



# The State Bar of California

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**Title of Report:** Justification for a Licensing Fee Increase  
**Statutory Citation:** Business and Professions Code section 6145.1  
**Date of Report:** April 1, 2024

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The State Bar of California is submitting its *Justification for a Licensing Fee Increase* to the Chief Justice of California and to the Assembly and Senate Judiciary Committees in accordance with Business and Professions Code section 6145.1. The report accompanies and builds on a second report required by the same statute, *Progress Report on Discipline System Case Processing Standards and Analysis of Office of Chief Trial Counsel Staffing Needs*, as well as a third report required by Business and Professions Code section 6086.20, *Recommendations for Codifying a Formal Disciplinary Diversion Program*.

Business and Professions Code section 6145.1 requires the State Bar to “prepare a report providing written justification for how it would use revenue generated by an increase in the mandatory annual license fee,” and outlines parameters for presenting that justification. The report outlines the need for a 2025 fee increase of \$125 per active licensee, comprised of \$95 for Maintaining Public Protection and \$30 for Improving Public Protection. The report highlights the interrelationship between the amount articulated in this report and recommendations in the other two reports. For example, a new Diversion Program would pay for itself by 2026, as over time it would significantly reduce the number of new positions required in the Office of Chief Trial Counsel to meet case processing standards.

The report also provides recommendations for shifting from the current fee structure, which is predominantly flat, to a tiered system based on the relevant structural difference of practice sectors, a change that would inject equity and fairness principles into the fee assessment methodology. Lastly, the report proposes that the Legislature authorize an automatic annual CPI adjustment to stabilize funding for the State Bar and increase predictability for California attorneys.

The full report is available at: <https://www.calbar.ca.gov/About-Us/Our-Mission/Protecting-the-Public/Reports>.

A printed copy of the report may be obtained by calling 415-538-2000.



# The State Bar of California

## **Justification for a Fee Increase**

**Submitted Pursuant to  
Business and Professions Code Section 6145.1**

**April 1, 2024**

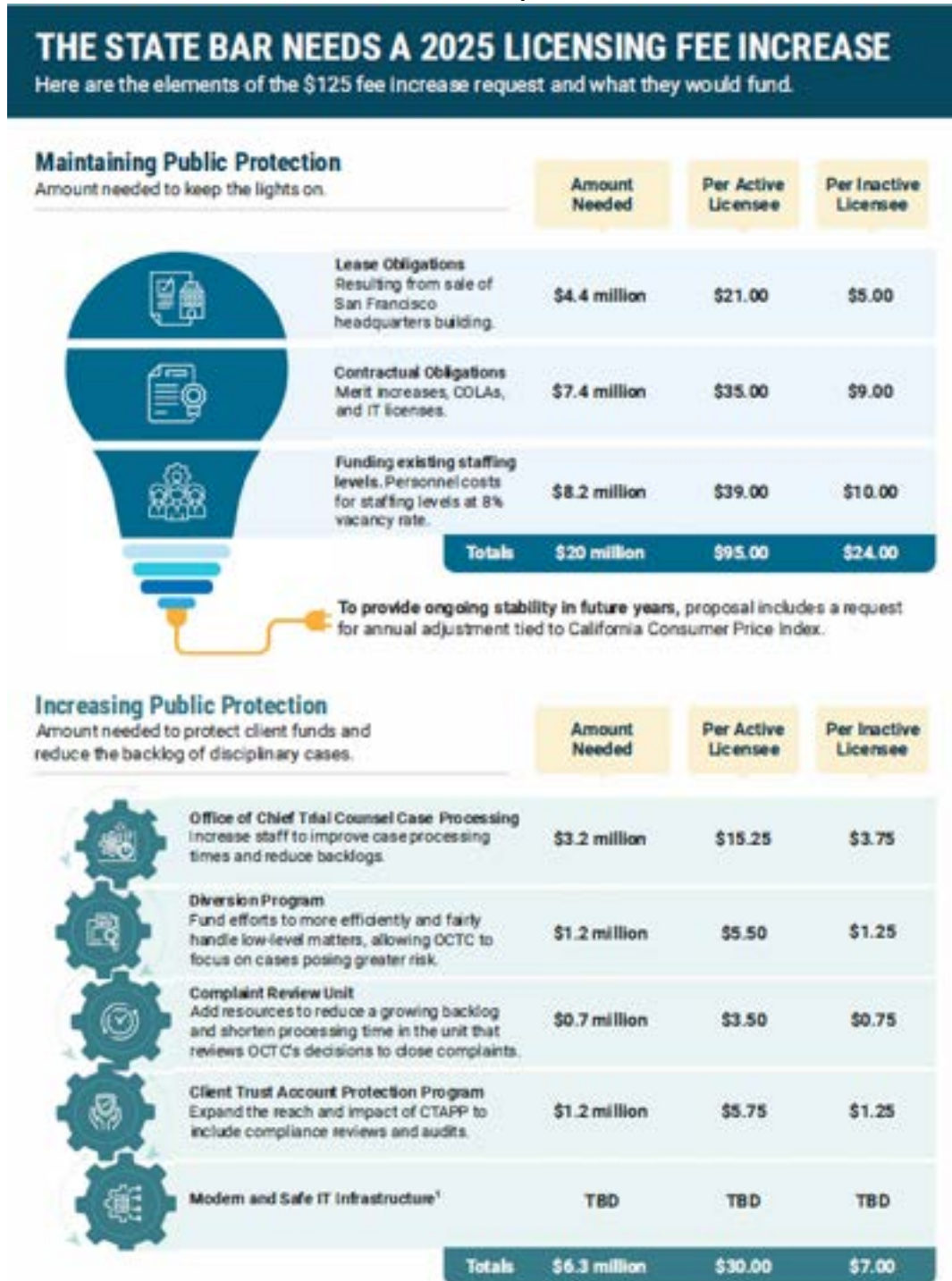
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## INTRODUCTION AND OVERVIEW

The State Bar submits this report pursuant to Business and Professions Code section 6145.1. The report describes in detail the need for a **\$125** license fee increase in 2025 to maintain and increase public protection.

**Table 1. 2025 Request Detail**



<sup>1</sup> While there are likely significant funding needs associated with the information technology infrastructure necessary for the State Bar to increase public protection, additional time is needed to finalize the specific amount requested for this work; a placeholder row for this component of the request has been included to indicate its

status as pending. The State Bar will finalize and submit any supplemental information technology related funding request no later than April 30, 2024.

The first \$95 of the proposal, Maintaining Public Protection, is needed to maintain existing staff and fulfill contractual obligations. The remaining \$30 of the request, Increasing Public Protection, identifies key investments that should be made to increase the State Bar’s

effectiveness and ability to protect the public. A portion of the Increasing Public Protection request is limited-term in nature; another aspect is designed to increase in set tranches over time. Future-year (FY) implications of the State Bar’s present request are outlined in the table above.

Note that the Diversion Program and OCTC case processing funding needs are related. If the Diversion Program is not funded, the OCTC case processing need will increase substantially; the Diversion Program will pay for itself by 2026.

**Table 2. Diversion Program Pays for Itself**

Year	Diversion	Case processing w/ diversion	Total	Case processing w/o diversion	Difference
2025	\$1.2 million	\$3.2 million	\$4.4 million	\$4.0 million	\$0.4 million
2026	\$1.2 million	\$6.4 million	\$7.6 million	\$8.1million	(\$0.5 million)
2027	\$1.2 million	\$9.6 million	\$10.8 million	\$12.1 million	(\$1.3 million)

This request recognizes two realities.

First, in the last 25 years<sup>1</sup> the State Bar’s base licensing fee has been increased only once. Had the licensing fee increased with the pace of inflation, it would be in excess of \$700 today.<sup>2</sup>

Over the course of this last quarter century, the amount of pressure and attention on the State Bar to effectively and responsibly fulfill its mission has grown—rightfully so—while resources have stagnated. Although the organization has been able to prudently manage its resources for these last two-plus decades, time has effectively run out on the State Bar’s ability to remain solvent, let alone meet the public’s expectations of performance and accountability.

Second, the framework within which State Bar licensing fees are set results in long periods of flatlining, which inevitably means that increases are large when finally assessed. The same is true for the current request of \$125, which represents an increase of nearly 25 percent.

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<sup>1</sup> The comparable licensing fee was set at \$318 in 1999, reduced to \$310 effective 2002, and increased to \$315 effective 2007. Because the \$315 was lower than the \$318 in place eight years prior, the 2007 adjustment is not viewed as a fee increase.

<sup>2</sup> Based on [California inflation rates](#) drawn from the California Consumer Price Index (CPI) formula developed by the California Department of Industrial Relations

With these dual realities in mind, the State Bar submits a proposal that both justifies each component of the requested \$125 increase and identifies new options for levying fees that would reduce the impact of the fee increase on those licensees who may find the escalation the most difficult to bear. In addition, the State Bar proposes an annual CPI adjustment to the licensing fee to inject predictability into the process for both the State Bar and licensees and to minimize the need for such significant rate hikes in the future.

The components of the fee increase request are described in the following sections of this report, which is structured to satisfy the requirements of section 6145.1. This Introduction and Overview describes the critical work of the State Bar, presents a justification for the proposed fee increase, details the elements covered by the \$125 request, and outlines options for structuring the licensing fee and an annual CPI adjustment. This section concludes with a presentation of the State Bar funding need in \$25 increments to comply with statutory requirements and an overview of the condition of the State Bar General Fund, which clearly highlights the State Bar's inability to sustain operations through 2025 absent a significant fee increase.

## **JUSTIFICATION FOR A FEE INCREASE**

### **I. The State Bar Provides a Critical Public Protection Service**

In 2023, the State Bar:

- Processed 17,360 complaints about attorney misconduct and nonattorney unauthorized practice of law (FY 2023);
- Disciplined 198 attorneys (FY 2023);
- Referred 300 nonattorney unauthorized practice of law cases to law enforcement;
- Reimbursed 438 victims of attorney misconduct through the Client Security Fund (CSF); a total of \$6.23 million;
- Tested 12,036 bar exam applicants;
- Admitted 5,315 new attorneys;
- Launched the Diversity, Equity, and Inclusion (DEI) Leadership Seal Program and named the first 34 recipients; later in the year, the State Bar earned a Gold DEI Leadership Seal; and
- Distributed nearly \$150 million in legal aid funds.

While we are clear about our mandate, value, and impact, in engaging attorneys across the state about the possibility and scope of a 2025 fee increase request, it has become evident that many licensees do not know what the State Bar does—other than the failures in and circumstances surrounding the handling of the complaints filed against now-disbarred Thomas Girardi. [We have been hard at work in recent years](#) to restore trust and permanently address the underlying conditions that allowed an attorney with numerous viable complaints over decades to remain on active status. Here is a brief snapshot of what we have done, starting with our foremost priority: restoring and strengthening trust.

### **HOLDING LEADERSHIP TO THE HIGHEST STANDARD**

To ensure that the State Bar's work is conducted in a transparent, accountable, and impartial way, the State Bar implemented numerous reforms in 2023:

- Updated the [Conflict-of-Interest Code for the Board of Trustees, including comprehensive updates to the required reporting, disqualification, and other safeguards](#) aimed at ensuring that the decisions are impartial and free of potential conflict-of-interest.
- Adopted a comprehensive [Board policy](#) outlining Trustees' ethical obligations, defining the processes for disqualifying a Trustee from voting on matters in which they may have a conflict of interest, and procedures for censure, sanction, or recommendation to an appointing authority that a Trustee be removed from the Board.
- At the request of the State Bar, a statutory amendment was enacted, extending to the State Bar conflicts rules related to contracting (found in Government Code section 1090 et seq.) that apply to other state and public entities.
- Established a more robust [whistleblower complaint and investigation process](#), with the Department of Justice serving as the independent investigator of whistleblower complaints.
- Pursuant to the Supreme Court's direction, amended rules to require conflict-of-interest screenings for judicial candidates for State Bar Court and Supreme Court appointees to the Board of Trustees.
- To support public and stakeholder oversight, launched a [Transparency and Accountability](#) webpage, which includes Statements of Economic Interest (Form 700s) of current Trustees, compliance statistics for all required conflicts disclosures, and other information.
- [Strengthened the Rule 2201 Program](#), which refers attorney discipline cases to outside counsel when OCTC has conflicts. A full-time administrator was hired to increase case handling efficiency, conflict-of-interest disclosures were improved, and an online dashboard of performance metrics was created to enable stronger oversight by the Board of Trustees.

### **IMPROVING THE ATTORNEY DISCIPLINE SYSTEM**

To ensure that the State Bar's discipline system is effective, accountable, and fair, the State Bar implemented a number of reforms in 2022 and 2023 and has others planned for 2024:

- Institutionalized processes to monitor attorneys with large numbers of prior or pending complaints to ensure that potential bad actors are identified early and subjected to extra scrutiny.
- Implemented heightened conflicts procedures for State Bar prosecutors and conflicts counsel.

- Established a dedicated Client Trust Account (CTA) team in OCTC to investigate and prosecute CTA-related complaints and reportable actions;<sup>3</sup> as a result, investigations of these types of cases increased by 80 percent in 2023.
- Proposed revised case processing standards to improve public protection and ensure timely resolution of complaints. If the Legislature approves and provides the requested funding to meet the standards contained in the present proposal, the State Bar will speed up attorney discipline case processing while ensuring that appropriate and thorough investigatory work is done.
- In 2024, the State Bar Court will begin reporting on hearing and review case processing times in a more transparent and accessible manner, giving unparalleled insight into the timeliness of case resolutions by the court.
- Strengthened Board of Trustees oversight over, and public accountability for, the discipline system by appointing Board liaisons who directly oversee the work of the Chief Trial Counsel (CTC) and conflict counsel.

## IMPLEMENTING NEW STANDARDS FOR ATTORNEY CONDUCT

### Increased Proactive Oversight of CTAs

In 2023, nearly one-fourth of all complaints processed in the investigation stage of the discipline process were about how lawyers handled—or mishandled—a client’s money. Some of these complaints are the result of malfeasance—attorneys stealing money that belongs to clients. Other issues result from some attorneys’ lack of knowledge about rules and best practices, which can result in their inadvertently putting client money at risk. To strengthen public protection and better support lawyers in fulfilling their client trust accounting duties, the State Bar implemented the Client Trust Account Protection Program (CTAPP). Under the program, effective January 1, 2023, with very few exceptions, all California lawyers must:

- Register their CTAs—including both those that produce interest for legal services programs (IOLTA) and those that do not—annually with the State Bar, either individually or through their law firm or organization, or declare they do not have CTAs;
- Complete an annual self-assessment of CTA management practices; and
- Certify with the State Bar that they understand and comply with relevant requirements of the Rules of Professional Conduct.

Preliminary 2024 results reveal the following:

- Approximately \$11 billion is held in more than 58,000 CTAs.

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<sup>3</sup> Reportable Action: A report of an event statutorily mandated to be reported to the State Bar: (1) Self-Reported: Reports received from licensed attorneys regarding themselves pursuant to section 6068, subdivision (o) and section 6086.8, subdivision (c). (2) Other-Reported: Reports received from specified mandated reporters pursuant to section 6086.7, section 6086.8, subdivisions (a) and (b), section 6091.1, section 6101, subdivision (b), and section 6175.6. The CTA team handles reports required to be submitted by banks when there are insufficient funds transactions in a CTA.



- Approximately 116,00 California attorneys reported responsibility for at least one trust account.
- Approximately 10,000 IOLTAs reported by banks were not reported by attorneys.
- Based on the underreporting of IOLTAs by approximately 20 percent, the State Bar believes that non-IOLTA CTAs are also underreported, likely to an even larger extent given the lack of parallel bank reporting for these accounts.

### **Mandatory Reporting of Attorney Misconduct**

Effective August 1, 2023, lawyers must comply with [Rule of Professional Conduct 8.3](#), which requires a lawyer who knows of credible evidence that another lawyer has engaged in misconduct to report that lawyer to the State Bar. In addition, effective January 1, 2024, pursuant to a newly enacted statute (Business and Professions Code section 6090.8), a licensee must also report another licensee who has conspired to engage in or has engaged in seditious conspiracy, treason, rebellion, or insurrection.

From August 1, 2023, to March 1, 2024, nearly 300 complaints were filed by California attorneys pursuant to rule 8.3, comprising 60 percent of all complaints filed by California attorneys during the period.

### **Supporting Attorneys to Prevent Misconduct**

In addition to increasing regulatory oversight and strengthening the attorney discipline system, the State Bar has renewed its focus on supporting attorneys in complying with their ethical obligations so as to avoid contact with the discipline system altogether. Recent efforts include:

- Expanded educational resources for attorneys:
  - Rules spotlight videos
    - [Rule 1.4 Client Communication](#) 4.3K views
    - [Rule 1.5 Fees for Legal Services](#) 3.2K views
    - [Rule 8.4.1 Discrimination Harassment](#) 3.1K views
    - [Rule 8.3: Reporting Misconduct](#) 1.9K views
    - [Rule 1.16 Termination](#) 1.9K views
    - [Rule 3.8 Prosecutor Duties](#) 1.8K views
  - Live training:
    - Rule 8.3: nearly 1,400 attendees in 2023
    - Minimum Continuing Legal Education (MCLE) Presentation (*Impaired Colleague: Addressing Attorney Competence, the Warning Signs, and Getting Help*): nearly 2,400 attendees
    - CTAPP, How to Comply: more than 3,600 attendees in 2022 and 2023
    - CTAPP, Practical Reconciliation: nearly 350 attendees in 2023 and 2024
  - “Train the trainers” toolkits for local and affinity bars:
    - Rule 8.3 toolkits distributed: 188
    - CTAPP toolkits distributed: 62
    - Imposter syndrome resources distributed, addressing psychological aspects that can affect attorney performance and ethical decision-making.

