Adams, Chief Financial Officer

SUBJECT: Q4 Client Security Fund Report

EXECUTIVE SUMMARY

In adherence with the Board Policy Manual, the Office of Finance has prepared the Quarterly Client Security Fund Report for the 4th quarter ended December 31, 2019 for the Committee's review.

BACKGROUND

To increase transparency and to ensure public confidence in the operations of the State Bar at all levels, the Office of Finance prepares timely quarterly statements that show the financial condition of the State Bar, investments held by the State Bar, and the activity occurring in the Client Security Fund. The Finance Committee is responsible for reviewing quarterly reports prepared by the Office of Finance.

DISCUSSION

The Client Security Fund Report for the 4th quarter ended December 31, 2019 is composed of multiple attachments. This agenda item after review by the Finance Committee will be on the consent agenda for the Board's March 12, 2020 meeting.

FISCAL/PERSONNEL IMPACT

None

AMENDMENTS TO RULES OF THE STATE BAR

None

AMENDMENTS TO BOARD OF TRUSTEES POLICY MANUAL

None

STRATEGIC PLAN GOALS & OBJECTIVES

None - compliance

RECOMMENDATIONS

The Finance Committee recommends that the Board of Trustees approve the following resolution:

RESOLVED, that the Board of Trustees approve the 2019 4th Quarter Client Security Fund Report in the form this day before the Board, for the three months ended December 31, 2019, as certified by the Chief Financial Officer, and on file with the San Francisco office of the State Bar.

ATTACHMENT(S) LIST

- A.** Client Security Fund Report for the Fourth Quarter Ended December 31, 2019



The State Bar of California

OFFICE OF FINANCE

Date: March 4, 2020

To: Members, Finance Committee

From: John Adams, Chief Financial Officer

Subject: Client Security Fund Report for the Year Ended December 31, 2019

Attached for your review are a series of reports for the applications activity within the Client Security Fund (CSF) for the quarter ended December 31, 2019. These reports include:

- Status on Applications Activity for the quarter ended December 31, 2019
- Applications Aging Report
- Cumulative Applications Aging Report
- 24 Month Rolling Average of Applications Paid out Ratio
- Analysis of New Applications Paid, Rejected or Withdrawn

As of December 31, a total of 771 new applications in the amount of \$16.6 million were filed. The number of applications filed is decreased by 22.4 percent compared to 993 applications filed last year. The application amount decreased by \$7.5 million, or 31.1 percent compared to \$24.1 million filed in 2018.

For the year ended December 31, 2019, total applications processed are 1,281 for approximately \$21.0 million. Total payouts for 2019 are \$7.0 million, decreased by \$2.2 million compared to \$9.2 million last year. Total applications pending for processing as of December 31, 2019 are 2,381 in the amount of \$47.7 million, and for the same period in 2018, there were 2,891 pending applications in the amount of \$51.7 million.

For this report, the Office of Finance estimated the application payout amount based on a rolling average of 24 month historical applications payout ratio, currently 35.36 percent. Total applications outstanding as of December 31, 2019 are 2,381 for \$47.7 million. Applying the rolling average applications payout ratio to the outstanding application amounts, the estimated application payout as of December 31, 2019 is \$16.9 million and there is a decrease of \$2.8 million or 14.2 percent compared to \$19.7 million last year.

As of December 31, 2019, cash and investments available for applications reimbursement in the CSF are approximately \$0.3 million compared to \$0.4 million last year.

Key indicators for the CSF application process as of December 31, 2019 and 2018 are shown below:

Key Indicator Descriptions	2019 Q4	2018 Q4	Attachment
New Applications Received # / \$ (in million)	771/\$16.6	993/\$24.1	1
Total Applications Processed # / \$ (in million)	1,281/\$21.0	1,533/\$24.3	2
% of Paid Applications in # to total in process ¹	19.6%	19.8%	1
% of Paid Applications in \$ to total in process ²	10.1%	12.0%	1
Total Payouts \$ (in million)	\$ 7.0	\$ 9.2	2
Total Applications Pending for Processing # / \$ (in million)	2,381/\$47.7	2,891/\$51.7	2
24-month Rolling Average Payout Ratio	35.36%	38.18%	4
Estimated CSF Application Liabilities (in million)	\$16.9	\$19.7	2
Net Assets as of December 31 (in million)	\$0.3	\$0.4	3

¹ # of total in process represents pending application from prior year plus additional application filed in current fiscal year.

