



# The State Bar of California

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## **OPEN SESSION AGENDA ITEM 705 MARCH 2024 FINANCE COMMITTEE III.B**

**DATE:** May 16, 2024

**TO:** Members, Finance Committee  
Members, Board of Trustees

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

**SUBJECT:** Approval of Quarter One 2024 Financial Statements Report

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### **EXECUTIVE SUMMARY**

This agenda item presents the unaudited financial results for the three months ended March 31, 2024 for approval by the Finance Committee.

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### **BACKGROUND**

The charter of the Finance Committee directs the committee to thoroughly examine the State Bar's finances on a quarterly basis to ensure a "functional and detailed understanding of the State Bar's revenue streams, expenditures, and overall fiscal conditions and issues." This agenda item provides the Finance Committee with the reports it needs to fulfill these responsibilities.

### **DISCUSSION**

The report for review by the Committee in this agenda item are the Financial Statements for the three months ended March 31, 2024. This report provides the Committee with an understanding of the State Bar's revenue streams, expenditures and overall fiscal condition.

### **FISCAL/PERSONNEL IMPACT**

None

## **AMENDMENTS TO RULES**

None

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

None

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

None – compliance

## **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 2024 First Quarter Financial Statements Report for the three months ended March 31, 2024, in the form presented this day before the Board.

**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, approve the 2024 First Quarter Financial Statements Report for the three months ended March 31, 2024, in the form presented this day before the Board.

## **ATTACHMENT LIST**

- A.** Quarter One Financial Statements for the Three Months Ended March 31, 2024



# The State Bar of California

Date: May 16, 2024

To: Members, Finance Committee  
Members, Board of Trustees

From: Aracely Montoya-Chico, Chief Financial Officer

Subject: Financial Statements for Three Months as of March 31, 2024

This memo outlines the State Bar's three-months operating results as of March 31, 2024, with information and comparative analysis regarding revenue and expenses.

## FINANCIAL HIGHLIGHTS – REVENUES AND EXPENSES

Table 1 below provides year-to-date budget-to-actual variance highlights for select revenue and expense categories.

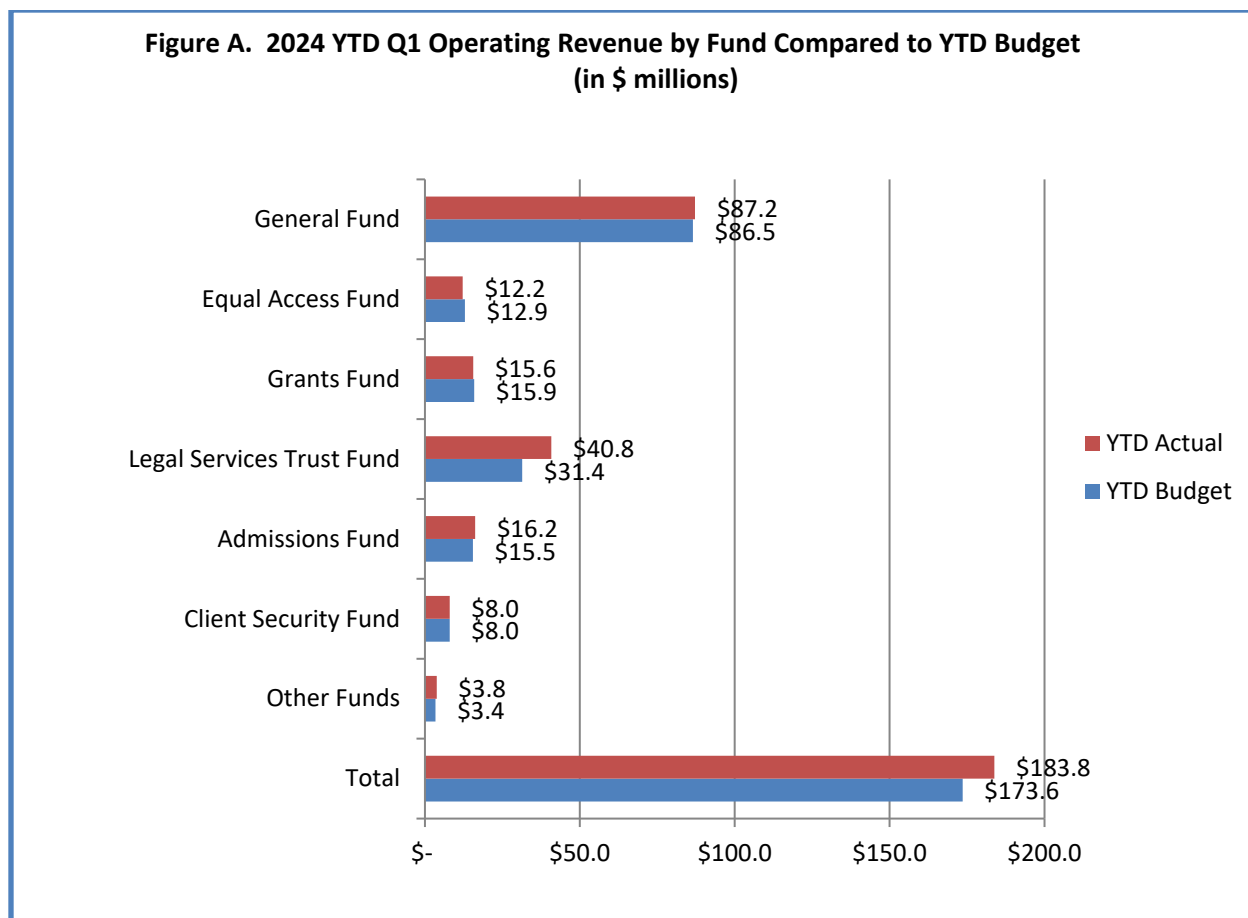
**Table 1. YTD Budget-to-Actual Variance Analysis <sup>1</sup>**