## II. Stagnant Fees Fail to Match Rising Costs, Compromising Public Protection

### The State Bar has had just one fee increase over the last 25 years

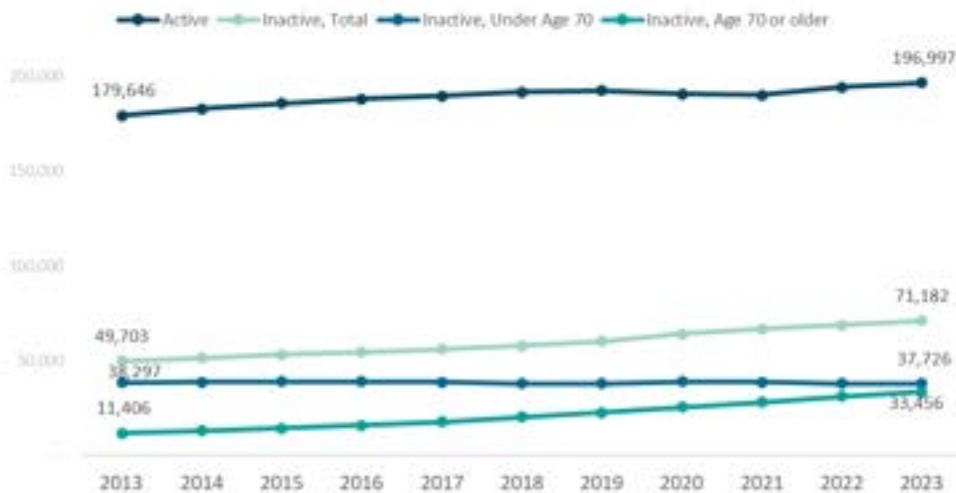
In 2020, the State Bar was afforded an ongoing fee increase of \$71, as well as one-time assessments in several general and special fund areas. The 2020 fee increase was both an important stabilization measure and a vehicle for investment in discipline system performance improvement. However, the approach to setting attorney licensing fees has been focused solely on financial need as of a specific point in time. Consequently, allocated funds become outdated almost the moment they are authorized, failing to account for the annual escalation in costs that is natural and expected in any organization. A glaring example of this is in the area of cost-of-living adjustments (COLAs): the 2020 fee increase included \$13 for a COLA. The per licensee cost of COLAs for the period 2021–2024 totals \$34.75, nearly triple the funded amount.

### Compounding the Impact of Cost Escalation, Revenue Has Not Increased from Growth in Licensee Population as it Has in the Past

For the last several years, the number of active attorneys has grown more slowly than the number of inactive attorneys. Looking specifically at the 10-year average annual growth rate between the 2001–2010 vs. 2011–2020 periods for example, there has been a decline in the average annual increase in the active attorney population from 2.3 percent in the first cohort to 1 percent in the second. During these same comparative periods, there has been a rise in the average annual increase in the inactive attorney population, from 2.4 to 3.5 percent. These growth rates have resulted in the number of active attorneys overall increasing by just 8 percent over the last 10 years; in contrast, the inactive population has grown by 38 percent.

Exacerbating these trends is that the proportion of the inactive population age 70 and older, who therefore pay no licensing fees, is growing. In 2023, inactive licensees 70 and older comprised 12 percent of all State Bar licensees compared to just 5 percent in 2013. They comprised nearly one-quarter of inactive licensees in 2013 and almost half in 2023.

**Figure 1. State Bar of California Active and Inactive Attorney Population Annual Snapshots, 2013–2023**



The growth rate for newly admitted attorneys is also on a negative trajectory. Comparing the same two cohorts (excluding 2020 due to pandemic-related variance), there has been a decline in average annual growth from a 0.6 percent increase in the first cohort (2001–2010) to -2.6 percent in the latter (2011–2020).

**Figure 2. Annual Growth of Attorney Population**



The downward trend of newly admitted licensees is likely to continue, absent other policy interventions. This is an important fact for policymakers to consider as the population of the state continues to grow. A stagnant or shrinking attorney population will only exacerbate the existing civil justice gap.

**The California State Auditor (CSA) Recommended a 2024 Fee Increase That Was Not Funded**

The CSA recommended a \$24 fee increase for 2024 to address the State Bar’s structural deficit. The State Bar is currently requesting \$35 for the parallel category.

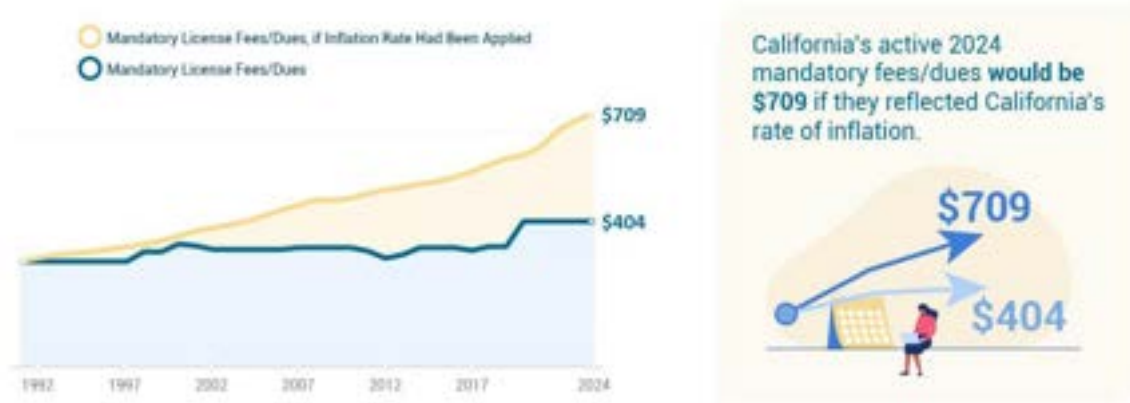
Why is the State Bar asking for more than the CSA recommended?

The present proposal reflects 2025, not 2024, costs, including the negotiated 2025 COLA and merit increases, healthcare premium benefit increases, and rapidly escalating costs for IT licenses. As detailed in the Maintaining Public Protection section of this report, costs have risen since the CSA’s last review far more than the \$11 per licensee differential that the State Bar is requesting at this time.

**III. The State Bar Has Prudently Managed Resources While Working to Meet Legitimate Expectations for Improved Performance**

Had the fee kept up with inflation, it would be over \$700.

**Figure 3. Estimated Impact of California’s Inflation Rate on Active Mandatory Licensing Fees/Dues**



Note: [California inflation rates](#) were drawn from the California CPI formula developed by the California Department of Industrial Relations.

The State Bar licensing fee is lower than that of 17 other states.<sup>4</sup>

**Figure 4. States with Mandatory Licensing Fees/Dues Higher than California’s Fees/Dues**

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<sup>4</sup> Fees/dues for all states other than California reflect 2022 and are the highest fees applicable for active attorneys. The following categories of fees were used to determine mandatory licensing fees/dues for each state: dues, licensing/registration fee, discipline fee, professional responsibility fee, occupational tax, and mandatory CLE fee. The District of Columbia’s attorney license fee was \$324; however, newly admitted attorneys are also assessed a one-time CLE fee of \$229. California’s 2024 fee of \$404 reflects a \$379 attorney license fee and \$25 discipline fee. The attorney license fee is measured by the \$395 fee mandated by Business and Professions Code section 6140 minus portions of the fee that are not slated for the State Bar’s Unrestricted General Fund or are limited-term in nature (a \$4 limited-term capital assessment fee, \$5 limited-term IT assessment fee, \$5 lobbying fee, and \$2 opt-out fee).



Source: [2022 State and Local Bar Benchmarks Survey: Membership](#)

The State Bar receives more complaints per capita, on average, than other states, including states with the largest number of attorneys.

**Figure 5. Discipline Caseload**



Source: [American Bar Association Survey on Lawyer Discipline Systems](#).

Note. Nine states receive more complaints per 1,000 attorneys than California. The analysis of large states is based on the 14 states with the highest number of active, licensed attorneys after California.

The State Bar also processes complaints at a lower cost-per-complaint ratio than its peers. The State Bar’s revenue from mandatory fees per complaint is 32 percent lower than the national average and 40 percent lower than the average of the largest states.<sup>5</sup>

**Figure 6. Total Mandatory Licensing Fees/Dues Received Per Complaint**

<sup>5</sup> The ratio was collected was calculated by multiplying the number of active licensees by mandatory licensing fee/dues and dividing this value by the number of complaints received. For California, this was calculated as: 194,747 active attorneys in 2022 multiplied by \$404 and divided by 15,659 complaints.



Source: [American Bar Association Survey on Lawyer Discipline Systems and 2022 State and Local Bar Benchmarks Survey: Membership](#).

The State Bar’s ability to do more with less extends beyond these comparative facts. Recognizing the importance of a healthy attorney discipline system, and in response to repeated concerns expressed by legislative stakeholders and in state audits, the State Bar has prioritized investment in OCTC. For example, although the Legislature only funded 19 of 58 new positions for that office requested in 2020, through internal reallocation and prudent fiscal management, 25 additional positions have been added to OCTC in the last five years. Had the State Bar not been able to make this type of investment, the OCTC-related portion of the present fee increase request would have been nearly 50 percent larger.

Other examples of the State Bar effectively managing its limited resources to make critical needed investments include the Rule 2201 Program. Policy and operational reforms required to improve the independence and effectiveness of this function since 2016 have not been cheap: State Bar spending on the program has increased by nearly 2,000 percent over the last 8 years. Of note, the State Auditor reviewed State Bar spending on this function in its most recent report and did not identify any cost savings to be had, but instead suggested the need for more robust data entry and adherence to stringent case processing timelines. The State Bar has responsibly directed resources to support all needed improvements in the Rule 2201 Program absent *any* new funding allocated for that purpose.

#### **IV. The State Bar Has Worked to Increase Discretionary Service Fees and Responsibly Cut Costs**

##### **Increasing Revenue**

The State Bar administers a number of fee-for-service programs. Service fees for these functions were thoroughly reviewed in 2022 and 2023 and adjustments were made to ensure that, in the vast majority of cases, fees were appropriately set to achieve the goal of full cost recovery. In total, service fee increases contribute to \$1.4 million in 2025 General Fund revenue. As part of the recent fee review effort, the Board of Trustees adopted a policy whereby service fees will be increased annually by the CPI. These annual adjustments are accounted for in the present licensing fee increase request.

## Cutting Costs

Nearly 90 percent of the State Bar's General Fund supports personnel costs. Thus, meaningful cost reduction strategies are virtually impossible to effectuate without addressing this line item. With that in mind, in 2023 the State Bar budgeted a 15 percent vacancy rate and an additional three-month hiring freeze on all vacant positions. These measures, which appeared feasible based on patterns observed in the immediate post-pandemic period, generated savings on personnel costs but negatively affected service levels, resulting in long customer service queues, increased backlogs, and unfair demand on existing staff. Further, as the turnover rates experienced in 2021–2022 abated, the 15 percent vacancy rate became not only unsustainable from an impact perspective, but also practically unachievable absent layoffs.

On the operating side, the State Bar has drastically reduced travel costs for both staff and volunteers, attempting to institutionalize the savings in these areas generated during the pandemic. While the State Bar has resumed some in-person meetings and travel, ongoing savings of several hundred thousand dollars annually in these areas are now structurally reflected in current and future budgets.

A detailed overview of the State Bar General Fund is provided in Appendix B.

## Looking Ahead

Population trend data indicates that the State Bar's licensee population is barely growing year over year. Further, the percentage of inactive licensees age 70 and older is increasing significantly. If law school enrollment does not meaningfully increase in the near term, the State Bar must be strategic about the size of its operations; at some point, likely in the five-to-10 year trajectory, the State Bar will need to undertake a gradual attrition and repositioning process.

## **\$125 Fee Increase Needed to Maintain and Improve Public Protection**

The State Bar has put forward a carefully crafted fee increase proposal comprised of two distinct categories:

- A. Maintaining Public Protection, \$95. This is the amount of fee increase necessary to maintain existing operations and core public protection services. Absent this increase the State Bar would:
  1. Default on its lease obligations;
  2. Violate the terms of its negotiated labor agreements;
  3. Defund basic IT licensing agreements, rendering our data unsafe and forcing a reversal to manual processes; and
  4. Nearly doubling the current vacancy rate, resulting in numerous vacant positions in critical public protection areas of the State Bar.
- B. Increasing Public Protection, \$30. This is the amount of fee increase necessary to improve public protection. Absent this increase, the State Bar would be unable to:
  1. Significantly improve case processing times or reduce the backlog in OCTC;

2. Fund a Diversion Program designed to divert cases involving minor violations so that OCTC can focus more resources on matters posing the greatest risk to public protection;
3. Improve case processing times or reduce the backlog in the CRU, which handles appeals of OCTC's decision to close complaints; and
4. Increase the scope and reach of the CTAPP, which serves to both educate attorneys to prevent CTA related misconduct and protect the public by proactively regulating lawyers' management of those accounts.

### Options for Structuring the Fee Increase

In recognition of the size of the fee the State Bar needs, as well as the inherently regressive nature of a flat-fee assessment, the State Bar developed several alternative models for levying licensing fees, including models based on income, years in practice, and practice sector. These models were all predicated on a hypothetical \$150 fee increase request.

Several iterations of these models were developed to explore their impact if applied to the entire licensing fee, the General Fund portion of the fee, or the increase amount only.

Concurrent with this modeling process, the State Bar solicited feedback from all licensees via traditional survey; interested respondents could also choose to participate in an online ThoughtExchange that enabled them to share their ideas about the State Bar's proposed options or others.

Nearly 18,000 attorneys responded to the survey, which asked respondents to rank four fee structuring options (the three listed above and the status quo flat-fee model).

### It Takes Resources to Prosecute Big Cases. A Fee Increase Will Help.

#### Eastman Disciplinary Proceedings

In March 2022, Chief Trial Counsel George Cardona invoked a public protection waiver to announce an investigation of John Charles Eastman was underway. In January 2023, the State Bar filed 11 disciplinary charges against Eastman, alleging that he engaged in misconduct to plan, promote, and assist then-President Trump in executing a strategy, unsupported by facts or law, to overturn the legitimate results of the 2020 presidential election. The disciplinary proceedings, which began in June 2023, generated intense public and media interest. More than 12,000 public viewers observed the first hearing, accessible by video streaming, and the proceedings received national coverage. The proceedings, which included more than 35 trial days extending into November, involved 23 witnesses and more than 400 exhibits. The Hearing Department's ruling is expected in late March. Eastman has said he will appeal any findings of misconduct.

#### Los Angeles Department of Water and Power Scandal

The State Bar is taking action in the wake of one of the largest public corruption scandals in Los Angeles history—the sprawling LA Department of Water and Power billing scandal. City officials took part in a plan to set up a sham lawsuit in order to quickly settle claims arising from the disastrous launch in 2013 of a new billing system. California attorney Thomas H. Peters, the former litigation chief of the City Attorney's, was summarily disbarred following his 2022 extortion conviction. In March 2024, the State Bar also filed disciplinary charges against attorney Michael Libman for his part in the scheme.



**Table 3. Survey Responses Compared with Licensee Population**

Practice sector	Survey responses		Licensee population		Response rate
	N	%	N	%	%
Solo	5,361	32%	40,145	21%	13%
Small	2,443	15%	27,014	14%	9%
Medium	1,040	6%	20,232	11%	5%
Large	820	5%	26,784	14%	3%
Government	2,609	16%	25,086	13%	10%
Corporation	1,690	10%	23,186	12%	7%
Nonprofit	486	3%	5,957	3%	8%
Other	2,227	13%	19,598	10%	11%
<b>Total</b>	<b>16,676</b>	<b>100%</b>	<b>188,002</b>	<b>100%</b>	<b>9%</b>

With the responses weighted to reflect the actual proportional licensee population, there is no statistical difference in the option rated #1 between income-based, practice sector-based, or flat fee:

**Table 4. Survey Respondents Rating/Ranking of Fee Structure Options**

Rating	Years of practice	Practice sector	Income	Flat
1	7*	30	31	32
2	21	33	27	19
3	31	22	19	28
4	41	15	23	22

\*Numbers represent weighted ranking percent.

However, clear distinctions present when looking at first and second ratings. Sixty-three percent of attorneys ranked a practice sector model first or second, 58 percent an income-based model, and 51 percent the status quo flat-fee model; years of practice is the least preferred option.

The ThoughtExchange exercise, in which 5,000 attorneys chose to participate, provides important context to the survey data. As part of this process, attorneys were able to collectively rate (on a 5-point agreement scale, with 5 indicating highest agreement) all shared thoughts. Among more than 5,000 postings, about 10 percent contained references related to attorneys in inactive, retired, or semi-retired status. These attorneys generally oppose any fee increase and in fact, suggest that the State Bar implement a new lower-fee retirement status option.

Another topic that received considerable attention was the years-in-practice option, with generally strong opposition to the idea expressed.

Beyond specific points of contention, general opposition to any fee increase was a widely shared view among exchange participants.

Ultimately, the Board of Trustees decided to recommend a practice-sector based fee assessment model to the Legislature. The benefits of this model include:

- It improves alignment between the level of a fee increase and a reasonable proxy for ability to pay;
- It shields retirees, solo practitioners, and nonprofit attorneys from any significant fee increase; and
- It will result in a moderate administrative burden, as compared, for example, to the income-based model.

The Board also recommends that the new progressive fee structure be applied to the entirety of mandatory fees. Table 5 below reflects the application of the practice sector model to 2025 mandatory fees at a level that includes the \$125 fee recommended fee increase.