² \$ of total in process represents total application amount pending for processing from prior year plus additional applications filed in current fiscal year.

THE STATE BAR OF CALIFORNIA
CLIENT SECURITY FUND
STATUS ON APPLICATIONS ACTIVITIES
December 31, 2019
YEAR TO DATE ACTIVITIES

ATTACHMENT 1

	<u>\$1 - 2,500</u>		<u>\$2,501 - 5,000</u>		<u>\$5,001 - 10,000</u>		<u>\$10,001 - 25,000</u>		<u>\$25,001 - 49,999</u>		<u>\$50,000</u>		<u>\$50,001 - 100,000</u>		<u>TOTAL</u>		(A)	(B)
	#	Amount	#	Amount	#	Amount	#	Amount	#	Amount	#	Amount	#	Amount	#	Amount		
Prior Years' Applications	482	854,868	947	3,590,829	549	4,253,635	406	6,902,905	145	5,121,010	38	1,646,175	324	29,707,684	2,891	52,077,106		
New Applications	178	280,853	170	667,605	137	1,028,746	114	1,904,836	47	1,693,523	10	500,000	115	10,553,757	771	16,629,320		
Paid Applications	(117)	(214,460)	(264)	(804,537)	(150)	(1,107,440)	(113)	(1,528,996)	(22)	(573,319)	(9)	(463,721)	(42)	(2,227,310)	(717)	(6,919,783)	19.6%	10.1%
Rejected Applications	(10)	(23,453)	(16)	(214,585)	(16)	(303,227)	(17)	(577,287)	(8)	(447,929)	(6)	(378,654)	(27)	(4,292,303)	(100)	(6,237,438)	2.7%	9.1%
Withdrawn Applications	(99)	(154,898)	(147)	(564,352)	(84)	(634,193)	(57)	(955,440)	(23)	(755,394)	(3)	(150,000)	(51)	(4,674,411)	(464)	(7,888,688)	12.7%	11.5%
Applications Outstanding	434	\$ 742,910	690	\$ 2,674,960	436	\$ 3,237,521	333	\$ 5,746,018	139	\$ 5,037,891	30	\$ 1,153,800	319	\$ 29,067,417	2,381	\$ 47,660,517		
New applications % to total	23.09%	1.69%	22.05%	4.01%	17.77%	6.19%	14.79%	11.45%	6.10%	10.18%	1.30%	3.01%	14.92%	63.46%	100.00%	100.00%		
Applications paid % to total	16.32%	3.10%	36.82%	11.63%	20.92%	16.00%	15.76%	22.10%	3.07%	8.29%	1.26%	6.70%	5.86%	32.19%	100.00%	100.00%		
Applications rejected or withdrawn % to total	19.33%	1.26%	28.90%	5.51%	17.73%	6.64%	13.12%	10.85%	5.50%	8.52%	1.60%	3.74%	13.83%	63.48%	100.00%	100.00%		
Applications outstanding % to total	18.23%	1.56%	28.98%	5.61%	18.31%	6.79%	13.99%	12.06%	5.84%	10.57%	1.26%	2.42%	13.40%	60.99%	100.00%	100.00%		

(A) % of # of paid applications, rejected applications and withdrawn applications to # of total applications in process in 2019 Q4

(B) % of paid applications, rejected applications and withdrawn applications in \$ to the total applications \$ in process in 2019 Q4

