



The State Bar of California

OPEN SESSION AGENDA ITEM 702 JULY 2023 FINANCE COMMITTEE III.A

DATE: July 20, 2023

TO: Members, Finance Committee
Members, Board of Trustees

FROM: Aracely Montoya-Chico, Chief Financial Officer

SUBJECT: Approval of Proposed 2023 Budget Amendment

EXECUTIVE SUMMARY

This agenda item is presented to the Finance Committee and the Board of Trustees in accordance with the requirements of section 5.2.1 of the Board of Trustees Policy Manual (referred to as the Board Book), which states that the Board may, by resolution, amend any adopted budget, upon the recommendation of the Finance Committee. This agenda item includes the proposed budget amendment of the 2023 budget, to take effect as of June 30, 2023.

BACKGROUND

The 2023 State Bar budget was approved by the Board of Trustees on February 27, 2023, and submitted to the Legislature in accordance with Business and Professions Code section 6140.1 on February 28, 2023. State Bar-wide revenues were budgeted to be \$269.9 million and budgeted expenses to be \$286.5 million. General Fund revenues were budgeted at \$91.3 million and expenses at \$95.7 million.

DISCUSSION

The proposed budget adjustments are prepared based on actual financial data through April 30, 2023.

This agenda item presents the budget adjustments at both the fund and cost center levels. The proposed amendments will impact the Legislative Activities Fund and grant-related funds.

LEGISLATIVE ACTIVITIES FUND AMENDMENT

1. The Legislative Activities fee was changed from an 'opt-out' to an 'opt-in' in 2023. As a result of this change, budgeted revenue was reduced by 38 percent to \$500,000 in the 2023 budget. However, actual 2023 revenue was in fact far less, amounting to only \$42,000. This amendment revises the Fund's 2023 revenue down by \$458,000 accordingly.

GRANTS FUND-RELATED AMENDMENTS

The State Bar continues to distribute increasingly more grant revenue. The grant revenue distributed has increased from \$50.2 million in 2018 to \$147.6 million in the 2023 adopted budget, a 194 percent increase in five years. Two significant reasons for this increase are the Homeless Prevention grants and growth in Interest on Lawyers' Trust Accounts (IOLTA) accounts.

1. The substantial amounts deposited in IOLTA accounts, currently totaling \$4.8 billion, combined with recent interest rate hikes, have necessitated adjustments to the revenue projections outlined in the 2023 budget. As a result, this amendment proposes a revision of the IOLTA revenue projections in the Legal Services Trust Fund (LSTF) by \$67.3 million, increasing from \$38.8 million to \$106.1 million, with the distribution of these funds scheduled for 2024.
2. The initial budget for Homeless Prevention IV was set at \$19 million upon adoption. However, it is now projected that actual revenue received will be slightly lower, approximately \$18.5 million. This amendment decreases Homeless Prevention IV revenue and expenses in the Grants Fund by \$0.5 million accordingly.

UPDATED RESERVE FUND BALANCES

The above proposed adjustments will impact the Legislative Activities, LSTF, and the Grants funds. The updated reserve balances for each of these funds after amending the revenues and expenses will be as follows:

	12/31/23 Projected Reserve Balance	Total Amendment Increase/(Decrease)	12/31/23 Reserve Balance Post Amendment	Reserve Level (%)*
Restricted Funds				
Legislative Activities Fund (216)	681,507	(458,000)	223,507	71.5%
Grants Fund (312)	247,046	-	247,046	NA
Legal Services Trust Fund (228)	50,964,104	67,333,709	118,297,813	NA

Refer to Attachment A for details of proposed budget amendments and Attachment B for updated reserve balances of affected funds.

FISCAL/PERSONNEL IMPACT

The impact on the Legislative Activities Fund is to decrease the ending fund balance by \$458,000. There is no impact on the ending fund balance in the Grants Fund since revenue and expenses are equally reduced. The impact on the Legal Services Trust Fund is to increase the ending fund balance by \$67.3 million.

AMENDMENTS TO RULES

None

AMENDMENTS TO BOARD OF TRUSTEES POLICY MANUAL

None

STRATEGIC PLAN GOALS & IMPLEMENTATION STEPS

None-Core business operations

RECOMMENDATIONS

Should the Finance Committee concur in the proposed action, passage of the following resolution is recommended:

RESOLVED, that the Finance Committee recommends that the Board of Trustees approve the 2023 Proposed Budget Amendment in the form presented this day before the Board, for the six months ended June 30, 2023.

Should the Board of Trustees concur in the proposed action, passage of the following resolution is recommended:

RESOLVED, that the Board of Trustees, upon recommendation of the Finance Committee, approves the 2023 Proposed Budget Amendment in the form presented this day before the Board, for the six months ended June 30, 2023.

ATTACHMENTS LIST

- A. Proposed 2023 Budget Amendment
- B. Updated 2023 Reserve Balances

THE STATE BAR OF CALIFORNIA

ATTACHMENT A

PROPOSED 2023 BUDGET AMENDMENT - BY ITEM

Item	Fund	Cost Center	Account Category	2023 Adopted Budget	Proposed Adjustment	Amended Budget	Explanation
Legislative Activities Amendment							
1	216	8955	Donations & Opt-Out	(500,000)	458,000	(42,000)	Adjust budget to account for the shortfall in Legislative Activities fees due to the change from an 'opt-out' to and 'opt-in' in 2023.
					458,000		Total Revenue Amendment
Grant-Related Amendments							
1	228	8218	Grants	(38,789,182)	(67,333,709)	(106,122,891)	Adjust IOLTA revenue, in the Legal Services Trust Fund, to account for updated projections for balances and interest rates.
2	312	8239	Grants	(19,000,000)	545,115	(18,454,885)	To align budget with updated Homeless Prevention IV grant revenue projection, in the Grants Fund.
					(66,788,594)		Total Grant-Related Revenue Amendments
2	312	8239	Grants Expenses	19,000,000	(545,115)	18,454,885	To align budget with revised Homeless Prevention IV grant expenses related to updated grants revenue projections, in the Grants Fund.
					(545,115)		Total Grant Expense Amendment

PROPOSED 2023 BUDGET AMENDMENT - RESERVE FUND BALANCE

ATTACHMENT B

						2023 Budget Amendment		
Fund	Reserve Balance 12/31/22	Revenue	Expense	Indirect Cost	Projected Reserve Bal 12/31/23	Increase/ (Decrease) Revenue	(Increase)/ Decrease Expenses	Reserve - Post Amendment 12/31/23
Restricted Funds								
Legislative Activities Fund (216)	491,544	502,369	(237,000)	(75,405)	681,507	(458,000)	-	223,507
Grants Fund (312)	530,311	63,864,329	(63,844,238)	(303,356)	247,046	(545,115)	545,115	247,046
Legal Services Trust Fund (228)	56,312,550	47,447,328	(52,003,586)	(792,188)	50,964,104	67,333,709	(5,000)	118,292,813

* Board Reserve Policy specifies that all grant-related Funds and the Client Security Fund are excluded from the Minimum Target Reserve requirement of 17%.

The excluded grant-related funds are the Grant, Legal Service Trust, Equal Access, Justice Gap, and Bank Settlement Funds.