



The State Bar of California

OPEN SESSION AGENDA ITEM JANUARY 2024 FINANCE COMMITTEE III.A

DATE: January 10, 2024

TO: Members, Finance Committee

FROM: Aracely Montoya-Chico, Chief Financial Officer

SUBJECT: Discussion of State Bar Preliminary General Fund and Admissions 2024 Budget

EXECUTIVE SUMMARY

This item is presented to the Finance Committee for review and discussion. Because of the specific challenges associated with the General and Admissions Funds, this agenda item focuses exclusively on these two areas of the overall budget. No formal action is being requested at today's meeting.

BACKGROUND

The State Bar has been experiencing a decreasing General Fund (GF) reserve balance year-over-year in addition to a significant structural deficit in the Admissions Fund.

In August 2023 the State Bar submitted a request for an \$82 fee increase for active licensees effective January 1, 2024, to address the State Bar's structural GF deficit, estimated to total \$17 million. The Legislature did not approve a fee increase for 2024.

The State Bar sold its San Francisco building in November 2023 and received the net proceeds upon closing of the sale. In absence of a fee increase, Senate Bill, SB 40, signed into law in October 2023, provided guidance on the use of the building funds to support State Bar operations. The bill authorized "the use of net proceeds from the sale of the State Bar's San Francisco office building, after paying for costs related to the sale and new space, for employee salaries, and the operational costs for the discipline system and administration of the bar exam. All other funds must be held by the State Bar until approved by the Legislature."

Net proceeds from the sale totaled approximately \$29 million.

The Board of Trustees took action in 2023 to increase both Admissions and GF service fees. In addition, the Board discussed other cost mitigation and revenue enhancing strategies including: (1) retiree health (OPEB) payment deferral; (2) debt service payment deferral (Los Angeles building); and (3) optional reimbursement from the retiree health plan.

DISCUSSION

GENERAL FUND BUDGET

In August 2023, the State Bar prepared a 2024 budget projection for legislative submission. That projection reflected a projected 2024 deficit of \$17 million. In contrast, the 2024 preliminary budget presented to the Finance Committee today reflects a projected 2024 deficit of \$22 million. This preliminary budget relies on \$2.8 million in one-time expenditure deferral; without this deferral, the projected 2024 deficit would be nearly \$25 million. Of this amount, \$7 million reflects one-time expenditures. Adjusted for these one-time costs, the comparison between the August 2023 projected 2024 deficit of \$17M and the current 2024 projected deficit is just \$.6 million.

As noted above, the projected budget relies on a cost mitigation strategy, OPEB payment deferral; the Board of Trustees has previously considered other cost mitigation strategies, namely a debt service payment deferral, as well as revenue enhancing ones, specifically a reimbursement from the retiree health plan. The preliminary budget does not reflect either debt service deferral or retiree plan reimbursement.

An overview of the 2024 budget is provided below.

Table 1. GF Preliminary Budget

Amount (in millions)			
	August 2023 Projection	2024 Preliminary Budget	\$ Change
Revenue	\$93.7	\$97.0	\$3.3
Expenses	\$111.0	\$119.0	\$8.0
Deficit	(\$17.3)	(\$22.0)	\$4.7

Revenue

- \$3.3 million increase from the August 2023 projection:
 - \$1.8 million of Legal Specialization revenue moved into the GF from the Legal Specialization Fund. Work for Legal Specialization renewals has been moved under the Office of Regulation, which is a GF office.
 - \$1.4 million from increased investment earnings. Investment earnings have continued to increase as new investments purchased are earning higher interest rates.

Expenses

- \$8 million increase from the August 2023 projection:

Ongoing cost increases

- \$2.1 million increase in personnel costs, of which \$1.1 million is from new positions (5) in mission critical areas and \$1 million is unanticipated increases in health care benefit rates. The \$2.1 million is offset by excluding the annual, voluntary OPEB contribution of approximately \$2.8 million. The result is a net decrease of \$0.7 million in personnel costs. Without the OPEB deferral, the result would be an increase of \$2.8 million in personnel costs.
- \$3.2 million increase in building operations resulting from higher lease payments compared to the cost of owning the building. The August 2023 forecast assumed the cost of continued ownership, versus lease.
- \$3 million increase in equipment primarily for IT-related expenses.

One-time investments

- \$1.5 million for the Los Angeles elevator upgrade needed. Total project cost is estimated at \$3 million with half to be incurred in 2024 and the remainder in 2025.
- \$2 million digitization project to reduce the amount of hard-copy paper documents, which will be necessary in light of significant downsizing of San Francisco office space usage per the State Bar lease.
- \$1 million of 2024 lease costs considered as one-time expense as lease payment will decline effective 2025 due to downsize of office space.
- \$0.8 million for the San Francisco restack architectural and construction services.
- \$0.5 million for a phone system upgrade for the Contact Center.
- \$0.5 million for the Agaton litigation in the Office of General Counsel.
- \$0.4 million for the five-year update to the California Justice Gap Study.
- \$0.1 million for the five-year update to the racial disparities study in attorney discipline.
- \$0.3 million for redesign and security improvements for the State Bar website.