THE STATE BAR OF CALIFORNIA

ATTACHMENT 2

CLIENT SECURITY FUND

APPLICATIONS AGING REPORT

AS OF DECEMBER 31, 2019

<u>Year</u> <u>Application</u> <u>Filed</u>	<u>Gross Applications Prior</u>		<u>Current Year</u>		<u>Applications Paid</u>		<u>Applications Rejected or</u> <u>Withdrawn</u>		<u>Total Applications</u> <u>Processed</u>		<u>Applications Outstanding</u>	
	<u>#</u>	<u>Amount</u>	<u>#</u>	<u>Amount</u>	<u>#</u>	<u>Amount</u>	<u>#</u>	<u>Amount</u>	<u>#</u>	<u>Amount</u>	<u>#</u>	<u>Amount</u>
2011	10	243,319			(1)	(100,000)	(8)	(118,119)	(9)	(218,119)	1	25,200
2012	32	466,106			(4)	(67,215)	(14)	(263,073)	(18)	(330,288)	14	135,818
2013	89	1,371,647			(27)	(583,005)	(32)	(546,225)	(59)	(1,129,230)	30	242,417
2014	290	2,891,160			(21)	(555,933)	(23)	(990,767)	(44)	(1,546,700)	246	1,344,460
2015	232	3,983,375			(63)	(700,578)	(68)	(2,212,009)	(131)	(2,912,587)	101	1,070,788
2016	809	12,358,508			(500)	(4,046,765)	(125)	(3,038,768)	(625)	(7,085,533)	184	5,272,975
2017	657	12,252,258			(68)	(424,556)	(29)	(679,932)	(97)	(1,104,488)	560	11,147,770
2018	772	18,510,733			(17)	(166,957)	(134)	(2,731,205)	(151)	(2,898,162)	621	15,612,571
2019			771	16,629,317	(16)	(274,772)	(131)	(3,546,027)	(147)	(3,820,799)	624	12,808,518
TOTAL	2,891	52,077,106	771	16,629,317	(717)	(6,919,781)	(564)	(14,126,125)	(1,281)	(21,045,906)	2,381	47,660,517

Applications Outstanding **47,660,517**

Estimated Application Payout Ratio **35.36%**

Estimated Application Payouts **\$16,853,323**

THE STATE BAR OF CALIFORNIA

ATTACHMENT 3

CLIENT SECURITY FUND

CUMULATIVE APPLICATIONS AGING REPORT

AS OF DECEMBER 31, 2019

<u>Year Application</u> <u>Filed</u>	<u>Gross Applications</u>		<u>Current Year</u>		<u>Applications Paid</u>		<u>Applications Rejected</u> <u>and Withdrawn</u>		<u>Total Applications</u> <u>Processed</u>		<u>Applications Outstanding</u>	
	<u>#</u>	<u>Amount</u>	<u>#</u>	<u>Amount</u>	<u>#</u>	<u>Amount</u>	<u>#</u>	<u>Amount</u>	<u>#</u>	<u>Amount</u>	<u>#</u>	<u>Amount</u>
2010-2011	10	243,319			(1)	(100,000)	(8)	(118,119)	(9)	(218,119)	1	25,200
2010-2012	42	709,425			(5)	(167,215)	(22)	(381,192)	(27)	(548,407)	15	161,018
2010-2013	131	2,081,072			(32)	(750,220)	(54)	(927,417)	(86)	(1,677,637)	45	403,435
2010-2014	421	4,972,232			(53)	(1,306,153)	(77)	(1,918,184)	(130)	(3,224,337)	291	1,747,895
2010-2015	653	8,955,607			(116)	(2,006,731)	(145)	(4,130,193)	(261)	(6,136,924)	392	2,818,683
2010-2016	1,462	21,314,115			(616)	(6,053,496)	(270)	(7,168,961)	(886)	(13,222,457)	576	8,091,658
2010-2017	2,119	33,566,373			(684)	(6,478,052)	(299)	(7,848,893)	(983)	(14,326,945)	1,136	19,239,428
2010-2018	2,891	52,077,106			(701)	(6,645,009)	(433)	(10,580,098)	(1,134)	(17,225,107)	1,757	34,851,999
2010-2019			771	16,629,317	(717)	(6,919,781)	(564)	(14,126,125)	(1,281)	(21,045,906)	2,381	47,660,517
	2,891	52,077,106	-	-	(701)	(6,645,009)	(433)	(10,580,098)	(1,134)	(17,225,107)	2,381	47,660,517