**Table 5. Practice Sector Model Applied to Current Base Fee, Mandatory Add-Ons, and \$125 Fee Increase**

Practice Sector	Active Attorneys	Increase Amount	Current Base Fee + Fee Increase Amount	Change From Current Base Fee (\$404) – Percent
Solo	45,401	16	420	4%
Small Firm	28,804	51	455	13%
Medium Firm	20,229	266	670	66%
Large Firm	23,591	391	795	97%
Government	29,192	31	435	8%
Nonprofit	7,953	16	420	4%
Small Corporation	12,833	51	455	13%
Medium Corporation	8,776	266	670	66%
Large Corporation	7,917	391	795	97%
Other Private	6,792	96	500	24%
Other	4,620	0	404	0%
<b>Total</b>	<b>196,109</b>	<b>125</b>	<b>529</b>	<b>31%</b>

Under application of this model, Other, a group which predominately includes retirees, would realize no fee increase; other sectors would experience increases of between 4 and 97 percent, with solo, small firm, and government attorneys at the lowest end of the increase scale, and large firm and large corporation attorneys at the high end.

An initial challenge presented by this exercise is that several of these options, including the proposed practice sector model, if adopted, would likely result in the annual fee bill being considered as a tax, not a fee. The implications of this are significant, in terms of the vote required for bill passage. While the equity and fairness basis for rationalizing the fee assessment structure is compelling, the State Bar welcomes the opportunity to partner with the Legislature to develop appropriate safeguards, should the Legislature be interested in advancing any of the options that might trigger a tax designation.

See Appendix A, Options for Structuring the Licensing Fee, for more detailed information on these options, the survey, and the underlying analyses.

### **Annual CPI Adjustment to Cover Expected Growth in Costs**

Typical costs of operating an organization—whether public or private—grow year over year. Personnel costs, comprising 88.4 percent of the State Bar’s General Fund budget, increase annually due to COLA and merit (step) increases negotiated with the State’s Bar bargaining units. In addition, the costs of goods and services, often referred to as operating expenditures and equipment, are impacted by inflation, supply chain issues, and other cost pressures. State Bar costs for software license subscriptions, for example, have increased by 35 percent annually based on a five-year average. Adjusting the authorized licensing fee annually by the California CPI will inject rationality and predictability into State Bar budgeting, allowing the organization to weather routine cost escalation, including in the areas subject to the present fee increase request, and provide stability to staff, and a more predictable cost framework for attorneys.

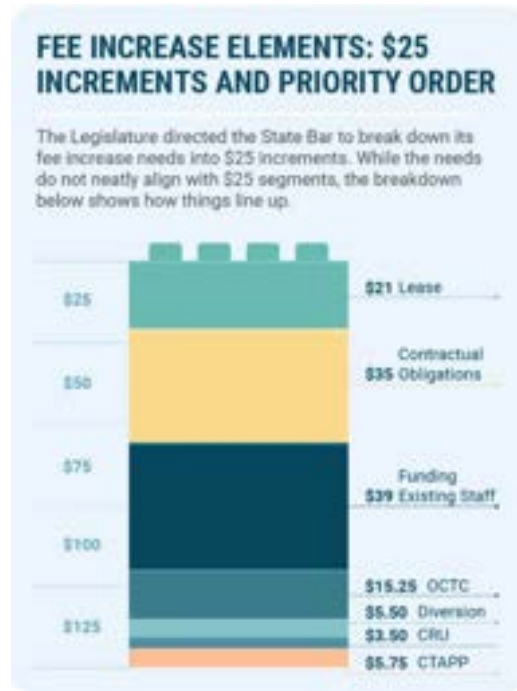
The State Bar specifically proposes that the State Bar licensing fee be adjusted annually for inflation as reflected by the California CPI. Any increase sought in excess of the inflation rate would be supported by a justification and process like that outlined in Business and Professions Code section 6145.1.

### **FUNDING NEED IDENTIFIED IN \$25 INCREMENTS**

Business and Professions Code section 6145.1 requires the State Bar to identify how it proposes to use any potential additional funding resulting from any potential increase in the mandatory annual license in \$25 increments. This exercise is challenging because the specific needs identified do not neatly align with \$25 segments. Further, it is critical to emphasize that the Maintaining Public Protection elements of this request, comprising lease payments, contractual obligations, and funding existing staff, must be funded; partial funding of these aspects of the request will result in massive disruption to State Bar staff and operations.

With these caveats in mind, and to satisfy the legislative requirement, the illustration below provides the State Bar’s \$125 funding need in priority order and identifies the \$25 breakpoints associated with that need.

**Figure 7. Total Requested in \$25 Increments**



As illustrated above, the first \$25 would support:

- 100 percent of contractually obligated lease payments (\$21).
- \$4 of contractually obligated COLA and merit increases and IT license costs.

The second \$25 would support:

- \$25 of contractually obligated COLA and merit increases and IT license costs.

The third \$25 would support:

- The remaining \$6 of contractually obligated COLA and merit increases and IT license costs.
- \$19 of funding existing staff.

The fourth \$25 would support:

- The remaining \$20 of funding existing staff.
- \$5 of OCTC case processing.

The fifth \$25 would support:

- The remaining \$10.25 of OCTC case processing.
- 100 percent of Diversion Program (\$5.50).
- 100 percent of CRU (\$3.50).
- 100 percent of CTAPP (\$5.75).

## MAINTAINING PUBLIC PROTECTION

### San Francisco Building Lease Payments

**Amount requested and total amount to be generated (6145.1 4 (A)):** *The total amount of revenue estimated to be generated from the incremental increase.*

An ongoing fee increase of \$21 per active licensee and \$5 per inactive licensee is being requested to fund lease payments at 180 Howard Street, San Francisco.

Year	Ongoing	Total revenue needed	Per active licensee	Per inactive licensee
2025	\$4.4 million	\$4.4 million	\$21.00	\$5.00

Budget detail for the fee increase request is provided in [Appendix C](#).

#### **Projected Budget (6145.1 (a)(3)(B) &(E)):**

- *The projected, budgeted, and actual expenditures in 2023, 2024, and 2025 assuming no increase in the annual fee.*
- *Complete, actual data for 2023.*

	2023 Budget	2023 Actuals*	2024 Budget	2025 Forecast
Lease Costs	\$0	\$0.8 million	\$6.1 million	\$4.4 million

*\*Pre-close actuals. Numbers will be finalized after completion of an independent financial audit. Audit results will be submitted to the Legislature by May 31, 2024.*

Budget detail for projected, budgeted, and actual expenditures is provided in [Appendix C](#).

#### **Justification of the Funding Requested (6145.1 (a)(3)(C) and (a)(4)(C)):**

- *The estimated deficit and the reason for the deficit.*
- *Any key assumptions made, what outcomes are expected to be achieved, and what, if any, deficit would remain for the activity or program along with what aspects of the activity or program would be unachievable due to the deficit.*

In April 2023, the CSA identified structural underfunding that would need to be addressed by a fee increase to resolve the State Bar’s operating deficit. The report recommended a fee increase of \$24 per active licensee and \$6 per inactive licensee accordingly.

The CSA’s recommended fee increase amount was based on the 2024 projected budget in effect at the time of audit completion, which:

- Reflected a continuation of the 15 percent vacancy rate and hiring freeze that had been included a part of the State Bar’s 2023 adopted budget.
- Omitted entirely any costs associated with the State Bar’s San Francisco location—occupancy or lease-related expenses.

The present request addresses the omitted San Francisco location portion of the State Auditor’s recommended fee increase.

Specifically, the requested funding will support lease payments at 180 Howard Street, San Francisco, at the 2025 rate. FY lease escalation costs will be addressed by the State Bar internally as part of normal annual budgeting processes. The decline in lease costs from 2024 to 2025 reflects the State Bar’s planned consolidation into reduced square footage at its San Francisco location.

Year	Lease costs
2023	\$0.8 million
2024	\$6.1 million
2025	\$4.4 million
2026	\$4.5 million
2027	\$4.7 million

The State Bar has long received criticism for its real estate holdings and for not managing them effectively. The State Bar was urged to consider transferring responsibility for building management to the Department of General Services or to sell its buildings. See [Assem. Jud. Analysis](#) of SB 176, Ch. 698, Stats. Of 2019), page 10. Plans were in place before the pandemic to put the San Francisco building up for sale. Unfortunately, the pandemic hit in 2020, and the plans were put on hold.

In the 2020 fee request submitted to the Legislature, the State Bar requested an increase of \$134 per active attorney to fund \$27.4 million for building improvement costs over five years. However, only \$4 over 10 years (or \$40) was approved.

In 2023, as a measure to address the structural deficit in the General Fund, the State Bar listed its 180 Howard Street building headquarters in San Francisco for sale. The building sold in November 2023 for \$54 million, with net proceeds totaling approximately \$30 million. The sale resulted in immediate and future savings associated with the cost of ownership.

First, annual building operations expenses, excluding the lease cost, reduced significantly. These expenses (utilities, security, repairs, and janitorial) totaled \$2.6 million in 2022 and \$2.3 million in 2023. As tenants, comparable costs are \$0.4 million.

Additional and more meaningful savings will be realized as a result of the State Bar no longer being responsible for maintaining the building. The backlog of capital improvement work at 180 Howard Street was growing, due in part because the 2020 fee increase funded less than one-third of State Bar identified capital needs. This underfunding was magnified by the fact that the costs of the limited list of projects funded by the 2020 capital assessment far exceeded their respective funding levels.

The building sale also resulted in the State Bar fully repaying the loan that had been taken out against 180 Howard Street to forward-fund legislatively approved capital and IT projects; savings of \$2.4 million in 2024, \$1.6 million annually from 2025 through 2031, and \$1 million annually from 2032 through 2036, will be realized as a result of the sale.

Offsetting these savings are the loss of rental income, which totaled \$2.4 million in 2023, and new lease costs, the subject of the present fee increase request.

The State Bar’s 2024 lease costs reflect its current continued occupancy of pre-sale square footage at 180 Howard Street. Beginning in 2025, the State Bar will downsize its space usage in

the building by 55 percent, reducing the annual rent from \$6.1 million to \$4.4 million. The projected 2025 budget, upon which the present fee increase request is based, includes San Francisco facility costs of \$6.3 million, of which \$4.4 million is lease cost. This fee increase request will specifically fund the lease payment portion of this facility expense.

**Outcome If Not Funded (6145.1 (a)(3)(D) & (a)(2)):**

- *What aspects of the programs or activities would not be achievable if a fee increase was not provided.*

According to section 7.8 of the [State Bar's lease agreement](#), failure to pay any installment of rent is considered a default, which could result in eviction from the property after two late payments and failure to pay within five days of written notice by the landlord. Regardless of eviction, the State Bar contractually owes the total base rent for the balance of the term plus any operating expenses and real estate taxes after January 2026, a 3 percent late fee on any rent installment not paid on time, and a 10 percent per annum interest charge on total delinquent amount due. The State Bar is legally required to pay the base rent of the term agreed regardless of occupancy; thus by failing to pay rent in a timely manner, the State Bar would only accrue further debt through late fees and interest fees and potentially eviction-related costs. The State Bar will use building sale proceeds to make lease payments in 2024, however, should the additional funding not be secured to make timely rent payments in 2025 and beyond, the State Bar could find itself evicted and subject to litigation.

## MAINTAINING PUBLIC PROTECTION

### State Auditor’s Recommendation and Contractual Personnel and IT License Cost Obligations

**Amount requested and total amount to be generated (6145.1 4 (A)):** *The total amount of revenue estimated to be generated from the incremental increase.*

An ongoing increase of \$35 for active licensees and \$9 for inactive licensees is needed to fund contractual personnel and IT licensing cost obligations.

Year	Ongoing	Total revenue needed	Per active licensee	Per inactive licensee
2025	\$7.4 million	\$7.4 million	\$35.00	\$9.00

Budget detail for the fee increase request is provided in [Appendix C](#).

#### **Projected Budget (6145.1 (a)(3)(B) &(E)):**

- *The projected, budgeted, and actual expenditures in 2023, 2024, and 2025 assuming no increase in the annual fee.*
- *Complete, actual data for 2023.*

	2023 Budget	2023 Actuals*	2024 Budget	2025 Forecast
Personnel Costs	\$92.1 million	\$98.6 million	\$98.5 million	\$106.2 million
IT License Costs	\$3.3 million	\$4.0 million	\$5.1 million	\$5.3 million
GF Overall	\$104.5 million	\$111.1 million	\$118.0 million	\$119.6 million

*\*Pre-close actuals. Numbers will be finalized after completion of an independent financial audit. Audit results will be submitted to the Legislature by May 31, 2024.*

Budget detail for projected, budgeted, and actual expenditures is provided in [Appendix C](#).

#### **Justification of the Funding Requested (6145.1 (a)(3)(C) and (a)(4)(C)):**

- *The estimated deficit and the reason for the deficit.*
- *Any key assumptions made, what outcomes are expected to be achieved; and what, if any, deficit would remain for the activity or program along with what aspects of the activity or program would be unachievable due to the deficit.*

In April 2023, the CSA [identified structural underfunding](#) that would need to be addressed by a fee increase to resolve the State Bar’s operating deficit. The report recommended a fee increase of \$24 per active licensee and \$6 per inactive licensee accordingly.

The CSA’s recommended fee increase amount was based on the 2024 projected budget in effect at the time of audit completion, which:

- Reflected a continuation of the 15 percent vacancy rate and hiring freeze that had been included a part of the State Bar’s 2023 adopted budget; and
- Omitted entirely any costs associated with the State Bar’s San Francisco location— occupancy or lease-related expenses.



The vacancy rate and lease costs are the subject of separate fee increase requests under the broad header of Maintaining Public Protection; as such, they are not addressed here. Instead, this aspect of the fee increase request, which focuses on structural underfunding, incorporates the State Auditor's recommended \$24 increase and outlines variances between that recommendation and the present request for \$35. Those variances are driven by contractually obligated costs for personnel as well as for IT:

- Salary costs. The 2024 projection included a 5 percent COLA as required by the State Bar's negotiated Memorandum of Understanding (MOU). It also included 5 percent merit increases for all eligible staff.

The 2025 projection upon which the present fee increase is based includes the 2025 COLA of 2.5 percent, an amount which is afforded over and above the 2024 adjustment, as well as 5 percent merit increases for all eligible staff. The cost of 2025 COLAs and merit increases is \$2.7 million or \$13 per active licensee.

In addition, the 2025 projection includes five new net positions not included in the 2024 projection. The new positions support critical OGC, procurement, and website work.

- Benefit increases. Personnel-related expenses that contribute to the operational deficit not accounted for in the 2024 projection relied on by the State Auditor also include increases to benefits, primarily health-care costs and required CalPERS contributions. Benefit costs increased by \$2.6 million, or \$13 per active licensee, in 2025 compared to the 2024 projection used by the State Auditor.
- IT license subscriptions. IT subscription expenses that contribute to the deficit have increased from the 2024 projection relied on by the State Auditor. Most of these subscriptions are for cloud-based applications that have significantly escalated year over year. IT subscriptions were \$3.5 million in the 2024 projection compared to \$5.3 million in 2025. The \$1.8 million increase equates to \$9 per active licensee.

These variances alone equate to \$35 per licensee. Instead of asking for \$35 more per licensee than the \$24 recommended by the CSA, however, the State Bar seeks just \$11.

**Outcome If Not Funded (6145.1 (a)(3)(D) & (a)(2)):**

- *What aspects of the programs or activities would not be achievable if a fee increase was not provided.*

If the requested fee increase is not authorized for 2025, the State Bar would be forced to reduce overall headcount quite significantly in order to meet its obligations under the existing MOU and to make required benefit payment contributions.

Similarly, headcount would need to be reduced in order to fund the additional costs of IT license subscriptions. The licenses are for the IT applications and infrastructure that support all of the State Bar's operational and programmatic activities and cannot be eliminated or significantly reduced without a major negative impact to those activities.

## MAINTAINING PUBLIC PROTECTION

### Fund Existing Staffing Levels

**Amount requested and total amount to be generated (6145.1 4 (A)):** *The total amount of revenue estimated to be generated from the incremental increase.*

An ongoing increase of \$39 for active licensees and \$10 for inactive licensees is needed to support existing State Bar staffing levels.

Year	Ongoing	Total revenue needed	Per active licensee	Per inactive licensee
2025	\$8.2 million	\$8.2 million	\$39.00	\$10.00

Budget detail for the fee increase request is provided in [Appendix C](#).

#### Projected Budget (6145.1 (a)(3)(B) &(E)):

- *The projected, budgeted, and actual expenditures in 2023, 2024, and 2025 assuming no increase in the annual fee.*
- *Complete, actual data for 2023.*

	2023 Actuals*	2024 Budget	2025 Forecast
Vacancy Adjustment	\$8.0 million	\$7.1 million	\$8.2 million

*\*Pre-close actuals. Numbers will be finalized after completion of an independent financial audit. Audit results will be submitted to the Legislature by May 31, 2024.*

Budget detail for projected, budgeted, and actual expenditures is provided in [Appendix C](#).

#### Justification of the Funding Requested (6145.1 (a)(3)(C) and (a)(4)(C)):

- *The estimated deficit and the reason for the deficit.*
- *Any key assumptions made, what outcomes are expected to be achieved, and what, if any, deficit would remain for the activity or program along with what aspects of the activity or program would be unachievable due to the deficit.*

In April 2023, the CSA identified structural underfunding that would need to be addressed by a fee increase to resolve the State Bar’s operating deficit. The report recommended a fee increase of \$24 per active licensee and \$6 per inactive licensee accordingly.

The State Auditor’s recommended fee increase amount was based on the 2024 projected budget in effect at the time of audit completion; which:

- Reflected a continuation of the 15 percent vacancy rate and hiring freeze that had been included a part of the State Bar’s 2023 adopted budget;
- Omitted entirely any costs associated with the State Bar’s San Francisco location—occupancy or lease-related expenses.

The present request addresses the vacancy rate adjustment unaccounted for in the State Auditor’s recommended fee increase.