Financial Statement Category	Mar 31, 2024 Actual (in \$M)	Mar 31, 2024 Budget (in \$M)	Changes (in \$M)	Changes (in %)
<b>Operating Revenue</b>	<b>\$183.8</b>	<b>\$173.6</b>	<b>\$10.2</b>	<b>6%</b>
Licensing Fees & Donations	102.0	101.7	0.3	0%
Trust Account Revenue	33.7	24.3	9.4	39%
Exam Application Fees	15.3	14.6	0.7	5%
Grant Revenue	23.6	24.0	(0.4)	-2%
<b>Operating Expenses</b>	<b>\$83.9</b>	<b>\$93.5</b>	<b>(9.6)</b>	<b>-10%</b>
Access & Inclusion	55.2	58.4	(3.2)	-5%
Admissions	6.3	8.1	(1.8)	-22%
Chief Trial Counsel	17.0	18.1	(1.1)	-6%
State Bar Court	4.0	4.3	(0.3)	-7%

<sup>1</sup> Table displays total operating revenue and expense, followed by the largest revenue and expense categories only.

## REVENUE

Figure A. Comparison of budgeted operating revenues versus actuals at the fund level.



Overall, bar-wide operating revenue for the three months ending March 31, 2024, totaled \$183.8 million, above budgeted operating revenue of \$173.6 million by \$10.2 million.

Operating revenue for the General Fund totaled \$87.2 million, \$0.7 million more than budgeted revenue of \$86.5 million. The primary driver is \$0.5 million in late compliance fees related to the Client Trust Account Protection Program (CTAPP). The budget assumed that fewer attorneys would be non-compliant and subject to penalties in the program's second year. This assumption did not materialize, resulting in more penalties compared to 2023. In addition, \$0.1 million of the variance is in Law Corp Renewal revenue. As of Q1, there were more renewals than anticipated in the budget. Upon closing of the renewal period in early May, staff will assess if the variance is attributed to increased renewal rates or earlier renewals compared to prior year.