Net Asset in Client Security Fund:

As of 12/31/2019 \$ 145,091

THE STATE BAR OF CALIFORNIA
CLIENT SECURITY FUND
24 MONTH ROLLING AVERAGE APPLICATIONS PAIDOUT RATIO
JANUARY 2017 THROUGH DECEMBER 18

ATTACHMENT 4

Month Covered	<u>PAID APPLICATIONS</u>		<u>REJECTED/ WITHDRAWN APPLICATIONS</u>	<u>PROCESSED</u>
	Amount	Monthly Average Payout Ratio	Amount	Amount
Jan18	779,798	55.03%	637,128	1,416,926
Feb18	730,370	33.45%	2,350,278	3,080,648
Mar18	307,896	15.34%	1,707,335	2,015,231
Apr18	486,908	30.10%	1,135,316	1,622,223
May18	555,611	21.38%	2,043,237	2,598,848
June18	1,084,605	65.34%	575,374	1,659,979
July18	233,352	15.31%	1,290,696	1,524,048
Aug18	843,046	35.92%	1,503,880	2,346,926
Sep18	651,994	41.59%	915,793	1,567,787
Oct18	1,822,797	58.99%	1,266,955	3,089,752
Nov18	989,509	40.05%	1,481,305	2,470,815
Dec18	674,954	65.13%	361,308	1,036,263
Jan19	502,309	25.50%	1,467,298	1,969,607
Feb19	502,898	32.61%	1,039,394	1,542,292
Mar19	746,987	43.70%	962,516	1,709,504
Apr19	813,969	36.35%	1,425,378	2,239,347
May19	619,336	22.52%	2,130,501	2,749,837
June19	580,329	55.54%	464,556	1,044,885
July19	942,256	34.23%	1,810,774	2,753,029
Aug19	818,478	61.82%	505,507	1,323,985
Sep19	334,251	30.61%	757,824	1,092,075
Oct19	357,579	51.16%	341,385	698,964
Nov19	618,018	17.23%	2,969,348	3,587,366
Dec19	83,374	24.89%	251,643	335,017
Total:			Total:	
		16,080,624	29,394,731	45,475,354

24 Month Rolling Average PaidOut Ratio:

35.36%

**THE STATE BAR OF CALIFORNIA
CLIENT SECURITY FUND
ANALYSIS OF NEW APPLICATIONS PAID, REJECTED
OR WITHDRAWN, ESTIMATED
APPLICATIONS PAYOUTS PER ACTIVE ATTORNEY**