In 2023 the State Bar budgeted a 15 percent vacancy rate. This measure, while aggressive, was

considered achievable due to high vacancy/turnover rates in 2021 and 2022. Further, due to the precarious nature of the State Bar's General Fund, this level of vacancy rate was needed to stabilize the budget for adoption purposes. A 15 percent vacancy rate was also included in the 2024 budget projection submitted to the Legislature at the time of 2023 budget adoption.

However, during 2023 turnover rates plummeted, cutting the vacancy rate nearly by half, to 8 percent, by the end of 2023.

The benefits of a stable workforce are many, most notably in critical areas such as the OCTC, which suffered years of attrition that drained institutional knowledge and left the office in a continual spiral of training and onboarding. This trend was highlighted in the [April 2019 report](#) issued by the CSA when recommending a phased approach to increasing the number of positions in OCTC. This situation has now reversed, with OCTC having some of the lowest turnover rates in the State Bar.

More broadly, as noted by the State Auditor in its April 2023 report, high vacancy rates significantly impacted the State Bar's ability to meet key performance metrics. In its [April 2023 report](#), the CSA evaluated, among other things, the State Bar programs and administrative offices that receive support from the annual mandatory licensing fees and other required fees. This evaluation included a review of the performance metrics associated with these offices. The audit focused on 60 metrics from the [2021 State Bar's metric report](#). The CSA calculated the number of metrics per program/office that successfully met a target for the entire year and reported that just three programs/offices met all of their performance targets and none of the administrative offices did so.

The audit suggested that the State Bar should consider filling vacant positions to make these offices more effective. This supposition is supported by data. For example, in 2022 the Office of General Counsel had a vacancy rate of nearly 35 percent across its 24 positions, and it failed to meet any of its performance metrics, citing vacancies and recruitment challenges as reasons for falling short of its performance metrics. In 2023, the Office of General Counsel reduced its vacancy rate by 12 percent and was able to meet all of its performance metrics. Staff applied the CSA's analytical approach to the [2022 State Bar metrics report](#) and concluded that seven programs and offices met all targets, including three administrative offices, representing an improvement over 2021. In 2023, five programs and offices met all targets, including one administrative office.

Accounting for both the fiscal and operational impacts of a lower vacancy rate, in July 2023 the Board of Trustees formally amended the 2023 budget to reflect the actual vacancy rate at that time of 8 percent. The adopted 2024 budget and projected 2025 budget similarly reflect an 8 percent vacancy rate. The State Bar's vacancy rate as of the time of this submission is 7.5 percent.

The requested funding reflects the amount required to maintain an 8 percent organizational vacancy rate. This rate equates to approximately 45 positions. Based on current trends, it would take 15 months to return to a 15 percent vacancy rate through natural attrition (and with the imposition of a hiring freeze).

**Outcome If Not Funded (6145.1 (a)(3)(D) & (a)(2)):**

- *What aspects of the programs or activities would not be achievable if a fee increase was not provided.*

Should the requested fee increase not be granted, the State Bar would have to raise the vacancy rate to 15 percent, totaling 90 positions. Reaching this rate solely through natural attrition would require over a year..

The alternative to a natural reduction in force is an affirmative one, initiated via layoff. Aside from the human cost, high vacancy rates at the State Bar translate to reduced performance in all areas of the organization—from wait times on customer service phone lines to discipline case processing—which in turn harms the public the State Bar serves.

## INCREASING PUBLIC PROTECTION

### OCTC Staff to Implement Case Processing Standards

**Amount requested and total amount to be generated (6145.1 4(A)):** *The total amount of revenue estimated to be generated from the incremental increase.*

An ongoing fee increase of \$45.75 per active licensee and \$11.25 per inactive licensee phased in over three years for OCTC to implement case processing standards proposed under [Senate Bill 211](#) (SB 211) and to reduce the percent of pending inventory in backlog status. In total, the funding will support 57 new positions in OCTC.

The number of positions required to meet SB 211 case processing standards and backlog targets is dependent on the funded status of the Diversion Program. If the Diversion Program is not funded, the number of positions required will increase to 73.

Budget detail for the fee increase request is provided in [Appendix C](#).

#### Funding Request Details

- 2025: An ongoing fee increase of \$15.25 per active licensee and \$3.75 per inactive licensee to be replaced in 2026 by;
- 2026: An ongoing fee increase of \$30.50 per active licensee and \$7.50 per inactive licensee to be replaced in 2027 by;
- 2027: An ongoing fee increase of \$45.75 per active licensee and \$11.25 per inactive licensee.

As opposed to an automatic escalation, the State Bar proposes that the Legislature establish an independent review process to be used to approve the proposed 2026 and 2027 tranches.<sup>6</sup>

Year	FTEs	Ongoing	Total revenue needed	Per active licensee	Per inactive licensee
2025	19	\$3.2 million	\$3.2 million	\$15.25	\$3.75
2026	19 + 19 = 38	\$6.4 million	\$6.4 million	\$30.50	\$7.50
2027	38 + 19 = 57	\$9.6 million	\$9.6 million	\$45.75	\$11.25

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<sup>6</sup> One possibility is that in March 2025 and March 2026, the State Bar provide the LAO with a report outlining the use and impact of the previously authorized tranche, as well as the planned use of and need for the subsequent tranche. The LAO could then make recommendations to the Legislature in 2026 and 2027 accordingly. The Legislature may also consider using the scheduled 2025 audit to be conducted by the CSA for a similar purpose.

## Fee Increase Required If Diversion Program Not Funded

Year	FTEs	Ongoing	Total revenue needed	Per active licensee	Per inactive licensee
2025	24	\$4.0 million	\$4.0 million	\$19.25	\$4.50
2026	48	\$8.1 million	\$8.1 million	\$38.50	\$9.00
2027	73	\$12.1 million	\$12.1 million	\$57.75	\$13.50

The table below depicts the interrelated nature of the Diversion Program and OCTC case processing standards requests in fiscal terms; the Diversion Program pays for itself after 2026.

Year	Diversion	Case processing w/ diversion	Total	Case processing w/o diversion	Difference
2025	\$1.2 million	\$3.2 million	\$4.4 million	\$4.0 million	\$0.4 million
2026	\$1.2 million	\$6.4 million	\$7.6 million	\$8.1 million	(\$0.5 million)
2027	\$1.2 million	\$9.6 million	\$10.8 million	\$12.1 million	(\$1.3 million)

### Activity Description (6145.1 3(A) & 4(B)):

- *A detailed description of the program and activity.*
- *A description of which State Bar programs and activities would be funded by the revenue generated from the incremental increase and any recent major operational or procedural changes implemented in those programs and activities.*

In 2021, SB 211 directed the State Bar to propose new case processing standards for competently, accurately, and efficiently resolving cases within OCTC. In October 2022, the State Bar submitted its proposal for new SB 211 case processing standards and outlined three key factors used to define the proposed case processing standards: (1) the stage in which a case is closed, (2) the complexity of a case; and (3) the risk to public protection of the alleged misconduct.

Based on these factors, the State Bar proposed to classify OCTC case types into six categories, for each of which the State Bar proposed an average case processing time and corresponding backlog standard:

1. Cases closed in intake;
2. High-risk, noncomplex cases closed in investigation;
3. High-risk, complex cases closed in investigation;
4. Low-risk, noncomplex cases closed in investigation;
5. Low-risk complex cases closed in investigation; and
6. Cases closed in charging.

The State Bar was also directed to propose staffing levels necessary for OCTC to achieve the proposed case processing standards.

In response to the preliminary staffing needs assessment presented in the SB 211 report, in its January 2023 report, the LAO cautioned that an accurate assessment of staffing needs would be

difficult to determine while various operational and procedural changes within OCTC were at different stages of implementation.

Senate Bill 40 directs the State Bar to provide to the Board of Trustees, the Chief Justice of the Supreme Court, and the Assembly and Senate Committees on Judiciary, a progress report on OCTC’s case processing standards that must include all of the following:

- (1) The status of changes made to case disciplinary processes and an assessment of how those changes are impacting case processing times.*
- (2) A discussion of how concerns related to operational efficiency raised by the CSA and the LAO have been addressed or are planned to be addressed.*
- (3) An assessment of how recent case processing times compare to the State Bar’s proposed average case processing standards. This assessment shall also include data on the timeliness of the completion of the hearing stage in order to provide a comprehensive picture of case processing times.*
- (4) An assessment of how recent case processing times compare to the State Bar’s proposed backlog standards, as well as the proposed standards calculated using pending rather than closed workload as discussed by the LAO’s January 2023 report.*

That report, *Progress Report on Discipline System Case Processing Standards and OCTC Staffing Needs Analysis* (progress report), can be found [here](#). The State Bar has also included in the progress report a staffing needs analysis outlining the number and composition of positions needed to meet the SB 211 case processing standards, accounting for the impact of OCTC operational and procedural changes, including those underway at the time of the LAO report as well as additional changes implemented since the LAO report. The case processing standards report also documents the variance in the number of OCTC positions needed to meet the SB 211 standards based on the existence, or lack thereof, of a Diversion Program.

The requested funding assumes that the Diversion Program is funded and would specifically support 57 new positions to be added over a period of three years at a rate of 19 positions annually.

**Projected Budget (6145.1 3(B)(E)):**

- *The projected, budgeted, and actual expenditures in 2023, 2024, and 2025 assuming no increase in the annual fee.*
- *Complete, actual data for 2023.*

The overall budget for OCTC is provided in the table below.

	2023 Budget	2023 Actuals*	2024 Budget	2025 Forecast
CTC	\$68,214,436	\$73,021,617	\$77,006,000	\$79,633,000

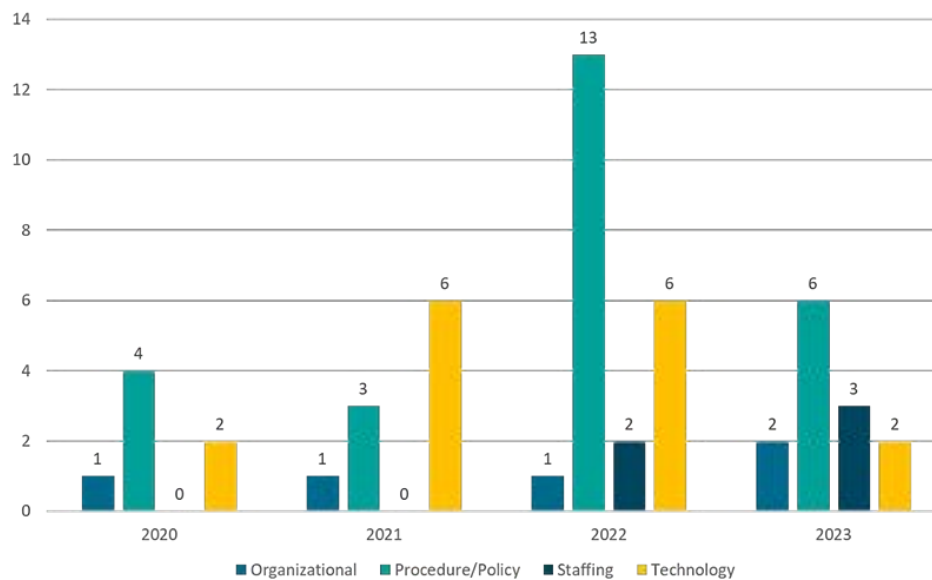
*\*Pre-close actuals. Numbers will be finalized after completion of an independent financial audit. Audit results will be submitted to the Legislature by May 31, 2024.*

Budget detail for projected, budgeted, and actual expenditures is provided in [Appendix C](#).

**Major Operational or Procedural Changes (6145.1 4(B)):** *Any recent major operational or procedural changes implemented in those programs and activities.*

The progress report outlines 52 organizational, procedure/policy, staffing, and technology changes implemented by OCTC since the start of 2020.

**Figure 8. Number of Programs/Initiatives by Year**



A detailed description of these changes can be found in Part One of the progress report.

**Justification for the Amount of Funding 3(C)(D) and 4(C):**

- *The estimated deficit and the reason for the deficit.*
- *What aspects of the programs or activities would not be achievable if a fee increase was not provided.*
- *Any key assumptions made, what outcomes are expected to be achieved, and what, if any, deficit would remain for the activity or program along with what aspects of the activity or program would be unachievable due to the deficit.*

This funding request will be used to support expansion of State Bar functions and not existing operations. As such, there is no estimated deficit. The deficit in the State Bar General Fund, which supports OCTC overall, is addressed in the Maintaining Public Protection aspect of this report.



The requested funding stems from a four-part analysis:

## I. Identification of Current OCTC Performance vs. SB 211 Case Processing Standards

### 1a. New Cases

Case closed in:	2018–2021	2022–2023	2023 (current)	SB 211 standard (target)	Gap between current and target speed
1. Intake	42	35	37	30	7 (23%)
2. High Risk Noncomplex Investigation	169	130	130	120	10 (8%)
3. Low Risk Noncomplex Investigation	196	164	169	150	19 (13%)
4. High Risk Complex Investigation	248	226	225	180	45 (25%)
5. Low Risk Complex Investigation	307	300	286	210	76 (36%)
6. Charging	450	562	598	300	298 (99%)

Cases resolved in intake and investigation are being resolved with average case processing times at up to 36 percent above the proposed SB 211 case processing targets; the vast majority of cases are resolved in these stages. The greatest variance between actual and proposed case processing times exists for cases that are resolved in the charging stage. For these cases, which comprise 3 to 5 percent of OCTC’s caseload, cases are resolved with average case processing times nearly double the proposed SB 211 case processing target.

### 1b. Backlog

The SB 211 case processing standards assign backlog status to any case that has taken 150 percent of the average case processing time for its respective stage; the standards further propose that no more than 10 percent of cases be in backlog status at the time they are resolved. Consistent with a recommendation from the LAO, the SB 40 progress report includes data on the backlog status of both resolved and pending cases. Backlog status is worse for pending cases; the percentage of pending cases in backlog status by case category is outlined in the table below.

**Table 11. Percentage of Pending Cases in Backlog Status by Case Category**

Case category	2018–2021	2022–2023	2022	2023
	(%)	(%)	(%)	(%)
1. Pending in intake	19	17	15	20
2. Pending in investigation: higher RPP <sup>7</sup>	30	30	36	28
3. Pending in investigation: lower RPP	32	37	32	42
4. Pending in charging (without ENEC)	50	70	69	71
OCTC Total	29	34	31	36

<sup>7</sup> Because cases are generally designated as complex or noncomplex based on what happens during investigation, for pending cases still in the investigation stage there is no definitive way to tell whether a case is complex or not. For this reason, the backlog table collapses investigation cases into only two case categories, defined by risk, higher RPP (higher risk to public protection) and lower RPP.

When examining pending backlog and comparing 2023 to previous years, the only case category that has seen a reduction is high-risk investigation cases. This is likely attributable to OCTC's prioritization of these cases.

A full comparison of current OCTC performance as compared to the proposed case processing standards is contained in Part Two of the progress report.

## **II. Identification of Staffing Levels Needed to Achieve Standards**

Two models were used to determine the number of staff needed to: (1) achieve the SB 211 standards for average case processing time; and (2) decrease the pending inventory in backlog status as defined by the proposed SB 211 case processing standards. A full discussion of the two models and their application can be found in Part Three of the progress report.

### **Model I. Linear Projection Model**

This model assumes a linear relationship between staff and case processing time. The model compared current average case processing times against the proposed SB 211 case processing time standards and accounted for staffing requirements for the six identified case categories/types and current staffing allocations. For example, during 2022–2023, the average processing time for cases resolved in intake was 37 days, missing the 30-day target by 14 percent. Under the linear model, to bridge this gap, the intake unit, currently staffed with 19 attorneys, would need 3 additional attorneys, a roughly 14 percent increase in staffing. Similar approaches were taken for investigations and charging. Using this linear projection model, OCTC is projected to need an increase of 48 positions (16 percent) to meet the proposed SB 211 case processing standards.

The linear model was also used to estimate the staffing needed to reduce the number of pending cases in backlog status, as defined by the SB 211 case processing standards, over five years to achieve a target of no more than 20 percent of pending matters in backlog status. To achieve this goal, 27 additional positions are needed. Adding these 27 to the 48 required to meet the average case processing time standards for incoming matters results in a total new position need of 75.

### **Model II. Random Moment Time Study**

The random moment time study method, which focuses on establishing a correlation between workload and staff resources by creating a case weight, uses a workload formula consisting of three elements:

- A. Staff time devoted to various tasks in processing different case types;
- B. Staff time available for case processing activities; and
- C. Workload as measured by the number of cases processed.

Data was collected for each of these elements in early 2024. Case weights were then calculated based on the following formula:

$$A \times B \div C = \text{average time (minutes or hours) required to process a case.}$$

After case weights were developed quantitatively, Delphi sessions, a form of structured focus groups in which subject matter experts review quantitative data and qualitative contextual information, were conducted with OCTC attorneys and investigators to arrive at adjustments to the case weights. These adjusted case weights were then translated into FTE requirements.

The random moment time study model identified a need for 71 new positions to both meet the SB 211 standards for average case processing times and reduce the number of pending cases in backlog status to 20 percent.

### III. Adjustment to Reflect Impact of Diversion Program

The linear projection model identified a staffing need of 75 positions, while the random moment time study identified a staffing need of 71 positions. The average of these two results, 73, is the final estimated staffing need. However, this estimate does not take into account the impact of full implementation of the State Bar’s proposed Diversion Program. If fully funded, this program is expected to divert up to 20 percent of disciplinary complaints. The resulting reduction in OCTC workload translates to a reduced number of positions required to meet SB 211 standards.

Table 12 below shows the staffing need estimated from the average of the linear and random moment models across the different position types, as well as the potential Diversion Program adjustment for each position type based on the assumption that the percent of disciplinary complaints diverted is at the top end of the estimated range. As indicated in table 12, after adjusting for the Diversion Program, the estimated staffing need to meet the SB 211 case processing standards is a total of 57 positions, down 16 from the original estimate of 73.