While mandatory licensee fees are on budget at this stage of the year slightly exceeding budget by \$75K, an additional \$3.7 million needs to be earned/collected to reach the annual budget. Based on the aggressive growth target and historical trends, it is likely that the final amount will

fall short. In the last nine months of 2023, the State Bar collected \$2.6 million in mandatory fees. Due to staffing issues in Regulation and IT survey challenges, there are approximately 1,900 more unpaid attorneys than at the same point last year. While the eventual renewal status of these attorneys may lead to a revenue increase, it is unlikely the renewals will suffice in achieving the budgeted revenue target.

Operating revenue for the Equal Access Fund totaled \$12.2 million, which is \$0.7 million less than budgeted revenue of \$12.9 million. This variance is primarily due to \$0.6 million of grant funds that did not align with the budgeted revenue. Grant funds were returned to the State Bar in 2023 and were subsequently disbursed in Q1 2024. When the funds were returned, a grant payable was recorded. Upon distributing the returned funds in 2024, instead of recognizing revenue, the payable was reduced. In addition, there was \$0.1 million less in grant administrative reimbursement costs due to staff turnover, resulting in less billable time, coupled with delayed billings.

Operating revenue for the Grants Fund totaled \$15.6 million, which is \$0.3 million less than budgeted revenue of \$15.9 million. Grant administrative reimbursement costs are below budget by this amount due to staff turnover, resulting in less billable time, coupled with delayed billings. The Grants Fund is comprised of CARE Court, Homeless Prevention (HP) II, HP III, HP IV, CalHFA, Consumer Debt and grant administrative cost reimbursements.

The Legal Services Trust Fund (LSTF) operating revenue of \$40.8 million exceeded budgeted revenue of \$31.4 million by \$9.4 million. The interest on Lawyers' Trust Accounts (IOLTA) accounts for the entire variance. This is due to a continuation of larger account balances and higher interest rates than estimated in the budget. The budget assumed the top 10 banks, which contribute 90 percent of IOLTA revenue, would have a total average daily balance of \$4.4 billion and with an average interest rate of 3.57 percent in the first quarter. However, the actual average daily balance is approximately \$5.4 billion with an interest rate of 3.17 percent. While the interest rate was 40 basis points lower, the significantly higher daily balances offset the lower rate, resulting in the overall favorable variance.

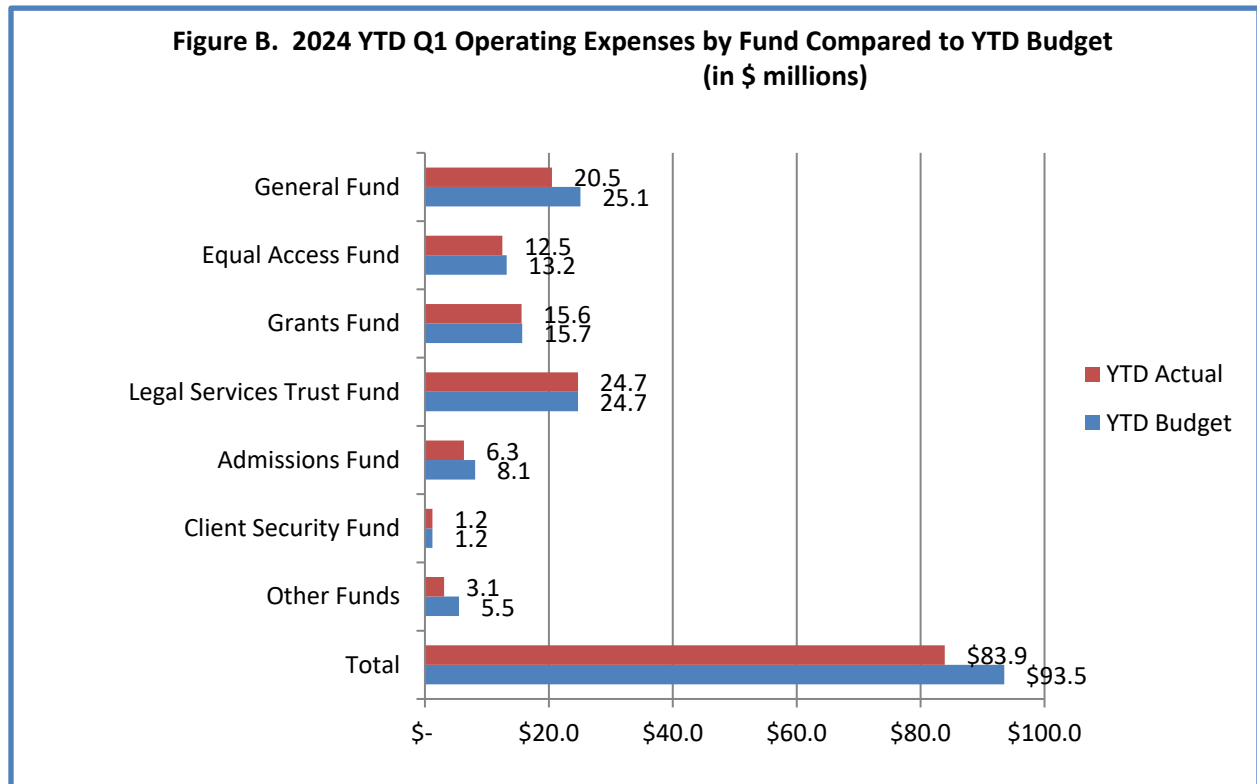
Admissions Fund revenue totaled \$16.2 million, exceeding budgeted revenues of \$15.5 million by \$0.7 million. July applicant exam fee revenues exceeded the budget by \$0.6 million for this stage of the registration cycle. February exam fees were \$0.1 million above budget between new and attorney applicants.