ATTACHMENT 5

December 31, 2019

	<u>1ST QTR</u>	<u>2ND QTR</u>	<u>3RD QTR</u>	<u>4th QTR</u>
Beginning Balance	2,891	2,779	2,532	2,475
Add: Reinstated Applications and New Applications	200	204	227	140
Less: Paid / Rejected or Withdrawn	312	451	284	234
TOTAL	2,779	2,532	2,475	2,381
 APPLICATIONS OUTSTANDING AMT.	 50,764,910	 48,781,776	 49,177,421	 47,660,517
# Of Active Attorneys	189,644	190,187	189,874	190,609
Cost Per Active Attorney	\$268	\$256	\$259	\$250
 ESTIMATED APPLICATIONS LIAB.				
Applications Payout Ratio	38.24%	38.96%	38.56%	35.36%
Estimated Application Amount *	\$19,412,502	\$19,005,380	\$18,961,392	\$16,853,322
# of Active Attorneys	189,644	190,187	189,874	190,609
Cost per Active Attorney	\$102	\$100	\$100	\$88
 APPLICATION ACTIVITIES IN %:				
 NEW APPLICATIONS - YTD				
1 - 2,500	1.60%	2.00%	1.83%	1.69%
2,501 - 5,000	3.99%	4.09%	3.89%	4.01%
5,001 - 10,000	6.93%	6.94%	6.50%	6.19%
10,001 - 25,000	11.54%	12.30%	10.45%	11.45%
25,001 - 49,999	10.84%	10.71%	10.16%	10.18%
50,000	1.18%	3.07%	2.97%	3.01%
50,001 - 100,000	63.91%	60.90%	64.20%	63.46%
 APPLICATIONS PAID - YTD				
1 - 2,500	3.81%	3.53%	3.25%	3.10%
2,501 - 5,000	11.63%	15.94%	11.89%	11.63%
5,001 - 10,000	10.93%	13.81%	15.32%	16.00%
10,001 - 25,000	18.18%	20.59%	21.88%	22.10%
25,001 - 49,999	16.24%	11.82%	9.78%	8.29%
50,000	10.15%	6.94%	7.91%	6.70%
50,001 - 100,000	29.07%	27.38%	29.96%	32.19%
 REJ./WDRAWN - YTD				
1 - 2,500	1.24%	1.24%	1.38%	1.26%
2,501 - 5,000	4.79%	6.30%	6.08%	5.51%
5,001 - 10,000	6.72%	6.11%	6.74%	6.64%
10,001 - 25,000	10.09%	11.24%	11.79%	10.85%
25,001 - 49,999	9.76%	7.55%	7.93%	8.52%
50,000	6.04%	3.69%	4.53%	3.74%
50,001 - 100,000	61.37%	63.87%	61.55%	63.48%
 APPLICATIONS O/S-CUM. - YTD				
1 - 2,500	1.57%	1.59%	1.56%	1.56%
2,501 - 5,000	6.68%	5.84%	5.65%	5.61%
5,001 - 10,000	7.72%	7.47%	7.15%	6.79%
10,001 - 25,000	13.17%	12.85%	11.75%	12.06%
25,001 - 49,999	9.76%	10.22%	10.33%	10.57%
50,000	2.57%	2.78%	2.24%	2.42%
50,001 - 100,000	58.54%	59.26%	61.32%	60.99%
 NET ASSET, END OF PERIOD	 \$ 6,117,221	 \$ 3,884,102	 \$ 1,448,528	 \$ 245,565
PROJECTED NET ASSETS	\$ (13,295,281)	\$ (15,121,278)	\$ (17,512,864)	\$ (16,607,757)

*Based upon 24 month rolling weighted average of applications payout ratio (See page 4)

**State Bar of California
Client Security Fund
Ten Year Comparison
2010-2019**

	2010		2011		2012		2013	
	# of Applications	Amount	# of Applications	Amount	# of Applications	Amount	# of Applications	Amount
Applications outstanding, begin of year	2,997	22,124,850	6,112	34,513,647	7,345	45,327,104	7,801	55,518,550
Prior year's outstanding application adjustment	-	100,260	-	194,064	-	108,564		243,483
New Applications	3,875	23,231,936	3,411	26,086,578	2,767	25,112,748	2,228	22,825,372
TOTAL APPLICATIONS	6,872	45,457,046	9,523	60,794,289	10,112	70,548,416	10,029	78,587,404
Less: Processed Applications:								
Paid	267	3,331,124	1,534	7,819,854	1,466	6,870,643	1,999	11,054,352
Rejected	138	2,869,032	54	2,585,888	112	3,092,632	68	3,096,196
Withdrawn	355	4,743,243	590	5,061,443	733	5,066,591	1,620	13,907,920
TOTAL PROCESSED APPLICATIONS	760	10,943,399	2,178	15,467,185	2,311	15,029,866	3,687	28,058,468
Applications outstanding, end of year	6,112	34,513,647	7,345	45,327,104	7,801	55,518,550	6,342	50,528,936
Applications outstanding inc./(dec.) over beginning balance	3,115	12,388,797	1,233	10,813,457	456	10,191,446	(1,459)	(4,989,614)
Applications payout ratio		33.67%		42.22%		48.17%		41.60%
Est. applications payouts		\$11,620,745		\$19,137,103		\$26,743,285		\$21,020,037
Net Application (Liab) Assets, end of year		(9,298,430)		(7,215,281)		(15,638,262)		(15,444,495)
Net Assets per Financial Statement		\$2,322,315		11,921,822		11,105,023		5,575,542
Estimated Increase/(Decrease) in Application Payouts:		NA		7,516,358		7,606,182		(5,723,248)