**Table 12. Staffing Need, Impact of Diversion Program**

Position type	Total additional staffing need – average of linear and random moment models	Potential Diversion Program adjustment	Diversion Program adjusted total staffing need
Attorneys	21	-5	16
Investigators	22	-6	16
Support staff	23	-5	18
Manager	7		7
<b>Total</b>	<b>73</b>	<b>-16</b>	<b>57</b>

Additional detail on the expected impact of the Diversion Program can be found in Part Three of the progress report as well as the Diversion Program fee increase request.

### IV. Structure of the Request

While the State Bar has identified a need for 57 new positions (assuming funding enables full implementation of the State Bar’s Diversion Program) to achieve the SB 211 case processing standards, immediate funding in 2025 for all 57 positions is not being sought. Instead, the State Bar seeks to fund this request in three equal tranches, to enable annual hiring of an additional 19 positions in each of the next three years. The State Bar proposes that the release of each

tranche of funding be prefaced by an independent review of prior phase progress, as outlined above.

A phased implementation of this aspect of the funding request recognizes:

- The challenges associated with hiring and onboarding significant numbers of new staff within any 12-month period;
- The full impact on case processing efficiency and effectiveness of OCTC operational and procedural changes may not yet be fully realized; and
- A three-tranche approach, with the release of years two and three dependent on an assessment or review that takes into account the ongoing impacts of OCTC operational and procedural changes on efficiency and effectiveness and allows for flexibility in finalizing the need for/composition of out-year investment.

**Outcome expected to be achieved 4(C):** *This justification shall also clearly specify the extent to which the funding is or will be used to complete business process reengineering, improve processes, or improve efficiencies.*

With the requested funding, OCTC expects to be able to meet the SB 211 case processing standards for average case processing times within three years and reduce the percentage of pending cases in backlog status, as defined by the SB 211 case processing standards, to a target of 20 percent within five years.

Absent new funding, OCTC expects to continue to make modest incremental gains both in case processing efficiency and in reducing pending inventory and the percentage of pending cases in backlog status, but will not be able to meet SB 211 case processing standards.

## INCREASING PUBLIC PROTECTION

### Diversion Program

**Amount requested and total amount to be generated (6145.1 4 (A)):** *The total amount of revenue estimated to be generated from the incremental increase.*

A fee increase of \$5.50 per active licensee and \$1.25 per inactive licensee for the period 2025–2027 is requested to support a State Bar Diversion Program. Effective 2028, the fee will reduce to \$4.00 per active licensee and \$1.00 per inactive licensee.

Year	FTEs	Ongoing	Limited-term*	Total amount needed	Per active licensee	Per inactive licensee
2025	6	\$0.85 million	\$0.35 million	\$1.2 million	\$5.50	\$1.25
2026	6	\$0.85 million	\$0.35 million	\$1.2 million	\$5.50	\$1.25
2027	6	\$0.85 million	\$0.35 million	\$1.2 million	\$5.50	\$1.25

\*Limited-term funding is for a three-year pilot program.

The requested funding will support 6 FTEs and the addition of a mediation component to the existing Mandatory Fee Arbitration (MFA) Program. Mediation will be implemented via a third-party provider; deployment costs total \$1.0 million. The State Bar seeks to fund this one-time expenditure in three annual tranches in years 2025–2027.

Budget detail for the fee increase request is provided in [Appendix C](#).

#### **Activity Description (6145.1 (a)(3)(A) & (a)(4)(B)):**

- *A detailed description of the program and activity.*
- *A description of which State Bar programs and activities would be funded by the revenue generated from the incremental increase and any recent major operational or procedural changes implemented in those programs and activities.*

This funding request will support the implementation of the State Bar’s Diversion Program, providing options for the diversion of minor violations from pre-complaint to post-investigation. If fully implemented the program is expected to divert up to 20 percent of disciplinary complaints. The Diversion Program is described briefly below and more fully in a separate report submitted pursuant to Business and Professions Code section 6086.20.

The State Bar currently has limited diversionary options available:

- Before filing a disciplinary complaint, clients can lodge a matter with the MFA Program, an informal, confidential, and relatively low-cost forum for resolving fee disputes between lawyers and their clients. Some local bar associations administer their own programs; generally, the State Bar provides fee arbitration only when there is no local bar program. Currently, the State Bar provides services to 39 unserved counties. Arbitration of a fee dispute is voluntary for a client but, in most instances, mandatory for a lawyer upon client request. While MFA is ostensibly a fee-for-service program, fees have not been increased in some time, so the program runs a deficit and is heavily subsidized by attorney licensing fees. As described in the Major Operational or Procedural Changes section below, MFA service fees will be increased this year, an

increase reflected in the State Bar's projected 2025 budget. Even with this service fee increase, however, the program will continue to operate at a deficit.

- Once a disciplinary complaint has been filed, the OCTC has historically implemented resolutions akin to diversion through nondisciplinary closures that take various forms. In the intake stage, OCTC closes cases with resource and directional letters (the former referring the attorney to resources to assist in addressing the conduct that led to the complaint; the latter conditioning closure on the attorney's compliance with instructions, primarily to return files or resume communications with the client) and with referrals to MFA when the complaint involves a simple fee dispute. In the investigation and charging stages, OCTC closes cases with resource, directional, warning, and admonition letters, with agreements in lieu of discipline, and with referrals to MFA when the allegations, after investigation, are determined to state a simple fee dispute. In October 2023, OCTC implemented a pilot of a formal Diversion Program, establishing eligibility criteria and procedures and tasking two paralegals to serve—on a part-time basis while continuing to perform other duties—as diversion monitors to track compliance with conditions established in diversion agreements or diversion warning letters. The program authorizes diversion at the intake, investigation, and charging stages, with differing criteria depending on whether diversion is offered in intake (prior to investigation) or in investigation or charging (after investigation).

As outlined in the Diversion Program report, additional funding would enable the State Bar to make the following improvements to its diversion efforts:

- Expand implementation of OCTC's pilot Diversion Program. OCTC is piloting a formal Diversion Program using existing resources. Additional resources would enable OCTC to expand and speed the use of diversion by dedicating full-time staff to support expedited investigation and resolution of cases identified as potentially eligible for diversion as well as to monitor compliance with diversion conditions in a greater number of diverted cases.
- Increase numbers of potential complainants diverted to nondisciplinary procedures through a new program within the [Office of Public Trust Liaison](#) (OPTL). The office was launched in 2023 to provide an ombudsperson-type service to address concerns about the admissions and discipline systems. A new Attorney-Client-Bridge Program (ACBP) within the PTL would provide clients with communication and file return issues the option of submitting a service request to the ACBP rather than a disciplinary complaint to OCTC. The ACBP is expected to divert between 300 and 500 matters annually that might otherwise result in the filing of disciplinary complaints. The ACBP is modeled after a parallel Texas State Bar initiative, the [Client-Attorney Assistance Program \(CAAP\)](#), which has been successfully in place for years.
- Increase outreach and education regarding MFA with the goal of increasing its usage and diverting complaints, as well as introducing a first-step mediation component. In 2023, the State Bar's MFA Program and local bar programs opened just 735 cases. As a proportion of the state's overall licensee population, this number is well below that of other states with similar programs, suggesting there is significant room for expansion. The availability of a mediation component would enable parties to resolve fee disputes more quickly and less formally and potentially with more input into how the disputes resolve. To the extent a mediation component serves to attract more parties and resolve their fee disputes without the need to submit disciplinary complaints, it would

reduce the resources OCTC currently expends on reviewing and addressing disciplinary complaints that actually allege only fee disputes.

**Projected Budget (6145.1 (a)(3)(B) &(E)):**

- *The projected, budgeted, and actual expenditures in 2023, 2024, and 2025 assuming no increase in the annual fee.*
- *Complete, actual data for 2023.*

	2023 Actuals*	2024 Budget	2025 Forecast
OCTC: cost of current redirection of existing staff to support pilot effort; 2 FTEs at 30% each**	\$20,000	\$122,000	\$127,000

*\*Pre-close actuals. Numbers will be finalized after completion of an independent financial audit. Audit results will be submitted to the Legislature by May 31, 2024.*

*\*\*Program was implemented in October 2023.*

Budget figures are also provided for OCTC overall, the existing MFA Program, and the existing OPTL.

	2023 Budget	2023 Actuals*	2024 Budget	2025 Forecast
<a href="#">OCTC</a>	\$68,214,436	\$73,021,617	\$77,006,000	\$79,633,000
<a href="#">MFA</a>	\$881,817	\$994,528	\$1,174,500	\$1,172,000
<a href="#">OPTL</a>	\$2,066,879	\$2,445,772	\$3,312,000	\$2,979,000

Budget detail for projected, budgeted, and actual expenditures is provided in [Appendix C](#).

**Major Operational or Procedural Changes (6145.1 (a)(4)(B)):** *Any recent major operational or procedural changes implemented in those programs and activities.*

In October 2023, OCTC implemented as a pilot a formal Diversion Program under which attorneys were offered the opportunity to enter into diversion agreements, with educational and other conditions selected to address the issues that gave rise to the complaints, in return for OCTC’s agreement not to proceed with investigation or prosecution of disciplinary charges. The program also authorizes the issuance in appropriate cases of diversion warning letters with the sole condition that the attorney remain free for a specified period of time from any disciplinary complaint that proceeds through investigation to charging. Eligibility criteria for participation in the Diversion Program generally exclude repeat offenders and offenses that have resulted in significant harm to clients, the public, or the administration of justice.

The State Bar has gathered aggregate data regarding the number of attorneys who have been offered and accepted diversion. From October 23, 2023, to February 29, 2024, 213 cases involving 194 attorneys were identified for participation in and moved to some stage in the diversion pilot. Of these 213 cases, diversion was accepted in all but 36 cases. The pilot program has been in effect for too short a time to generate meaningful data regarding any

effects on recidivism, but as the program continues to operate, the State Bar will gather such data. Based on the pilot program, OCTC has identified additional staffing (4 FTEs) that would enable expansion of the program beyond the pilot.

In 2023, the State Bar, for the first time in 10 years, overhauled the rules governing the MFA Program. Changes were designed to improve efficiencies and deliver results more quickly. The changes favor electronic service of documents, provide that hearings will take place via a remote communications platform rather than in person, and tighten the timelines around when a hearing will be held. Remaining challenges include the fact that local programs operate largely independently, and some counties struggle to find volunteer arbitrators, are understaffed, or still employ inefficient practices such as requiring paper copies of documents.

In addition to the changes in the State Bar administered MFA Program implemented last year, the State Bar also initiated a first-of-its kind “mystery shopper” effort targeting local programs after State Bar staff’s own efforts to reach some local programs were repeatedly unsuccessful. The mystery shopper revealed significant differences in customer service among local programs with some *never* responding to inquiries for assistance.

The OPTL was launched in 2023 in response to long-standing concerns regarding the lack of an ombuds-type function within the State Bar. With an initial focus on attorney discipline and admissions issues, the Public Trust Liaison receives inquiries, responds to questions and concerns brought by members of the public that remain unresolved through other channels, and investigates to ensure proper procedures were followed. The PTL also identifies areas of focus for public education and outreach efforts and makes recommendations for policy and operational reform to the State Bar Board of Trustees.

Shortly after launch the State Bar’s contact (or call) center was merged with the Office of the PTL so as to most efficiently and comprehensively address the needs of the public, applicants, and licensees reaching out to the State Bar.

**Justification for the Amount of Funding Requested (6145.1 (a)(3)(C) & (D) and (a)(4)(C)):**

- *The estimated deficit and the reason for the deficit.*
- *What aspects of the programs or activities would not be achievable if a fee increase was not provided.*
- *Any key assumptions made, what outcomes are expected to be achieved, and what, if any, deficit would remain for the activity or program along with what aspects of the activity or program would be unachievable due to the deficit.*

The Diversion Program comprises three components, each of which contemplate an expansion of an existing State Bar initiative or functional area (OCTC; MFA; PTL). To the extent there are deficits in these functional areas, those amounts are captured in the Maintaining Public Protection aspect of the present fee increase request.

If the Diversion Program funding request is not granted, there would be two primary consequences. First, there would be no formalized or funded Diversion Program at the State Bar. As a result, the availability of diversion for minor violations would be limited, requiring



OCTC to continue to expend on these minor violations investigative resources that would better be redirected to matters posing greater risks to public protection.

Second, and related, if the Diversion Program request is not funded, the OCTC case processing fee increase request would need to be adjusted upward by 16 positions to account for the fact that there would not be an increase in the number of complaints diverted, as is currently assumed in the underlying model. A rough estimate of the anticipated reduction in caseload is set out in table 13 below; the actual reduction will be evaluated after a full year of program implementation.

**Table 13. Diversion Program’s Projected Impact on Caseload**

Case type	Estimated caseload reduction	Diverted to
Intake	2.2% (40pprox.. 300 cases/year)	Office of the PTL
Intake/investigation/prefiling	0.9% (40pprox.. 130 cases/year)	MFA Program
Intake	4.7% (40pprox.. 650 cases/year)	OCTC Diversion Program
Investigation – low RPP, noncomplex	6.2% (approx. 850 cases/year)	OCTC Diversion Program

*\* The base number is the two-year average of total resolved cases which is 13,736 (without post-filing).*

The needed adjustment to the OCTC case processing fee increase should the Diversion Program request not be funded is described in detail in the OCTC Case Processing section of this report.

### **Diversion Program Funding Request**

#### **1. OCTC Diversion Program: Expansion and Formalization**

To fully implement and make permanent expanded diversion currently being piloted in OCTC, the following positions are needed:

- One attorney;
- One investigator; and
- Two paralegals.

These resources will serve as dedicated staff to support the expedited investigation and resolution of cases identified as potentially eligible for diversion as well as monitor compliance with diversion conditions in a greater number of diverted cases. Specifically, the attorney and investigator will be responsible for coordinating a process for assessing all cases to determine whether they are diversion eligible; the two full-time paralegals will be able to monitor the increased number of diversion matters expected with the addition of staff to coordinate the program. At an estimated 1,500 eligible cases annually, the requested funding translates to 375 cases per FTE. Currently, .6 FTE were able to identify 213 cases, and are monitoring 177; these ratios translate to a current per FTE workload of approximately 295 cases. The requested 4 FTE is therefore likely a slight understatement of the number of positions required.

With these additional positions, and with the funding of the MFA and ACBP, up to 20 percent of disciplinary complaints will be diverted prior to being filed or at an earlier time in OCTC's review process. In the absence of these additional positions, OCTC will continue to redirect a portion of two paralegals' time from traditional discipline case work to support its ongoing pilot, the number of minor violations diverted will remain lower, and OCTC will continue to expend on minor violations investigative resources that would be better redirected to more serious matters.

## **2. Mandatory Fee Arbitration: Introduction of Front-End Mediation Component**

The requested funding would support the addition of a mediation component to the existing MFA Program. The program will cost \$1.0 million to implement; the State Bar proposes to split these costs into three equal installments, which will support a reasonable implementation cycle for the new effort. The requested funding will specifically be used for:

- Procurement and configuration of an online mediation platform: \$120,000 (2025)
- Platform licensing costs: \$75,000 (2026–2027)
- Contract mediation services: \$360,000 (2026 and 2027)

Fees for use of the MFA Program have not been adjusted in several years. Staff did not propose changes to the fees concurrently with other General Fund program fee increases submitted to the Board of Trustees in 2023 because an assessment of the functioning of the program, both as administered directly by the State Bar and locally operated, was underway. That assessment identified a number of changes needed to streamline processes and expand access to MFA. The present request will provide funding for the foundational aspect of this redesign: a pre-arbitration mediation component offered in a manner that allows the parties to easily resolve disputes on their own. In addition to this fee increase supported request and pursuant to other needs identified during the operational assessment, the State Bar will increase outreach to and engagement with locally operated programs, as well as engage in consumer education regarding the availability of MFA. Outreach and education are important, particularly in light of the troubling findings about lack of local program responsiveness identified through the mystery shopper effort and the relatively low numbers of MFA participants statewide. In addition to traditional methods of engagement, the State Bar intends to make the mediation platform available to all programs statewide. Doing so will provide for a more coordinated and intentional approach to MFA services for consumers throughout the state.

Concurrent with development of this fee increase request, staff is turning back to the topic of MFA fee adjustment; staff will bring a proposal forward to the Board of Trustees in May 2024. The proposal will align with the 2023 recommendations of the CSA and, if approved, will increase service fees by approximately 20 percent. This service fee increase will not address the costs associated with deployment of a mediation service, and, even with the increase, the existing MFA Program will continue to operate at a deficit.

At this time, the State Bar does not believe that the cost to acquire and implement the mediation function should be passed on to MFA participants via additional fee increases lest cost itself prove a barrier to participation. However, while the costs associated with the mediation platform and related professional services will be ongoing in nature, the State Bar seeks one-time funding (spread over three years) only; the State Bar anticipates that the program redesign will result in increased participation, which in turn will lower the marginal

cost of MFA services. With increased participation the cost of the mediation enhancement can readily be distributed across all users. Thus, the goal is a self-sustaining program within three years.

### 3. Establish an ACBP

To fully implement the ACBP, the following positions are required:

- Two investigators<sup>8</sup>

At this staffing level ACBP will be able to serve an estimated 300 to 500 clients per year<sup>9</sup> who choose to access this service for redress of communication and return of client file issues in lieu of initiating a formal complaint. At 300 filings per year, this staffing level would reflect a per-investigator caseload of 150 matters annually; at 500 filings per year, the annual caseload per investigator would be slightly over 250. These caseload levels are high compared to current OCTC averages however, given the low level of complexity that most of these matters will present, two FTEs are likely sufficient at this time.

