



The State Bar *of California*

OPEN SESSION AGENDA ITEM IV.F. JUNE 2021

DATE: June 4, 2021

TO: Members, California Board of Legal Specialization

FROM: Amy C. Nuñez, Director, Office of Admissions

SUBJECT: Approval of 2022 Legal Specialization Budget Reserve Spend Down Initiatives for Recommendation to the Board of Trustees for Final Approval

SUMMARY

Staff have developed multiple Legal Specialization Reserve Budget spend down initiative options for consideration by the California Board of Legal Specialization (CBLS). Once approved by the CBLS, the proposed initiatives will be submitted to the Board of Trustees (BOT) for approval.

BACKGROUND

The State Bar's Reserve Policy requires a Minimum Target Reserve of two months of operating expenses (17 percent) for each fund and requires a spend down plan when reserves remain greater than 30 percent for longer than six consecutive months.

In 2016, the CBLS and BOT approved a spend down of reserves to bring the balance down to \$464,000 from approximately \$6 million. Below are the spend down initiatives approved at that time.

- Annual Fee holiday - \$1.6 million
- Case Management System (AIMS) - \$1.5 million
- Outreach - \$100,000
- Exam Bank Prep/System - \$2.2 million
- New Specialties - \$200,000
- Exam Fee holiday/reduction - \$318,000

Currently, Legal Specialization is budgeted to be at 134 percent of the allowable reserve balance.

- Legal Specialization Fund net balance as of 12/31/2020 = \$5,647,492
- 2021 projected net balance as of 12/31/2021 = \$4,593,892
- 2021 budgeted expenses = \$3,417,300
 - Minimum target reserve balance (17 percent) = \$580,941
 - Maximum reserve balance (30 percent) = \$1,025,190

In order to comply with the State Bar's Reserve Policy, a spend down of approximately \$4 million is required to bring the Legal Specialization Fund down to the Minimum Target Reserve balance of \$580,941.

DISCUSSION

At its March meeting, the CBLS discussed potential spend down initiatives, and staff has researched the following options:

- A. 2022 Legal Specialization Program Annual Fee Holiday - **\$1,785,960**
- B. Five-Year Annual Fee Reduction for Specialists Age 70 Years or Older - **\$866,320**
- C. Advertising/Publications - **\$100,000**
- D. Five-Year Application for Initial Certification Fee Holiday - **\$384,790**
- E. Five-Year Application for Recertification Fee Reduction - **\$637,555**
- F. Admissions Applicant Portal File Storage - **\$74,402**
- G. Creation of New/Additional Legal Specialization Staff - **\$66,040**
- H. Legal Specialist Examination Refund for Passers - **\$234,071**

Staff recommend approving options A-G above for transmittal to the BOT. Implementation of these initiatives will total \$3,915,067, which will bring the Legal Specialization Fund balance down to \$678,825, or 19.9 percent of reserves.

Option H is not being considered at this time, as option D would have a similar effect. Applicants seeking to submit their applications for initial certification can only do so after passing the exam. Instead of providing a refund of their exam fees, the State Bar would waive the additional fee of applying for certification.

Since recertification is completed every five years, staff recommend implementation of Option E for five years, which would grant all specialists the opportunity to take advantage of the reduced recertification fee. With alignment of the terms for options B and D, the temporary reduction period of the respective fees will allow staff to further evaluate the effects on the overall budget without permanently losing those revenue streams. If appropriate, the CBLS will have the ability to return fees back to current levels, or permanently reduce fees at the end of this spend down.

RECOMMENDATION

It is recommended that the California Board of Legal Specialization approve the following motion:

MOVE, that spend down options A-G above are approved for transmittal to the Board of Trustees for final approval.