**State Bar of California
Client Security Fund
Ten Year Comparison
2010-2019**

	2014		2015		2016		2017	
	# of Applications	Amount	# of Applications	Amount	# of Applications	Amount	# of Applications	Amount
Applications outstanding, begin of year	6,342	50,528,936	5,674	45,917,719	5,465	48,951,330	4,253	49,998,241
Prior year's outstanding application adjustment		596,474		1,002,816		239,189		220,308
New Applications	1,554	20,056,066	1,178	16,412,024	1,120	16,831,403	936	17,544,886
TOTAL APPLICATIONS	7,896	71,181,476	6,852	63,332,559	6,585	66,021,922	5,189	67,763,435
Less: Processed Applications:								
Paid	1,152	9,031,386	821	6,012,453	1,793	8,037,525	909	6,401,923
Rejected	116	4,575,621	74	2,929,880	76	2,627,266	86	3,038,795
Withdrawn	954	11,656,750	492	5,438,896	463	5,358,890	763	6,894,708
TOTAL PROCESSED APPLICATIONS	2,222	25,263,757	1,387	14,381,229	2,332	16,023,681	1,758	16,335,426
Applications outstanding, end of year	5,674	45,917,719	5,465	48,951,330	4,253	49,998,241	3,431	51,428,009
Applications outstanding inc./(dec.) over beginning balance	(668)	(4,611,217)	(209)	3,033,611	(1,212)	1,046,911	(822)	1,429,768
Applications payout ratio		37.68%		37.96%		46.22%		44.63%
Est. applications payouts		\$17,301,796		\$18,581,925		\$23,109,187		\$22,952,320
Net Application (Liab) Assets, end of year		(15,093,242)		(16,381,485)		(21,682,917)		(19,878,995)
Net Assets per Financial Statement		2,208,554		2,200,440		1,426,270		3,073,325
Estimated Increase/(Decrease) in Application Payouts:		(3,718,241)		1,280,128		4,527,262		(156,867)

**State Bar of California
Client Security Fund
Ten Year Comparison
2010-2019**

	2018		2019	
	# of Applications	Amount	# of Applications	Amount
Applications outstanding, begin of year	3,431	51,428,009	2,891	51,651,150
Prior year's outstanding application adjustment		462,926		425,957
New Applications	993	24,089,640	771	16,629,317
TOTAL APPLICATIONS	4,424	75,980,575	3,662	68,706,424
Less: Processed Applications:				
Paid	877	9,150,840	717	6,919,783
Rejected	78	4,022,024	100	6,237,437
Withdrawn	578	11,156,561	464	7,888,687
TOTAL PROCESSED APPLICATIONS	1,533	24,329,425	1,281	21,045,907
Applications outstanding, end of year	2,891	51,651,150	2,381	47,660,517
Applications outstanding inc./(dec.) over beginning balance	(540)	223,141	(510)	(3,990,633)
Applications payout ratio		38.18%		35.36%
Est. applications payouts		\$19,720,409		\$16,852,759
Net Application (Liab) Assets, end of year		(19,288,914)		(16,607,194)
Net Assets per Financial Statement		431,495		245,565
Estimated Increase/(Decrease) in Application Payouts:		(3,231,911)		(2,867,650)