Client Security Fund revenue, funded by mandatory licensing fees, aligned with the budgeted revenue of \$8.0 million.

Other Funds' revenues amounted to \$3.8 million, surpassing budgeted revenues of \$3.4 million by \$0.4 million. Most of the variance can be attributed to \$0.3 million higher revenues earned in the Justice Gap Fund from class-action suit settlements donated to this fund.

## EXPENSES

Figure B. Comparison of budgeted operating expenses versus actuals at the fund level.



State Bar-wide operating expenses for the three months ending March 31, 2024, totaled \$83.9 million, \$9.6 million less than budgeted expenses of \$93.5 million.

General Fund expenses totaled \$20.5 million, which is \$4.6 million less than budgeted expenses of \$25.1 million. This variance is due to the following:

- i) Savings in personnel costs of \$2.6 million, of which \$1.5 million is due to the reversal of the accrual for December's last week of payroll. Another \$1.0 million is due to a benefits budget allocation error, which will be corrected in the next quarterly report. Without the accrual and the error, personnel expenses are in line with budget.
- ii) Professional Services savings of \$1.3 million from delayed IT invoice submissions and delayed projects (\$0.8 million) as well as savings from the Rule 2201 program due to fewer referrals and a delayed trial start date (\$0.4 million).
- iii) \$0.7 million savings in Software Maintenance and Hardware Purchases from delayed start of IT projects and invoice submissions.

Equal Access Fund expenses amounted to \$12.5 million, \$0.7 million less than the budgeted expenses of \$13.2 million. \$0.6 million is due to the underspend of grant expenses related to

the return of prior year revenue mentioned above. \$0.1 million of savings in Professional Services related to the timing of invoice submission.

Grants Fund expenses were \$15.6 million, and in line with budgeted expenses of \$15.7 million.

Legal Services Trust Fund expenses aligned with budgeted expenses of \$24.7 million.

Admissions Fund expenses totaled \$6.3 million, \$1.8 million less than budgeted expenses of \$8.1 million. This variance is driven by the following:

- i) \$0.8 million of the savings is from the timing of proctors and grader costs from the February exam that have not yet been submitted.
- ii) \$0.2 million of savings related to facilities costs from underspending with contracted examination locations and expansive use of State Bar facilities.
- iii) \$0.7 million in savings from Multi-State Bar Exam, Laptop License, and Professional Services expenses due to the delay in the submission of invoices.

Client Security Fund expenses were aligned with budgeted expenses of \$1.2 million.

Other Funds' expenses totaled \$3.1 million, \$2.4 million less than budgeted expenses of \$5.5 million. The variance is due to a budgeting error of \$2.3 million in the Bank Settlement fund for disbursements that covered two years instead of one. Staff will submit a budget amendment as part of the midyear projection.

