



# The State Bar of California

---

## OPEN SESSION AGENDA ITEM 701 FEBRUARY 2024

**DATE:** February 26, 2024

**TO:** Members, Board of Trustees

**FROM:** Aracely Montoya-Chico, Chief Financial Officer

**SUBJECT:** Approval of State Bar Final 2024 Budget Pursuant to Business and Professions Code Section 6140.1

---

### EXECUTIVE SUMMARY

This agenda item requests that the Board of Trustees approve the 2024 final budget, which can be found [here](#)<sup>1</sup>. The State Bar will file the budget with the Legislature to meet the February 28 statutory submission deadline after adoption by the Board. At its January 10 meeting, the Finance Committee held detailed discussions on the preliminary budget presented at that time. The board was also presented the preliminary budget at its January 18–19 meeting. This item presents the final 2024 budget.

Bar-wide revenue is budgeted at \$428.9 million, while expenses \$400.9 million, resulting in a surplus position of \$28.0 million. Grant revenue and expenses, which are mostly pass-through, account for a significant portion of bar-wide revenues and expenses as well as the overall surplus budget position.

General Fund (GF) revenue is budgeted at \$96.3 million, while expenses are \$118.4 million, resulting in deficit spending of \$22.1 million. Included in the GF budget are \$7.1 million in one-time investments to be incurred only for 2024. The State Bar General Fund operating reserves are projected to end 2023 at \$36.0 million. The large reserve balance is a result of selling the San Francisco building and receiving net proceeds of \$30.0 million.

The 2024 Admissions budget also reflects an ongoing structural deficit. Admissions revenue is budgeted at \$26.9 million, while expenses are \$30.7 million, resulting in deficit spending of \$3.8

---

<sup>1</sup> A PDF version of the budget is under development and will be posted as soon as available, a date which will be prior to the February 28 due date for the report.

million. To address the ongoing deficit of the fund in 2024 and beyond, fee increases to various admissions programs were proposed and adopted in 2023. The Board will be asked to act on additional admissions related fee increases at its March 2024 meeting. In addition, the Office of Admissions is conducting an in-depth analysis to determine where cost-cutting measures can be implemented; any identified measures will be presented to the Board later this year.

---

## **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. The board took action in 2023 by increasing Admissions and GF service fees, and submitting 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 at that time. 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 of approximately \$30 million, which was deposited into the GF reserves. 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."

The final budget is required to be filed with the Legislature by February 28, 2023. In addition to satisfying the statutory requirement, adoption of the final budget will finalize the State Bar's 2024 spending authority.

## **DISCUSSION**

### **STATE BAR-WIDE BUDGETED REVENUES AND EXPENSES**

The proposed 2024 Final Budget includes budgeted revenues of \$428.9 million and expenses of \$400.9 million. The overall net \$28.0 million surplus is mostly from grants related funds. Grant revenue and expenses are 65 percent and 58 percent, respectively, of bar-wide totals. The GF has a \$22.1 million deficit and the Admissions Fund \$3.8 million deficit. Other smaller funds with deficit positions offset the large surplus bar-wide totals.

Budgeted revenues represent an increase of \$94.2 million or approximately 28 percent compared to \$334.7 million budgeted revenues in 2023. The vast majority of State Bar revenue is derived from grant-related sources and the annual attorney licensing fee. The primary driver for the 2024 revenue increase is IOLTA revenue.

Budgeted expenses of \$400.9 million represent a net increase of \$106.9 million or 36 percent compared to \$294.0 million budgeted in 2023. Key changes in the most significant expense line items over prior year include grant expense increase of \$84.6 million from

planned Legal Services Trust Fund (LSTF) disbursement, and personnel increases of \$10.0 million due to a cost-of-living adjustment (COLA) and merit increases. Table 1 below shows a comparison summary of the State Bar-wide revenues and expenses for 2024 and 2023.

**Table 1. State Bar-Wide Budgeted Revenues**

Amount (in millions)			
	2024 Budget	2023 Budget	\$ Change
<b>Revenue</b>	\$428.9	\$334.7	\$94.2
<b>Expenses</b>	\$400.9	\$294.0	\$106.9
<b>Surplus</b>	\$28.0	\$40.7	(\$12.8)

## **GENERAL FUND**

The proposed 2024 General Fund budgeted revenues of \$96.3 million represent an increase of \$4.9 million or 5 percent compared to \$91.4 million budgeted revenues in 2023. The main source of GF revenue is mandatory licensee fees, which increased by 0.7 percent from 2023 to 2024.