**Outcome Expected to be Achieved (6145.1 (a)(4)(C)):** *This justification shall also clearly specify the extent to which the funding is or will be used to complete business process reengineering, improve processes, or improve efficiencies.*

If fully implemented, the Diversion Program is expected to result in up to 20 percent of disciplinary complaints being diverted, freeing up resources in OCTC to investigate and charge more disciplinary matters posing greater risks to public protection.

The entirety of this funding request supports business process reengineering, improved processes, and increased efficiencies as it relates to a restructure of the traditional approach to handling disciplinary complaints. By introducing more proactive alternatives to filing a disciplinary complaint, and increasing diversion options post-filing, the Diversion Program proposes a strategic and effective overhaul of the status quo.

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<sup>8</sup> OCTC loaned the PTL a vacant position in 2024 to do preliminary work up for, and test a soft launch of, the ACBP concept. If this request for two FTEs is funded the position will revert back to OCTC in 2025.

<sup>9</sup> Estimate based on analysis of three years of OCTC complaint data, 2020–2022, isolating complaints where return of file and failure to communicate were the sole issues raised.

## INCREASING PUBLIC PROTECTION

### Complaint Review Unit (CRU)

**Amount requested and total amount to be generated (6145.1 4(A)):** *The total amount of revenue estimated to be generated from the incremental increase.*

An ongoing fee increase of \$3.50 per active licensee and \$0.75 per inactive licensee to achieve a 100 percent clearance rate, improve case processing times, and reduce the backlog in the CRU.

Year	FTEs	Ongoing	Total revenue needed	Per active licensee	Per inactive licensee
2025	3	\$0.7 million	\$0.7 million	\$3.50	\$0.75

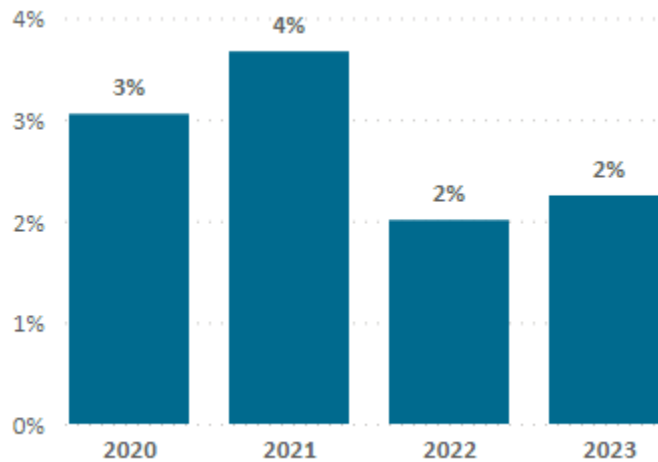
Budget detail for the fee increase request is provided in [Appendix C](#).

**Activity Description (6145.1 (a)(3)(A) & (a)(4)(B)):**

- *A detailed description of the program and activity.*
- *A description of which State Bar programs and activities would be funded by the revenue generated from the incremental increase and any recent major operational or procedural changes implemented in those programs and activities.*

When the OCTC closes a complaint against an attorney without seeking discipline, the complainant has the right to request CRU review of that decision. This process is commonly called a “second look” and serves as an independent review of OCTC’s decisions to close complaints. (See State Bar [Rules of Procedure, rule 2603\(b\)](#)). Based on its independent review, CRU may affirm an OCTC case closure decision or recommend reopening the case. A reopening recommendation is appropriate where CRU determines that the decision to close was in error, there is good cause, or where the witness presents material new evidence that could alter the outcome. By providing complainants with formal recourse to address OCTC’s closure decisions, CRU serves an important function in support of the State Bar’s public protection mission. In 2023, CRU recommended that OCTC reopen 29 cases, or 2 percent of the matters considered by CRU that year.

**Figure 9. Percent of Cases Recommended to OCTC to Reopen**



Since 2016, the CRU has been housed in the OGC.<sup>10</sup>

Historically, CRU work was distributed among nearly all OGC attorneys.<sup>11</sup> When OGC was fully staffed, this generally resulted in about 2.5 to 3.5 FTE attorneys focused on CRU matters. In 2022, however, due to vacancies in OGC and growing and unaddressed non-CRU demands, only three attorneys were assigned CRU cases as part of their workload, resulting in approximately 1.25 to 1.5 FTEs handling CRU requests that year.

In fall 2022, OGC utilized temporary contractors to augment the work of staff attorneys. Specifically, for the period October–December 2022, one part-time and three full-time contract attorneys were brought on to support the work of CRU.

In 2023 OGC modified its practice by increasing the apportionment of CRU work among four OGC attorneys for a total of two FTEs working on CRU matters. OGC also continued to utilize contract attorneys to the extent its budget allowed, a practice that resulted in five FTEs in total handling CRU matters. These efforts resulted in a 100 percent case clearance rate in January, February, and April 2023, and in a small reduction of matters in backlog status.

As of January 2024, CRU is staffed in total by 2.5 FTE attorneys, apportioned across six attorneys (including one part-time contract attorney). Additionally, all OGC attorneys are expected and encouraged to complete CRU requests when possible given other competing deadlines.

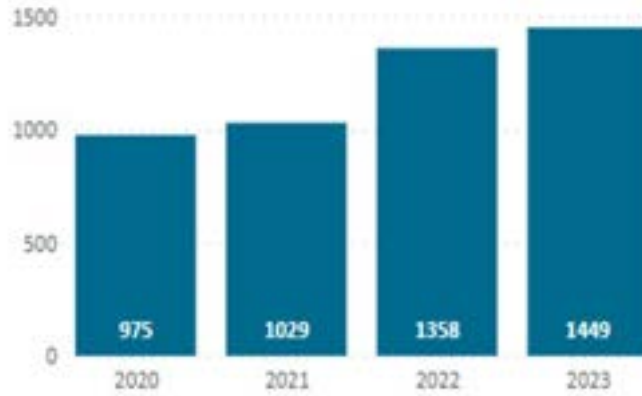
CRU workload has grown significantly over the years, increasing by nearly 50 percent since 2020:

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<sup>10</sup> Before 2016, the CRU function was handled in OCTC; the transition to OGC stemmed from a State Audit recommendation.

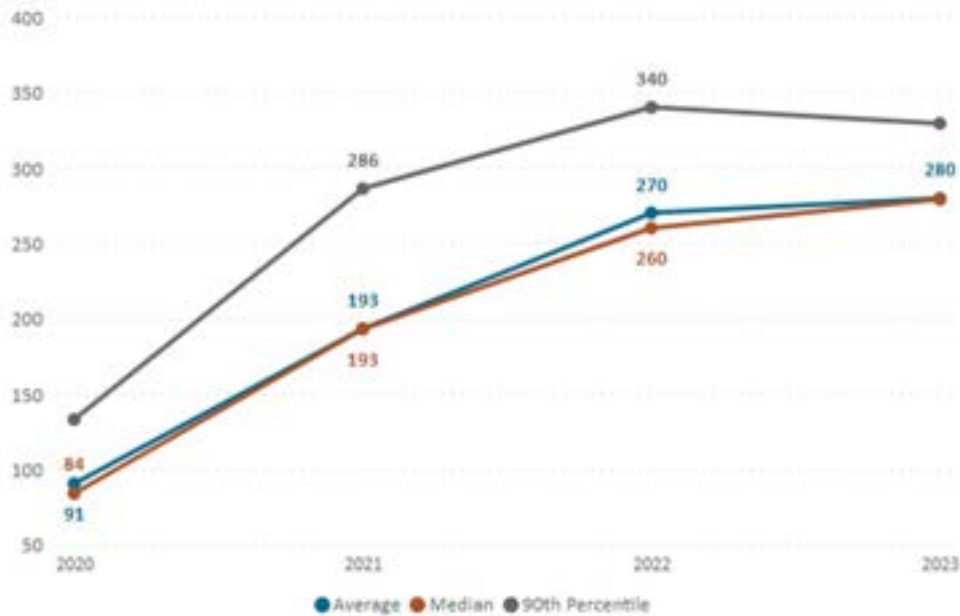
<sup>11</sup> In addition, the CRU function has been staffed by one administrative staff person.

**Figure 10. Requests Received**

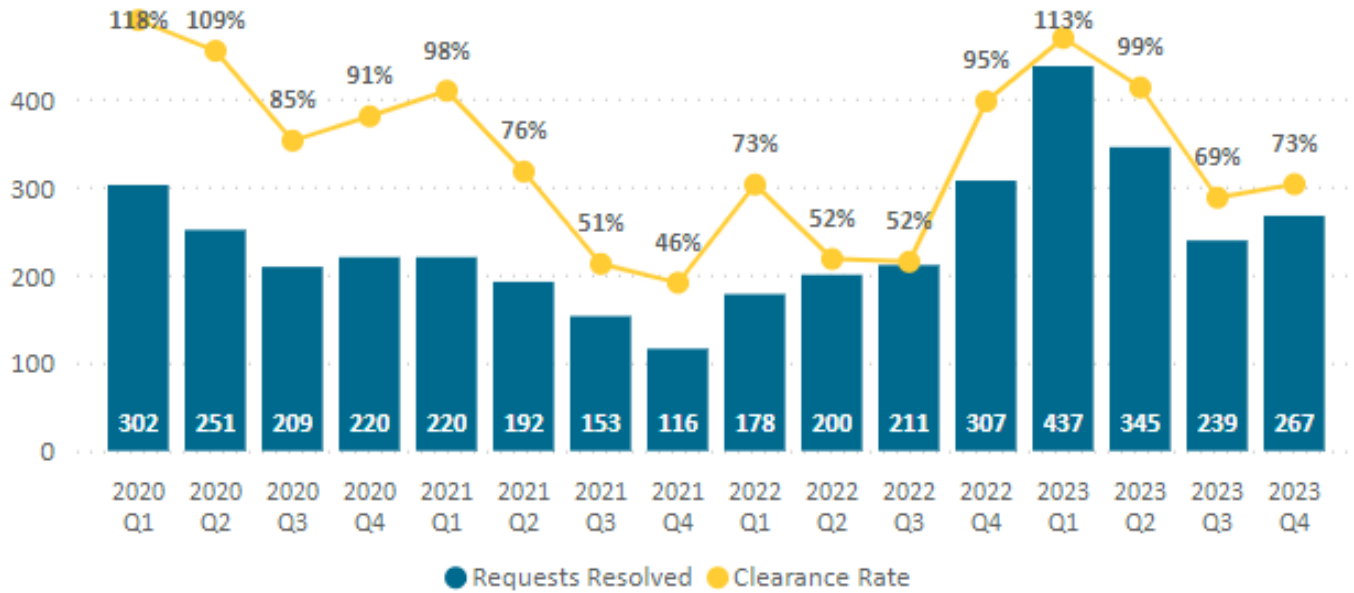


While to the extent fiscally feasible OGC resources have been augmented by contract attorneys to try to address the increased workload in recent years, CRU case disposition time has increased, from 91 days in 2020 to 280 days in 2023, and the caseload clearance rate has declined significantly.

**Figure 11. Disposition Time (Days): Average, Median, and 90th Percentile**



**Figure 12. Requests Resolved and Clearance Rate**



**CRU Staffing: What Is Needed to Meet a 100 Percent Clearance Rate and Reduce the Backlog**

The requested \$3.50 increase will fund a total of three FTE attorney positions within OGC.

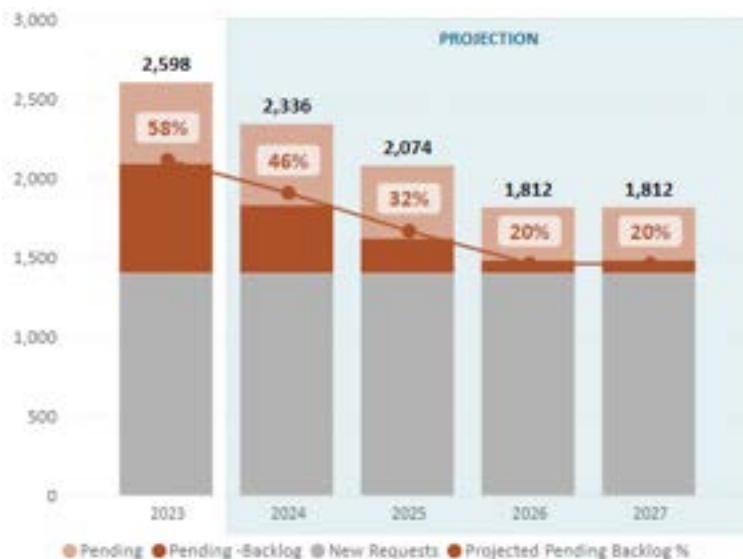
The additional positions will augment the existing complement of two FTEs currently dedicated to CRU, and will be assigned to review, analyze, and respond to incoming CRU requests. These resources are needed to achieve a 100 percent annual clearance rate of CRU requests, avoid further increases to the CRU backlog, and decrease case disposition time. The existing backlog will be addressed through continued use of contract resources for CRU backlog reduction purposes; this allocation, which is not subject to the CRU-related fee increase request, will be incorporated annually into the State Bar budget until the case inventory reflects no more than 20 percent of matters in backlog status.

With the current staffing level of two FTE attorneys and 0.5 part-time contract attorney support, OGC is able to resolve about 60 requests a month, reflecting a per-attorney monthly resolution rate of 24 matters. The average number of CRU requests received monthly is 122. To meet a 100 percent clearance rate target, just over five FTEs are needed; the three FTEs included in this fee increase request will complement the two existing resulting in the five needed FTEs

In addition to increasing the clearance rate to ensure that the CRU inventory does not continue to grow and age, the additional positions will also improve case disposition time. In 2023, the annual caseload for attorneys assigned to CRU was 725, and the average disposition time was 280 days. In 2020, when the annual caseload was 295, the disposition time was 95 days. Based on the assumption that CRU will continue to receive a monthly average of 122 new requests, if CRU staffing increases to five FTEs, annual attorney caseloads will be approximately 290. As a result, based on prior patterns, case disposition time should reduce to 90 days or less.

With permanent funding for OGC staff attorneys, contract resources will be redirected to focus specifically on backlog reduction. CRU’s calendar year 2023 backlog, defined as requests for review that are older than 135 days,<sup>12</sup> was 689 requests, or 58 percent of CRU’s total inventory.

**Figure 13. Total Projected Caseload and Percent of Pending Requests in Backlog**



**Projected Budget (6145.1 (a)(3)(B) &(E)).**

- The projected, budgeted, and actual expenditures in 2023, 2024, and 2025 assuming no increase in the annual fee.
- Complete, actual data for 2023.

	2023 Actuals*	2024 Budget	2025 Forecast
CRU	\$0.6 million	\$0.8 million	\$0.8 million

*\*Pre-close actuals. Numbers will be finalized after completion of an independent financial audit. Audit results will be submitted to the Legislature by May 31, 2024.*

Costs Include:

Expense type	2023 Actuals		2024 Budget		2025 Forecast	
	FTE	Expense amount	FTE	Expense amount	FTE	Expense amount
State Bar staff	1.5	\$0.3 million	2	\$0.5 million	2	\$0.5 million
Temporary staff		\$0.3 million		\$0.3 million		\$0.3 million

Budget detail for projected, budgeted, and actual expenditures is provided in [Appendix C](#).

<sup>12</sup> Consistent with OCTC backlog definitions, CRU’s backlog age is defined as 1.5 times the average disposition time (i.e., 90 days), or 135 days.



**Major Operational or Procedural Changes (6145.1 (a)(4)(B)):** *Any recent major operational or procedural changes implemented in those programs and activities.*

- In addition to OGC's modified practice of how CRU cases are assigned as outlined above, other operational and procedural changes include: Establishing procedures for a) granting requests for extensions to allow a complaining witness additional time to file a CRU request; and b) requests to expedite review of CRU requests;
- Launching a [CRU informational page](#) on the State Bar's website to educate the public about the process, including how, when, and where to file a CRU request, and what steps are available after a CRU decision is provided;
- Working with the OPTL and the State Bar's Contact Center to provide faster responses to inquiries concerning CRU matters;
- Implementing OGC policy directives regarding conflicts of interest, gifts, and ethical screenings for the OGC attorneys and staff handling CRU requests;
- Establishing routine reporting to the Board of Trustees and working with discipline liaisons; and
- Launching a CRU dashboard available to the public.

**Justification for the Amount of Funding Requested (6145.1 (a)(3)(C) & (D) and (a)(4)(C)).**

- *The estimated deficit and the reason for the deficit.*
- *What aspects of the programs or activities would not be achievable if a fee increase was not provided.*
- *Any key assumptions made, what outcomes are expected to be achieved, and what, if any, deficit would remain for the activity or program along with what aspects of the activity or program would be unachievable due to the deficit.*

This funding request will be used to support additional staffing for the CRU function. There is no estimated deficit associated with this expansion activity. The deficit in the State Bar General Fund, which supports OGC overall, is addressed in the Maintaining Public Protection aspect of this report.

Despite efforts to streamline CRU review processes, without an increase in FTE dedicated to CRU, the backlog will continue to increase and case processing times will continue to grow.

**Outcome expected to be achieved (6145.1 (a)(4)(C)):** *This justification shall also clearly specify the extent to which the funding is or will be used to complete business process reengineering, improve processes, or improve efficiencies.*

The fee increase request will result in CRU consistently achieving a 100 percent clearance rate and decreasing case disposition times. Specifically, each new FTE will result in 24 additional CRU requests being resolved on a monthly basis. Each FTE will also reduce the annual attorney caseload, thereby decreasing the total disposition time. As noted earlier, with a total of five FTEs (which includes the current staffing level of two FTEs and the requested three FTE positions), the annual attorney caseload for CRU will be reduced from 725 to 290, enabling a decrease in disposition time from 280 days to approximately 90 days.