#### **NONOPERATING REVENUE/EXPENSES**

Nonoperating revenues/expenses encompass investment income, rental income, transfers, and interest expense on loans. Nonoperating revenue totaled \$3.9 million, exceeding the budgeted revenue of \$3.5 million by \$0.4 million. This variance is due to investment income exceeding the budget by \$0.4 million.

#### **ATTACHMENTS**

Attachment 1 – Operating Revenue, Operating Expenses, and Changes in Net Position

Attachment 2 – Assets, Liabilities, and Net Position

**ATTACHMENT 1**

**The State Bar of California**  
**Statement of Operating Revenue, Operating Expenses & Changes in Net Position - Bar Wide**  
**for Three Months Ended March 31, 2024**

	<b>General Fund</b>	<b>Other Funds</b>	<b>2024 Actual</b>	<b>2024 Budget</b>	<b>Variance- 2024 Actual vs Budget</b>
<b>OPERATING REVENUE</b>					
Continuing Legal Education Fees	994,059	-	994,059	468,100	525,959
EAF AB 145 Filing Fee Revenue	-	4,213,685	4,213,685	4,807,500	(593,815)
Exam App. & Moral Char. Fees	-	15,350,695	15,350,695	14,632,000	718,695
Grant Revenue	-	23,624,929	23,624,929	24,017,250	(392,321)
Law Corporation Registration Fees	691,205	-	691,205	603,300	87,905
Legal Specialization Fees	1,780,435	16,400	1,796,835	1,785,000	11,835
Licensing Fees and Donations	83,437,878	18,613,756	102,051,634	101,720,600	331,034
Multi-Jurisdictional Practice Fees	-	675,230	675,230	658,000	17,230
Other Revenue	373,510	257,549	631,059	591,700	39,359
Trust Account Revenue	-	33,730,938	33,730,938	24,279,000	9,451,938
<b>Total Operating Revenue</b>	<b>87,277,087</b>	<b>96,483,182</b>	<b>183,760,269</b>	<b>173,562,450</b>	<b>10,197,819</b>
<b>OPERATING EXPENSES</b>					
Access & Inclusion	4,183	55,202,498	55,206,681	58,383,408	(3,176,727)
Admissions	-	6,291,571	6,291,571	8,138,204	(1,846,633)
Regulation	1,526,075	-	1,526,075	1,672,349	(146,274)
Chief Trial Counsel	16,957,523	-	16,957,523	18,073,410	(1,115,887)
Client Security Fund	-	1,203,216	1,203,216	1,163,375	39,841
General & Administrative	(5,839,450)	-	(5,839,450)	(3,339,683)	(2,499,767)
Governance	2,148,682	49,203	2,197,885	2,640,990	(443,105)
Lawyers Assistance Program	-	355,181	355,181	359,767	(4,586)
Probation	510,798	-	510,798	497,623	13,175
Professional Competence	1,227,610	249,158	1,476,768	1,646,774	(170,006)
State Bar Court	3,973,385	-	3,973,385	4,283,666	(310,281)
<b>Total Operating Expenses</b>	<b>20,508,806</b>	<b>63,350,827</b>	<b>83,859,633</b>	<b>93,519,883</b>	<b>(9,660,250)</b>
<b>OPERATING INCOME/(LOSS)</b>	<b>66,768,281</b>	<b>33,132,355</b>	<b>99,900,636</b>	<b>80,042,567</b>	<b>19,858,069</b>



**The State Bar of California**  
**Statement of Operating Revenue, Operating Expenses & Changes in Net Position - Bar Wide**  
**for Three Months Ended March 31, 2024**