Expenses for 2024 total \$118.4 million, an increase of \$13.6 million or 13 percent as compared to the 2023 budget. The 2024 budgeted deficit is \$22.1 million. The budget relies on \$2.8 million in a one-time OPEB expenditure deferral; without this deferral, the projected 2024 deficit would be nearly \$25 million. Of the \$22.1 million deficit amount, \$7.1 million reflects one-time expenditures primarily reflected in the Services budget line item, which include the following:

- Digitization project to support smaller SF footprint (\$2M)
- LA office elevator upgrade (\$1.5M)
- SF office restack architectural and construction services (\$0.8M)
- Redesign and security improvements for State Bar website (\$0.3M)
- Five-year radical disparities study in attorney discipline (\$0.1M)
- Five-year update to California Justice Gap Study (\$0.4M)
- Phone system upgrade for Contact Center (\$0.5M)
- Agaton Litigation (\$0.5M)
- 2024 lease costs considered one-time expense as lease payments will decline in 2025 due to a planned downsizing of SF office space (\$1M)

Outside of the above expenditures, there is an increase of \$6.4 million in personnel expenses as a result of a negotiated COLA of 2.5 percent, merit increases, and increased healthcare costs.

Ending 2023 GF reserves are projected to total \$36.0 million. The large reserve balance is a result of selling the San Francisco building and receiving net proceeds of \$30.0 million. The remaining \$6.0 million is due to the release of loan proceeds that were restricted to be used for the IT and capital projects. Upon selling the building, the funds are no longer required to be restricted. Although the State Bar's reserve policy sets a reserve floor of 17 percent for most funds, the 2024 proposed budget will result in the General Fund reserve balance totaling \$13.9 million, or 11.8 percent, at the end of 2024.

Table 2 below shows a comparison summary of the General Fund revenues and expenses for 2024 and 2023.

<b>Table 2. General Fund Budget</b>			
	<b>Amount (in millions)</b>		
	<b>2024 Budget</b>	<b>2023 Budget</b>	<b>\$ Change</b>
<b>Revenue</b>	\$96.3	\$91.4	\$4.9
<b>Expenses</b>	\$118.4	\$104.9	\$13.6
<b>Deficit</b>	(\$22.1)	(\$13.5)	(\$8.6)

## **ADMISSIONS FUND**

Because of the nature of admissions work, namely development and administration of the bar examination, the Admissions Fund incurs millions in nondiscretionary expenditures for professional services, exam, temporary help, and travel expenses annually. To develop the 2024 Admissions Fund budget, staff accounted for both the admissions service fee increases adopted by the Board in September 2023, as well 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 2024 budget relies on deficit spending of \$3.8 million.

The proposed 2024 Admissions Fund budget includes budgeted revenues of \$26.9 million and expenses of \$30.7 million. Budgeted revenues represent an increase of \$7.3 million or 38 percent compared to \$19.6 million budgeted revenues in 2023 due to the admissions service fee increases. Expenses are budgeted at \$30.7 million, an increase of \$4.4 million or 17 percent as compared to the 2023 budget. The main drivers of the increase are personnel costs and indirect costs. The \$2.6 million temporary rise in indirect costs is related to the one-time expenses in the GF<sup>2</sup>. To offset the increase of total expenses in 2024 and in light of the deficit position in the Admissions Fund, the board could consider using a portion of building sale proceeds to pay for a portion of exam related expenses; SB 40 allows for building sale proceeds to be used in this manner. If the Board chooses to go in that direction, staff will incorporate that decision into the mid-year budget amendment.

There is an ongoing structural deficit in Admissions operations driven largely by flat bar examination fees, a reduced number of bar exam applicants over the last several years, and higher operating costs due to negotiated merit increases and COLA's and a return to an in-person bar exam. The Admissions Fund 2023 ending reserve balance is approximately \$7.0 million. With the budgeted 2024 deficit spending of \$3.8 million, the Fund is projected to end 2024 with \$3.3 million of reserves. Remaining pending admissions services fee increases will need to be adopted, and additional bar exam administration cost saving measures identified, by the end of this year, in order for the Admission Fund to remain solvent beginning in 2026.

---

<sup>2</sup> The significant variance between budgeted 2023 and 2024 indirect costs reflects the State Bar's historical practice of not truing up indirect costs annually. Had a true-up occurred in 2023, Admissions Fund indirect costs would have increased by about \$0.6 million in that year, resulting in a smaller variance between 2023 and 2024 amounts.

Table 3 below shows a comparison summary of the General Fund revenues and expenses for 2024 and 2023.

**Table 3. Admissions Fund Budget**

Amount (in millions)			
	2024 Budget	2023 Budget	\$ Change
<b>Revenue</b>	\$26.9	\$19.6	\$7.3
<b>Expenses</b>	\$30.7	\$26.3	\$4.4
<b>Deficit</b>	(\$3.8)	(\$6.7)	(\$2.9)

## OVERALL IMPACT ON RESERVES

The financial viability of each fund is assessed by comparing the reserves of each fund, projected through December 31, 2024, against the Board's minimum reserve guideline of two months (17 percent) of operating expenses. The Board's policy also calls for spend-down funding whenever a fund surpasses 30 percent of operating expenses. Funds that are excluded from the minimum reserve target requirement (noted as N/A below) are all grant-related funds (specifically, the Legal Service Trust, Equal Access, Justice Gap, and Bank Settlement Funds) and the Client Security Fund. The table below shows a summary of reserves for 2024.