Ultimately, a more responsive and impactful CRU will support the State Bar's public protection mission and improve confidence in the attorney discipline system.

## INCREASING PUBLIC PROTECTION

### Proactive CTA Regulation

**Amount requested and total amount to be generated (6145.1 4(A)):** *The total amount of revenue estimated to be generated from the incremental increase.*

A fee increase of \$5.75 per active licensee and \$1.25 per inactive licensee for 2025, \$7.25 per active licensee and \$1.75 per inactive licensee for 2026, and \$8.75 per active licensee and \$2.00 per inactive licensee for 2027 is requested to support proactive CTA regulation.

Year	FTEs	Ongoing	Total revenue needed	Per active licensee	Per inactive licensee
2025	8	\$1.2 million	\$1.2 million	\$5.75	\$1.25
2026	10	\$1.5 million	\$1.5 million	\$7.25	\$1.75
2027	12	\$1.8 million	\$1.8 million	\$8.75	\$2.00

If applied solely to those attorneys with CTAs (59.3 percent), the fee would be \$10.50 in 2025, \$13.25 in 2026, and \$15.75 in 2027, per active licensee.

Budget detail for the fee increase request is provided in [Appendix C](#).

#### **Activity Description (6145.1 (a)(3)(A) & (a)(4)(B)):**

- *A detailed description of the program and activity.*
- *A description of which State Bar programs and activities would be funded by the revenue generated from the incremental increase and any recent major operational or procedural changes implemented in those programs and activities.*

To strengthen public protection and better support attorneys in fulfilling their client trust accounting duties, the State Bar developed the CTAPP. The program was designed to have three phases/components.

Phase I, launched with the 2023 license renewal cycle, required actively licensed attorneys to:

- Register their IOLTAs and non-IOLTAs<sup>13</sup> annually with the State Bar, either individually or through their law firm or organization.
- Complete an annual self-assessment of CTA management practices; and
- Certify with the State Bar that they understand and comply with requirements and prohibitions applicable to the safekeeping of funds and property of clients and other persons in rule 1.15 of the Rules of Professional Conduct.

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<sup>13</sup> When those accounts are nominal in amount or are held for too short a time to earn interest income for the benefit of the client, the lawyer is required to place those funds in an IOLTA. (Bus. & Prof. Code, § 6211, subd. (a)). An attorney or firm that holds funds for a client or for the benefit of a single party that are large enough to generate more than nominal interest, or an attorney who holds funds for a single party for an extended period must hold such funds in a non-IOLTA. (Bus. & Prof. Code, § 6211, subd. (b)).

The registration and educational aspects of CTAPP have proved very beneficial. First-year highlights include:

- Over 103,000 California attorneys reported responsibility for client funds in at least one trust account.
- Over \$11 billion of clients' funds were reported to be held in more than 59,000 CTAs by California attorneys.
- While attorneys know that the Rules of Professional Conduct require monthly CTA reconciliations, some attorneys do not know how to do a monthly reconciliation. This led to the State Bar developing a Practical Client Trust Account Reconciliation course, which teaches best practices both for lawyers who do their own trust accounting and for those who supervise and review monthly reconciliations performed by a bookkeeper.

Phase I of CTAPP has been supported by 1.5 dedicated FTEs with additional staff support provided by the Contact Center and other customer-facing State Bar regulatory personnel. In addition, IT contractors have developed and maintained the interface for attorney reporting of trust account information.

While the educational aspects of the program are beneficial, there are two significant limitations on its effectiveness at this time. First, absent a requirement that banks report to the State Bar information about individual, as opposed to just IOLTA CTAs, the State Bar is missing critical information about tens of thousands of accounts and has no ability to verify attorney-reported, or unreported, information. This particular concern was the subject of an affirmative State Bar legislative proposal approved by the Board of Trustees in [2023](#) and again in [2024](#). Furthermore, SB 40 (Chapter 697, Stats. 2023) included an uncodified statement of the Legislature's intent to work with stakeholders "to craft a structure for regulating client trust accounts that minimizes the risk of financial fraud while protecting the consumer and privacy interests of clients and account holders." See [Section 1 of SB 40](#).

Second, and the subject of this fee increase request, the full benefit of CTAPP will not be realized without funding to put compliance review and investigative audit components in place.

The requested funding will be used to support the creation of a specialized team, including forensic accountants, to analyze and audit attorney CTAs including compliance with recordkeeping requirements under the Rules of Professional Conduct, misconduct, and risks associated with the handling of entrusted funds. This team will oversee compliance reviews performed by external CPAs and will perform investigative audits:

- A compliance review is a review of compliance with the Rules of Professional Conduct governing entrusted funds, including an evaluation of the contemporaneous creation of required records, maintenance of those records, notification of the receipt of funds to clients or other persons for whom the lawyer holds funds, prompt distribution of funds to clients and other persons, and accounting to clients or other persons for whom the lawyer holds funds. Under the proposed approach, attorneys would be responsible for paying for the cost of compliance reviews, which would be conducted by State Bar approved CPAs.

- An investigative audit is an audit of a licensee’s trust accounting performed by the State Bar based upon the outcome and findings of a compliance review.

The program will also include recommendations as to best practices, directives to institute corrective measures, and, where appropriate, referral to the OCTC for potential discipline.

**Projected Budget (6145.1 (a)(3)(B) &(E)).**

- *The projected, budgeted, and actual expenditures in 2023, 2024, and 2025 assuming no increase in the annual fee.*

	2023 Actuals*	2024 Budget	2025 Forecast
CTAPP	\$0.8 million	\$1.0 million	\$0.7 million

*\*Pre-close actuals. Numbers will be finalized after completion of an independent financial audit. Audit results will be submitted to the Legislature by May 31, 2024.*

Costs include:

Expense Type	2023 Actuals		2024 Budget		2025 Forecast	
	FTE	Expense amount	FTE	Expense amount	FTE	Expense amount
Personnel*	1.5	\$0.5 million	1.8	\$0.6 million	1.6	\$0.6 million
Contract IT Support		\$0.3 million		\$0.4 million		\$0.2 million

\*Includes indirect costs

Budget detail for projected, budgeted, and actual expenditures is provided in [Appendix C](#).

**Major Operational or Procedural Changes (6145.1 (a)(4)(B)):** *Any recent major operational or procedural changes implemented in those programs and activities.*

Prior to 2023, the State Bar did not engage in any proactive oversight of CTAs. As a result of the registration requirement of Phase I of CTAPP, the State Bar for the first time collected data about the number of trust accounts and the amount of funds entrusted to California attorneys. The self-assessment/educational component of Phase I of CTAPP showed (1) that many attorneys who do not do the bookkeeping for a trust account mistakenly believe they are not responsible for complying with the requirements and prohibitions under rule 1.15 of the Rules of Professional Conduct; and (2) while attorneys know there is a requirement to conduct a monthly three-way reconciliation, many do not really know how to do such a reconciliation. The establishment of CTAPP itself thus reflected a major operational change; the data collection, analysis, and licensee education that have accompanied this initiative have all been central to its impact.

**Justification for the Amount of Funding Requested (6145.1 (a)(3)(C) & (D) and (a)(4)(C)).**

- *The estimated deficit and the reason for the deficit. What aspects of the programs or activities would not be achievable if a fee increase was not provided.*

- *Any key assumptions made, what outcomes are expected to be achieved, and what, if any, deficit would remain for the activity or program along with what aspects of the activity or program would be unachievable due to the deficit.*

This funding request will be used to support expansion of State Bar functions and not existing operations. As such, there is no estimated deficit. The deficit in the State Bar General Fund, which supports the CTAPP program, is addressed in the Maintaining Public Protection aspect of this report.

Currently there is minimal oversight of attorney-client trust accounting practices in California. While the State Bar has implemented CTAPP compliance reporting, which requires all actively licensed attorneys to register their IOLTAs and non-IOLTAs, compliance with trust accounting rules cannot be verified by CTAPP compliance reporting alone. A review of an attorney’s trust account recordkeeping is essential to proactively verifying compliance. Without this program, an attorney’s adherence to trust accounting rules will continue to be limited to investigation after a complaint has been filed and potential public harm has already occurred.

Banks do not provide any information about non-IOLTAs to the State Bar. Further, banks do not report trust accounts to the State Bar by the accountholder’s licensee number. The State Bar is aware of several instances where an attorney reported some but not all trust accounts to the State Bar. To detect similar situations, bank reporting on both IOLTAs and non-IOLTAs is a necessary and wide-reaching step. Compliance reviews and audits are another critical component of proactive trust account regulation. These efforts will help the State Bar determine if an attorney’s trust account management practices adhere to the requirements of the Rules of Professional Conduct *before* that attorney gets into trouble; in addition, the State Bar’s initiation of such an effort will in itself serve an important deterrent purpose.

The requested funding will specifically support 7 FTEs in 2025, 10 in 2026, and 12 in 2027, as well as \$200,000 in one-time funding to develop a compliance review/audit portal that will be used to track, monitor, document, and communicate with licensees.

### Why Expanding CTAPP Is Needed

Leslie Klein, accused of misappropriating millions of dollars from 28 non-IOLTA trust accounts, did not register any non-IOLTA trust accounts with the State Bar. On February 3, 2023, Klein submitted his 2023 CTAPP reporting (covering the 1/1/22–12/31/22 reporting period). He registered only one IOLTA account. On January 30, 2024, he submitted his 2024 CTAPP reporting, registering the same CA-IOLTA as in 2023.

Because the State Bar did not receive information about the non-IOLTA accounts from either the licensee or the banks, the State Bar cannot be sure when the 28 non-IOLTA accounts were open or how much was in them. The State Bar has since discovered five additional unreported IOLTA accounts with "Les Klein & Associates" in the account name. At least four of these IOLTAs were open—but not registered—during the 2022 and 2023 CTAPP reporting periods.

Expense Type	2025		2026		2027	
	FTE	Expense amount	FTE	Expense amount	FTE	Expense amount
CPAs	6	\$0.9 million	8	\$1.2 million	8	\$1.2 million
Administrative support	1	\$0.1 million	2	\$0.3 million	4	\$0.6 million
Reporting platform		\$0.2 million				

**Outcome Expected to be Achieved (6145.1 (a)(4)(C)):** *This justification shall also clearly specify the extent to which the funding is or will be used to complete business process reengineering, improve processes, or improve efficiencies.*

Program funding will allow the State Bar to oversee between 865 and 1,295 compliance reviews annually, and to perform between 216 and 324 investigative audits annually, on a stepped-up basis from 2025–2027:

2025	2026	2027
865	1,070	1,295
216	268	324
1,081	1,338	1,619

Each compliance review, which will be conducted by an independent CPA who is paid for by the licensee,<sup>14</sup> is estimated to take four hours of staff time to oversee. Each audit, which will be conducted by State Bar staff, is estimated to take 20 hours of staff time to complete.

The comparison of audit programs in other jurisdictions found [here](#), while somewhat outdated, shows that several jurisdictions audit approximately 1 percent of all licensees. Given the size of California’s licensee population, the initial goal is to conduct a combination of compliance reviews and audits of between .5 and 1 percent of *all licensees with trust accounts annually*.

Selection method	Review period	Conducted by	Paid by	Annual # of reviews/audits	# of licensees	%
Initially random, then risk-based	12 months	External CPA for compliance reviews; State Bar for investigative audits	Attorney for compliance reviews; State Bar for investigative audits	1,081–1,619	196,133 (approx. 116,645 <sup>15</sup> with trust accounts)	Less than 1%

The entirety of the CTAPP can be understood as a business process engineering effort. Understanding the need to structurally reform the way in which the State Bar protects client funds, the Board of Trustees launched CTAPP, the first proactive monitoring of trust account funds conducted in this state. Using relatively nonintrusive methods from the licensee vantage point and a technology platform that facilitates automation, the State Bar is able to quickly reconcile attorney and bank reporting on IOLTAs.

<sup>14</sup> The State Bar will establish a mechanism for subsidized compliance reviews based on an attorney’s ability to pay.

<sup>15</sup> As of the 2024 reporting cycle.

## INCREASING PUBLIC PROTECTION

### Information Technology (IT)

**Amount requested and total amount to be generated (6145.1 4 (A)):** *The total amount of revenue estimated to be generated from the incremental increase.*

TBD.

Three key domains in IT demand substantial investment—an Attorney Regulation Information System Upgrade, Modernization of the State Bar’s IT Organization, and Staffing. Although the existing shortcomings in these areas are evident, pinpointing the precise solution, which is likely to involve a combination of new human and financial resources alongside organizational restructuring, warrants deeper analysis. As a result, there is no specific funding request associated with needed IT investment at this time.

Instead, this submission should be regarded as a placeholder, signaling that the State Bar is working to finalize a well-documented, accurate, and comprehensive fee increase request reflecting the amount of required investment in IT necessary to support the organization’s public protection mission. The State Bar will finalize and submit any supplemental information technology related funding request no later than April 30, 2024.

**Activity Description (6145.1 (a)(3)(A) & (a)(4)(B)):**

- *A detailed description of the program and activity.*
- *A description of which State Bar programs and activities would be funded by the revenue generated from the incremental increase and any recent major operational or procedural changes implemented in those programs and activities.*

The Office of IT provides the technology capabilities and solutions that enable and support the State Bar’s operations and programs. IT is responsible for building, enhancing, integrating, deploying, and maintaining technology solutions that include custom software and third-party software products and platforms; network infrastructure; and information security. IT also provides end-user support.

**Projected Budget (6145.1 (a)(3)(B) &(E)):**

- *The projected, budgeted, and actual expenditures in 2023, 2024, and 2025 assuming no increase in the annual fee.*
- *Complete, actual data for 2023.*

Office	2023 Projection	2024 Budget	2025 Forecast
Information Technology	\$16,194,809	\$17,803,500	\$15,575,000

**Major Operational or Procedural Changes (6145.1 (a)(4)(B)):** *Any recent major operational or procedural changes implemented in those programs and activities.*

**Justification for the Amount of Funding Requested (6145.1 (a)(3)(C) & (D) and (a)(4)(C)):**

- *The estimated deficit and the reason for the deficit.*
- *What aspects of the programs or activities would not be achievable if a fee increase was not provided.*
- *Any key assumptions made, what outcomes are expected to be achieved, and what, if any, deficit would remain for the activity or program along with what aspects of the activity or program would be unachievable due to the deficit.*

TBD

**Outcome Expected to be Achieved (6145.1 (a)(4)(C)):** *This justification shall also clearly specify the extent to which the funding is or will be used to complete business process reengineering, improve processes, or improve efficiencies.*

The existing programs and proposed new initiatives that fulfill the State Bar’s public protection mission are increasingly dependent on modern, efficient IT strategies, solutions, systems, and tools. Existing shortcomings in key IT domains jeopardize the State Bar’s ability to perform at every level. To determine how best to address these shortcomings, and in preparation for the present fee increase submission, the State Bar recently engaged an IT consulting firm, Slalom Consulting, for a review of all major functional areas within IT, including strategic planning, enterprise architecture, portfolio management, project management, application development and support, data analytics and management, network infrastructure, cloud computing, and security. The review determined that the State Bar’s IT organization is at a low “maturity level” in many of these functional areas. These deficits lead to inefficiencies, security risks, negative user experiences, and ultimately more expense.

Slalom provided an extensive list of recommendations related to technology tools and strategies and the processes, skills, and organizational structure of the Office of IT. In addition, Slalom recommended an increase of more than 50 percent in IT headcount.

The State Bar engaged several consultants, including the California Department of Technology (CDT), to review the Slalom proposal. CDT provided a preliminary review of Slalom’s report and advised that it was thorough and provided solid, actionable recommendations that, if successfully implemented, could transform IT into a far more modern and effective organization. At the same time, CDT validated the State Bar’s own assessment, as well as that of the other engaged consultants, that the recommendations ranged from practical to aspirational; that the proposed implementation timeline was very aggressive; and that more work is required to prioritize the recommendations and define a more manageable scope.

While the State Bar strives for a functional, capable, and secure IT infrastructure, it does not aspire to replicate a best-in-class private-sector organization. The State Bar continues to work with the engaged consultants to refine and prioritize the recommendations, and so is not yet



prepared to present a concrete funding proposal. Instead, provided below is a concise overview of the areas where funding is likely to be sought.

## Areas of Need

### 1. Attorney Regulation Information System Upgrade

*One-time cost for implementation, ongoing cost for software licenses.*

The Attorney Regulation Information System (ARIS) stores and manages all licensee records, including status, fees, discipline activities, and all aspects of compliance. The current system is built on an AS400 platform implemented in 1991. Internally, the system is extremely limited in its ability to efficiently manage workflow and task tracking, facilitate automation, receive and organize data from multiple sources, or allow for efficient data analysis and reporting.

Externally, although licensees interact with the system through a modern website interface, the limitations of the underlying technology often create a challenging and frustrating user experience, as licensees encounter difficulty with basic transactions such as updating their records, reporting compliance, and paying their fees.

Beginning in 2020 the State Bar received a \$3.5M special assessment (collected over five years) for a new ARIS, based on preliminary cost estimates at the time. Subsequent bids received for a new system, to be based on the Salesforce platform the State Bar was already using for its admissions system, were between \$10 million and \$13 million. Because these bids were significantly higher than the original estimate, the State Bar did not go forward with a new system but instead used some of the available funds for many incremental improvements in the form of infrastructure, security, and functional upgrades to the AS400 and related systems, in support of a new ARIS. While these incremental improvements have been helpful, moving forward with implementation of a new, modern ARIS is required to efficiently manage licensee records, allow for greater data analysis, and provide a better user experience for licensees.

At this juncture, the \$10 million-plus estimate for a new system appears to be outdated, and more cost-effective solutions are being evaluated, including commercial products already in use by other state bars and regulatory agencies. Additional time is needed to evaluate the functionality and costs of these other solutions before any specific funding need, beyond the \$3.5 million already authorized, can be determined.