	<b>General Fund</b>	<b>Other Funds</b>	<b>2024 Actual</b>	<b>2024 Budget</b>	<b>Variance- 2024 Actual vs Budget</b>
<b>NON-OPERATING</b>					
Interest and Investment Income	1,054,502	2,981,250	4,035,752	3,619,000	416,752
Rental Income	120,959	-	120,959	112,600	8,359
Interest Expense on Loans and Leases	(66,677)	-	(66,677)	(67,000)	323
Principal Expense on Loans	(210,000)	-	(210,000)	(210,000)	-
<b>Total Non-Operating</b>	<b>898,784</b>	<b>2,981,250</b>	<b>3,880,034</b>	<b>3,454,600</b>	<b>425,434</b>
<b>INCOME/(LOSS) BEFORE TRANSFERS</b>	<b>67,667,065</b>	<b>36,113,605</b>	<b>103,780,670</b>	<b>83,497,167</b>	<b>20,283,503</b>
<b>TRANSFERS</b>					
49110-Transfer In From General Fund	-	495,000	495,000	495,000	-
49232-Trsf In From Justice Gap Fund	-	1,000,000	1,000,000	1,000,000	-
69228-Transfer Out To LSTF	-	(1,000,000)	(1,000,000)	(1,000,000)	-
69320-Transfer Out to Admissions Fund	(495,000)	-	(495,000)	(495,000)	-
<b>TOTAL TRANSFERS</b>	<b>(495,000)</b>	<b>495,000</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>CHANGE IN NET POSITION</b>	<b>67,172,065</b>	<b>36,608,605</b>	<b>103,780,670</b>	<b>-</b>	<b>-</b>
Net Position at beginning of year	8,246,219	218,626,493	226,872,712	-	-
<b>NET POSITION AT March 31</b>	<b>75,418,284</b>	<b>255,235,098</b>	<b>330,653,382</b>	<b>-</b>	<b>-</b>

**The State Bar of California  
Statement of Assets, Liabilities & Net Position  
Bar Wide as of March 31, 2024**

	<b>General Fund</b>	<b>Other Funds</b>	<b>2024 Actual</b>	<b>Variance- 2024 vs. 2023</b>
<b>ASSETS &amp; DEFERRED OUTFLOWS</b>				
Cash	117,379,589	-	117,379,589	(44,265,007)
Investments	279,427,234	-	279,427,234	192,479,049
Accounts Receivable (net of allowances)	1,376,604	1,714,610	3,091,214	540,978
Lease receivable	4,122,769	-	4,122,769	(11,041,606)
Interfund Rec(Pay)	(285,910,673)	285,910,673	-	-
Other Assets	885,992	14,824	900,816	(9,499,267)
Capital Assets (net of depreciation)	115,863,303	-	115,863,303	16,726,666
Deferred Outflows	42,688,915	-	42,688,915	4,803,801
<b>Total Assets &amp; Deferred Outflows</b>	<b>275,833,733</b>	<b>287,640,107</b>	<b>563,473,840</b>	<b>149,744,615</b>
<b>LIABILITIES &amp; DEFERRED INFLOWS</b>				
Accounts Payable and Accrued Liabilities	12,075,409	2,159,625	14,235,034	429,084
Lease liabilities	51,009,468	-	51,009,468	50,217,562
Subscription Liabilities	2,510,868	-	2,510,868	2,510,868
Unearned Income	299,045	30,245,384	30,544,429	(13,681,450)
Loan Payable	11,596,000	-	11,596,000	(19,412,989)
Deferred Inflows	24,864,791	-	24,864,791	3,131,129
OPEB Liability	5,773,259	-	5,773,259	(1,620,044)
Pension Liability	92,286,609	-	92,286,609	10,937,257
<b>Total Liabilities &amp; Deferred Inflows</b>	<b>200,415,449</b>	<b>32,405,009</b>	<b>232,820,458</b>	<b>32,511,417</b>
<b>NET POSITION</b>				
Net Position at Beginning of Year	8,246,219	218,626,493	226,872,712	112,824,636
Change in Net Position	67,172,065	36,608,605	103,780,670	4,408,562
<b>Total Net Position</b>	<b>75,418,284</b>	<b>255,235,098</b>	<b>330,653,382</b>	<b>117,233,198</b>
<b>Total Liabilities &amp; Net Position</b>	<b>275,833,733</b>	<b>287,640,107</b>	<b>563,473,840</b>	<b>149,744,615</b>