**Table 4. Projected Reserves – All Funds**

**At December 31, 2024**

Amount (in 000s)						
Funds	Reserve 12/31/2023	2024 Budget Revenues	2024 Budget Expenses	Budgeted Surplus/ (Deficit)	Projected Reserve 12/31/2024	Reserve Level (%)
<b>General Fund</b>	36,095	96,341	(118,487)	(22,146)	13,949	11.8%
<b>Admissions</b>	7,051	26,927	(30,704)	(3,777)	3,274	10.7%
<b>Elimination of Bias</b>	(0)	325	(482)	(157)	(157)	-32.6%
<b>Lawyers Assistance Program</b>	1,010	2,249	(3,017)	(768)	242	8.0%
<b>Legislative Activities</b>	248	55	(295)	(240)	8	2.5%
<b>Bank Settlement</b>	4,844	168	(4,699)	(4,531)	313	N/A
<b>Client Security</b>	8,890	8,865	(8,318)	547	9,437	N/A
<b>Equal Access</b>	2,770	37,921	(38,732)	(811)	1,959	N/A
<b>Grants</b>	2,450	97,907	(96,772)	1,135	3,585	N/A
<b>Justice Gap</b>	4,918	1,228	(1,008)	220	5,138	N/A
<b>LSTF</b>	188,416	157,378	(98,923)	58,455	246,871	N/A

Based on the 2024 Budget, all funds are expected to have reserves below the 17 percent target at the end of 2024.

As discussed above, the Admissions and General Funds face structural deficits that will require continued reserve spending absent revenue increases and cost reductions.

The EOB Fund has had a decline in revenues the past few years. However, the State Bar's work in diversity, equity, and inclusion has only increased. The EOB Fund is running out of reserves as the revenue stream is insufficient to support the State Bar's DEI work.

Business and Professional Code section 6140.9 (d) states that any excess funds not needed to support the Lawyer Assistance Program (LAP), including reserve funds, may be transferred to the Client Security Fund, provided there are sufficient funds available to fully support the program. Given that LAP does not have excess funds in 2024, its reserves are decreasing, and the Client Security Fund continues to have healthy reserves, a transfer is not necessary or recommended at this time.

The Legislative Activities Fund was changed to opt-in in 2023 and as a result, revenue has significantly decreased and is projected to continue on a downward trend.

## **2025-2027 FORECAST**

Except for line items with known variances, the 2025 to 2027 forecast years assumes the following:

- 3 percent inflationary increase for expenses annually.
- Merit increases for all full-time equivalent (FTEs) that are eligible and have not reached their salary cap.
- 2.5 percent COLA in 2025 for all FTEs per the negotiated MOU. No COLA increases for 2026-2027 as they have not been negotiated with the union.
- Flat staffing levels compared to 2024.
- Minimal growth in mandatory license fees of 0.28 percent annually<sup>3</sup>.
- No statutory fee increase.

Without a fee increase, the General Fund will become insolvent in 2025, as all remaining reserves will be depleted. In addition, the Admissions Fund faces a structural deficit and is projected to exhaust its reserves in 2026.

## **FISCAL/PERSONNEL IMPACT**

The fiscal impact of the 2024 Final Budget for revenues is a net increase of \$94.1 million and expenditures a net increase of \$106.9 million compared to the 2023 budget. Of these amounts, \$76.4 million of revenue and \$84.6 million of expenses comprise grant-related funds.

## **AMENDMENTS TO RULES**

None

---

<sup>3</sup> Staff is analyzing attorney growth projections for future years to ensure accurate estimates are used for projecting licensee fees; specifically, the .28 percent may be too low. If, post budget adoption, a change in the estimate is recommended and approved by the board, staff will incorporate that adjustment in the midyear budget.

## **AMENDMENTS TO BOARD OF TRUSTEES POLICY MANUAL**

None

## **STRATEGIC PLAN GOALS & IMPLEMENTATION STEPS**

None – compliance

## **RECOMMENDATIONS**

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

**RESOLVED**, that the Board of Trustees adopts the 2024 Final Budget.

**FURTHER RESOLVED**, that the Board of Trustees authorize staff to make technical adjustments and corrections to the 2024 Final Budget prior to submitting it to the Legislature by February 28, 2024.

## **ATTACHMENTS LIST**

- A. [2024 Final Budget](#)