Impact on April Legislative Reports and 2025 Fee Increase

The 2024 budget will be the basis for the 2025 forecast. The 2025 forecast will be used to determine the amount of the fee increase needed to support the State Bar's ongoing operations. To determine the appropriate baseline 2024 budget for 2025 forecast development purposes, one-time expenses, and expense deferrals, need to be accounted for. At this juncture, the net impact of these adjustments results in a \$17.6 million *ongoing* GF deficit in 2024.

Table 2. GF Adjusted Budget for One-time Expenses

Amount (in millions)			
	August 2023 Projection	2024 Adjusted Budget	\$ Change
Revenue	\$93.7	\$97.0	\$3.3
Expenses	\$111.0	\$114.6	\$3.6
Deficit	(\$17.3)	(\$17.6)	\$0.3

ADMISSONS FUND BUDGET

To develop the preliminary 2024 Admissions Fund, budget staff accounted for both the admissions service fee increases adopted by the Board in September 2023, as well as bar exam administration cost reduction measures presented to the Board in September and November 2023.

The fee increases and cost reductions have helped close the structural deficit in the Admissions Fund; however, the preliminary budget relies on deficit spending of \$1.8 million. See Attachment B for the Admissions Fund budget detail.

Table 3. Admissions Fund Budget

Amount (in millions)			
	2023 Budget	2024 Preliminary Budget	\$ Change
Revenues	\$17.5	\$26.1	\$8.6
Expenses	\$24.5	\$27.9	\$3.4
Deficit	(\$7.0)	(\$1.8)	(\$5.2)

Revenue

- \$8.6 million increase in revenue as compared to the 2023 adopted budget due to admissions service fee increases.

Expenses

- \$3.4 million increase in expenses as compared to the 2023 adopted budget primarily due to higher personnel costs and indirect costs.

Finance staff is in the process of closing the books for 2023 to determine what the ending reserve balance for the Admissions Fund will be; it is expected that there will be sufficient reserves to cover the expected deficit spending for 2024. Remaining pending admissions service fee increases will need to be adopted, and additional bar exam administration cost saving measures identified, by the end of this year.

FISCAL/PERSONNEL IMPACT

Described above.

AMENDMENTS TO RULES

None

AMENDMENTS TO BOARD OF TRUSTEES POLICY MANUAL

None

STRATEGIC PLAN GOALS & IMPLEMENTATION STEPS

None – compliance

ATTACHMENTS LIST

- A.** 2024 General Fund Budget
- B.** 2024 Admissions Fund Budget

GENERAL FUND

ATTACHMENT A

	2023 Annual Budget	2024 Preliminary Budget	2024 Forecast to Legislature	Diffrence Budget vs Forecast
Revenue				
40-Mandatory Licensee Fees	\$ 85,179,200	\$ 87,377,000	\$ 87,395,530	\$ (18,530)
42-Other Fees	2,807,600	6,170,500	4,236,198	1,934,302
45-Other Revenues	263,200	243,000	266,622	(23,622)
47-Investment Income	407,620	2,836,000	1,412,918	1,423,082
48-Lease Revenue	2,695,200	400,000	401,813	(1,813)
Revenue Total	91,352,820	97,026,500	93,713,081	3,313,419
Expense				-
50-Personnel Costs	92,123,288	98,125,000	98,795,400	(670,400)
51-Building Operations	6,437,837	10,838,000	7,613,700	3,224,300
52-Services	9,536,571	15,071,500	10,350,500	4,721,000
54-Supplies	691,047	759,500	710,600	48,900
55-Equipment	4,534,365	6,475,000	3,471,000	3,004,000
56-Other Expenses	644,246	794,500	647,900	146,600
58-Payouts and Reimbursements	(1,800,000)	(1,800,000)	(1,902,600)	102,600
59-Indirect Costs	(10,300,299)	(12,779,000)	(10,887,415)	(1,891,585)
62-Debt Related	2,640,168	1,108,000	1,872,900	(764,900)
69-Transfers Out	400,000	495,000	422,800	72,200
Expense Total	104,907,223	119,087,500	111,094,785	7,992,715
Grand Total	13,554,403	22,061,000	17,381,704	4,679,296

ADMISSIONS FUND

ATTACHMENT B

	2023 Annual Budget	2024 Preliminary Budget	2024 Forecast	Diffrence Budget vs Forecast
Revenue				
42-Other Fees	\$ 6,187,500	\$ 8,344,000	\$ 6,187,500	\$ 2,156,500
43-Exam Fees	11,232,373	17,423,500	11,232,373	6,191,127
47-Investment Income	49,352	287,000	49,352	237,648
Revenue Total	17,469,225	26,054,500	17,469,225	8,585,275
Expense				
50-Personnel Costs	8,030,793	9,809,000	8,484,300	1,324,700
51-Building Operations	25,006	29,000	26,500	2,500
52-Services	2,049,831	1,859,500	2,166,900	(307,400)
54-Supplies	39,588	40,000	41,800	(1,800)
55-Equipment	299,919	528,500	317,000	211,500
56-Other Expenses	264,381	232,500	274,400	(41,900)
57-Exam Related Expenses	7,366,057	7,396,000	7,786,200	(390,200)
59-Indirect Costs	6,448,824	8,001,000	6,816,408	1,184,592
Expense Total	24,524,399	27,895,500	25,913,508	1,981,992
Grand Total	7,055,174	1,841,000	8,444,283	(6,603,283)