### 2. Modernization of the State Bar's IT Organization

*One-time costs for professional services, training, and selected system implementations, possible ongoing costs for software licenses.*

The State Bar's current IT operation lacks modern practices and functionality in many areas, including:

- **Enterprise architecture (EA).** EA is a critical IT function that bridges the gap between business office strategy and IT strategy. It also helps in standardizing technologies across

the organization. Absent EA, the State Bar makes technology decisions that solve only short-term business problems, leading to technical debt, rework, and increased costs over time.

- **Portfolio management.** Absent a comprehensive portfolio management function, projects are often misaligned, and relationships between projects are not identified until it is too late to identify any efficiencies that could be gained or unintended consequences that could be mitigated before deployment.
- **Demand management.** There is no demand management function at the State Bar. Such a function will enable accurate sizing and categorization of work.
- **Data Governance.** A more comprehensive data governance program is needed to ensure that data is accurate and consistent, which is essential for making informed decisions, maintaining regulatory compliance, protecting data integrity, and reducing risks of data breaches or misuse.

While these needs are well documented, the appropriate method and timeframe for addressing them is still being analyzed, rendering it premature to request any specific associated fee increase at this time.

### **3. IT Staffing**

*Ongoing costs for additional staff salaries and benefits.*

Positioning IT to support the State Bar's goals more effectively will require a combination of retraining existing staff and adding new positions; strategies for outsourcing selected functions can also be considered. An additional 3 to 10 positions over the next two to three years is likely, with a focus initially on security, network infrastructure, cloud infrastructure, application development and support, and project management. Further evaluation of the modernization efforts described above is required before the exact number of needed positions can be finalized.

## APPENDIX A: OPTIONS FOR STRUCTURING THE LICENSING FEE

### Factors Considered in the Construction of Options

When the State Bar began evaluating the feasibility of modifying the structure for assessing licensing fees—shifting from a single flat fee for all attorneys to a tiered system based on relevant structural differences—several factors were taken into account. They include:

- Availability of reliable data to evaluate different options;
- Ability to collect and validate data for implementing a specific option;
- Alignment of the new structure with the State Bar’s policy goals of enhancing fairness and equity; and
- Concerns and feedback from the Board of Trustees as well as the general attorney population served by the State Bar.

### Review of Fee Assessment Structures in Other Jurisdictions

Additionally, an assessment of licensing fees/dues in all 50 states and the District of Columbia was conducted to identify any alternative fee structures in place for special categories of licensees. The result of this review is provided in table 1. Like the State Bar, the vast majority (78 percent) have an alternative fee structure for inactive attorneys and senior attorneys (73 percent). The next most frequent fee structure was based on years of practice (59 percent). Only six percent of jurisdictions provide for alternative fees based on practice sector; in those jurisdictions the practice sector fee is limited to government employees.<sup>1</sup>

**Table 1. Number and Percent of Jurisdictions with Alternative License Fee/Dues Structures**

Fee Structure	Number	Percent	State Bar of California
Inactive	40	78%	X
Honorary/Emeritus/Retired/Senior	37	73%	X
Years of Practice	30	59%	
Judiciary	19	37%	
Military	15	29%	
Disabled	9	18%	
Law Students/Professors	8	16%	
Financial Hardship	5	10%	X
Government	3	6%	
Out of State	2	4%	
Legal Service Lawyers	2	4%	X

<sup>1</sup> The voluntary New York City Bar Association has an interesting tiered structure that is based on (a) proximity of office to NYC; and (b) practice sector, with varying rates for solo, corporate, and public service (a category that includes government) attorneys.

## Developing Options for California: Data Collection and Simulation of Different Models

In 2021, the State Bar initiated its first Attorney Census data collection. This effort gathered detailed information on attorney practice sector, income, demographics, and employment. Of nearly 190,000 active attorneys invited to participate, about 60 percent provided data on both practice sector and income.

Since the adoption of State Bar Rule, rule 2.2 in 2023, which mandates attorneys to report their practice sector and firm size, more data on practice sectors has become available. A combination of 2021 Attorney Census data and more recent rule 2.2 reporting was used to extrapolate demographic variables of interest to the entire licensee population, as reflected in table 2. These data informed the initial evaluation of several scenarios for assessing fee structure options.

**Table 2. Active Attorneys by Practice Sector, Years of Practice, and Income  
(Actual + Adjusted Data)**

Fee Option Categories	Number of Attorneys	Percent	Fee Option Categories	Number of Attorneys	Percent
<b><i>Practice Sector</i></b>			<b><i>Years in Practice</i></b>		
Solo	45,401	23%	<=5	26,086	13%
Small Firm	28,804	15%	6-15	59,325	30%
Medium Firm	20,229	10%	16-30	63,090	32%
Large Firm	23,591	12%	>30	47,607	24%
Government	29,192	15%	Total	196,109	100%
Nonprofit	7,953	4%	<b><i>Income</i></b>		
Corporation	29,527	15%	<\$100K	51,505	26%
Other Private	6,792	3%	\$100k - \$199k	76,697	39%
Other	4,620	2%	\$200k - \$499k	55,742	28%
Total	196,109	100%	>=\$500k	12,165	6%
			Total	196,109	100%

Scenarios were initially developed to model three fee assessment approaches based on: (1) practice sector; (2) income; and (3) years in practice. Variations of each of these models were developed to reflect the application of the model to a fee increase amount solely or to the entire mandatory fee<sup>2</sup>.

### Income and Years of Practice-Based Fee Structures

During the initial iterations, multiple models were tested. For reasons described below, the Board of Trustees settled on a practice sector-based fee assessment model; this appendix focuses on this model as a result. Income and years of practice-based models developed during the analysis process can be seen in tables 3 and 4.

**Table 3. Scenarios of New Fee Structure Based on Years of Practice**

<i>Scenario 1: Increase Amount (\$125) Only</i>				<i>Scenario 2: Current Base Fee + Increase Amount (\$529)</i>			
Years of Practice	Active Attorneys	Fee Increase Amount	Proposed New Fees	Change From Current Base Fee (\$404) - Percent	Current Base Fee + Fee Increase Amount	Change from Base Fee (\$404)	Change From Current Base Fee (\$404) - Percent
<=5	26,086	50	454	12%	275	-129	-32%
6-15	59,325	100	504	25%	345	-59	-15%
16-30	63,090	125	529	31%	529	125	31%
>30	47,607	225	629	56%	925	521	129%
Total	196,109						

**Table 4. Scenarios of New Fee Structure Based on Income**

<i>Scenario 1: Increase Amount (\$125) Only</i>				<i>Scenario 2: Current Base Fee + Increase Amount (\$529)</i>			
Income	Active Attorneys	Fee Increase Amount	Proposed New Fees	Change From Current Base Fee (\$404) - Percent	Current Base Fee + Fee Increase Amount	Change from Base Fee (\$404)	Change From Current Base Fee (\$404) - Percent
<\$100K	51,505	50	454	12%	329	-75	-19%
\$100k - \$199k	76,697	100	504	25%	489	85	21%
\$200k - \$499k	55,742	200	604	50%	859	455	113%
>=\$500k	12,165	275	679	68%	1,004	600	149%
Total	196,109						

<sup>2</sup> For purposes of these analyses, the entire mandatory fee modeled comprises: the statutory licensing fee of \$390 minus the building and information technology special assessments (\$9) and the elimination of bias opt-out (\$2) plus the \$25 discipline fee.

Tables 3 and 4 show years of practice and income level categorized into four groups, based on estimates from currently available data. As noted above, the years of practice-based model is the one most widely employed in other jurisdictions; State Bar data as well as a review of other state approaches informed the suggested breakpoints.<sup>3</sup>

In each model, the simulation exercise assessed two scenarios. Scenario one models the application of the new fee structure only on a hypothetical fee increase of \$125. Scenario two models the application of the new fee structure on the entire 2025 General Fund mandatory fee (absent a fee increase) which would total \$529, assuming a \$125 fee increase.

### Fee Structure Based on Practice Sector

Going through the same scenarios, table 5 shows an example in which the fee assessment structure is based on attorney practice sector.<sup>4</sup> Without any additional adjustment, under Scenario 2, attorneys in certain sectors, namely solo, small firm, and nonprofit attorneys, would realize an overall reduction in their licensing fees, even in an environment where the State Bar was afforded a fee increase overall (the same results under Scenario 2 can be seen in tables 3 and 4 above).

**Table 5. Scenarios of New Fee Structure Based on Practice Sector**

Sector/Size	Active Attorneys	Scenario 1: Increase Amount (\$125) Only			Scenario 2: Current Base Fee + Increase Amount (\$529)		
		Fee Increase Amount	Proposed New Fees	Change From Current Base Fee (\$404) - Percent	Current Base Fee + Fee Increase Amount	Change from Base Fee (\$404)	Change From Current Base Fee (\$404) - Percent
Solo	45,401	50	454	12%	275	-129	-32%
Small Firm	28,804	75	479	19%	345	-59	-15%
Medium Firm	20,229	125	529	31%	529	125	31%
Large Firm	23,591	275	679	68%	950	546	135%
Government	29,192	100	504	25%	435	31	8%
Nonprofit	7,953	50	454	12%	252	-152	-38%
Corporation	29,527	275	679	68%	950	546	135%
Other Private	6,792	125	529	31%	529	125	31%
Other	4,620	125	529	31%	529	125	31%
<b>Total</b>	<b>196,109</b>						

<sup>3</sup> In particular, where years of practice fee structures exist in other states they generally favor attorneys with less than five years of practice. State Bar data suggests that an attorney’s likelihood of being the subject of a complaint increases after 15 years.

<sup>4</sup> Other Private and Other include attorneys in various settings and roles, currently with some overlaps and ambiguities between the two. The “other” category tends to be selected by attorneys who are not “practicing” law; who are retired or semi-retired or inactive; as well as those in educational/academic settings. The “other private” category tends to be selected by those in private firms in a nonlegal capacity, such as business owners, consulting, accounting, legal publishing, etc.; as well as mediators/arbitrators. If the Legislature decides to advance this assessment model, additional work will need to be done to clarify and potentially recategorize attorneys in these groups.

## Feedback from Attorneys

Attorneys were invited to participate in a survey in February 2024 related to the proposed new fee assessment models; the survey is provided in Appendix A<sup>5</sup>. As an extension of that survey, attorneys were invited to join an online forum hosted by ThoughtExchange, a platform that allowed participants to provide their views on the models in narrative format, and subsequently rate the different “thoughts” posted by others as a way of identifying key concerns and themes shared by the participants.

The survey was designed to seek attorney reactions to two major questions:

1. Preference among four options for fee assessment models: years of practice, practice sector, income, or the current model of flat fee. Respondents were asked to rank the four options, from 1 (most preferred) to 4 (least preferred).
2. Whether any new fee structure should be applied to the entire fee, increase amount only, or not at all.

There were no questions in the survey regarding general support, or lack thereof, for a fee increase.

## Survey Results

Nearly 18,000 attorneys participated in the survey, which was distributed to all attorneys. Almost all respondents provided information on their practice sector (95 percent). Table 6 below shows the varying response rate by sector, with the rate ranging from 3 percent from large firm attorneys to 13 percent from solo attorneys, for an overall response rate of 9 percent.

**Table 6. Survey Responses on Options for Licensing Fee Structure**

Practice Sector	Survey		MSBP <sup>3</sup>		Response Rate
	N	%	N	%	
Solo	5,361	32%	40,145	21%	13%
Small	2,443	15%	27,014	14%	9%
Medium	1,040	6%	20,232	11%	5%
Large	820	5%	26,784	14%	3%
Government	2,609	16%	25,086	13%	10%
Corporation	1,690	10%	23,186	12%	7%
Nonprofit	486	3%	5,957	3%	8%
Other	2,227	13%	19,598	10%	11%
Total	16,676	100%	188,002	100%	9%

<sup>5</sup> Note that the models included in the survey used a hypothetical \$150 fee increase as opposed to the \$125 amount ultimately adopted by the Board of Trustees.

\* My State Bar Profile where attorneys submit their sector information as mandated by rule 2.2.

Table 7 summarizes the rankings results.<sup>6</sup> The years of practice model was clearly the least preferred. As a first choice, the other three received comparable support at around 30 percent each.

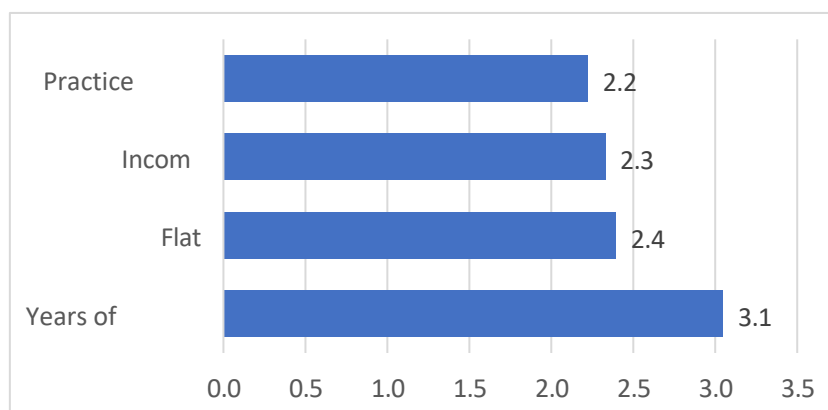
Instead of looking at the individual rankings separately, Figure 1 is an attempt to consider all ratings by taking the average for each option. Given the 1–4 scale, with a lower value of 1 associated with stronger preference, a lower average rating indicates a stronger overall preference. The results are again comparable for three of the four options, with years of practice showing the least average preference (indicated by its higher average value).

**Table 7. Average Rating of Fee Structure Options, Adjusted to Reflect Sector Distribution Across Total Attorney Population**

Rating	Years of Practice	Practice Sector	Income	Flat	Total
1	7.3	29.9	31.1	31.6	100.0
2	20.9	32.7	27.4	19.0	100.0
3	31.2	22.4	18.8	27.7	100.0
4	40.6	15.0	22.7	21.7	100.0

Note: The summary results adjusted for the varying response rates to make them more representative of the overall attorney population.

**Figure 1. Average Rating of Fee Options – Lower Score Indicates Higher Preference**



<sup>6</sup> As noted in the discussion of data sources above, the survey data was adjusted to account for different response rates across practice sectors. In a sector with a lower response rate, for example, the survey data from that sector was given a higher weight when calculating the overall results. A sector whose response rate matches its proportion in the total population would be given a weight of 0; i.e., no adjustment needed. Thus the different weights assigned to different sectors make the overall results representative of the total attorney population. Without this weighting, results indicated a strong preference for a practice sector assessment model.

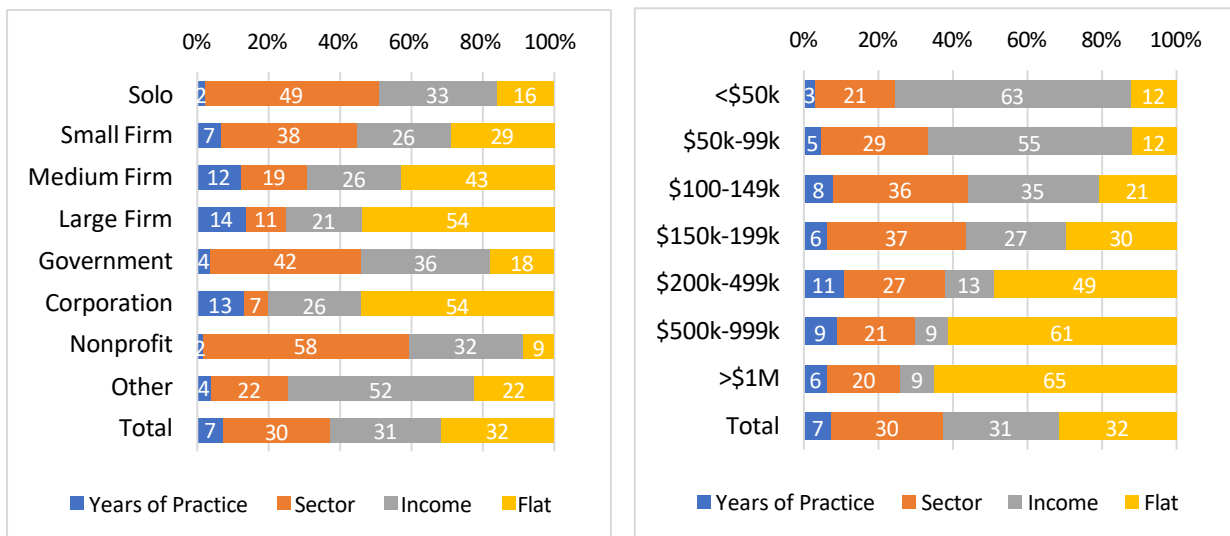


Further analysis of the results reveals that attorneys’ preference for different options is strongly correlated with their practice settings and income level, as shown in figure 1, which reflects the percentage distribution of most preferred ranking within each category, whether by practice sector or income level. Across sectors, a clear contrast can be seen between attorneys in solo and nonprofit settings and those in large firms and corporations. A majority of the former selected a years-of-practice-based model as the most preferred option, at 49 and 58 percent, respectively; in contrast, both large firm and corporate attorneys selected flat rate as the most preferred option, at 54 percent for both.

Across income levels, the preference for a flat rate fee structure shows an almost linear correlation with income. Twelve percent of attorneys with income below \$50,000 selected flat rate as the most preferred option, while 65 percent of those making more than \$1 million annually selected the flat rate option.

While these trend lines are clear, it is interesting to note that over 30 percent of large firm attorneys and 33 percent of corporate attorneys expressed support for sector or income-based fees.

**Figure 2. Most Preferred Ranking, Percent within Each Category**



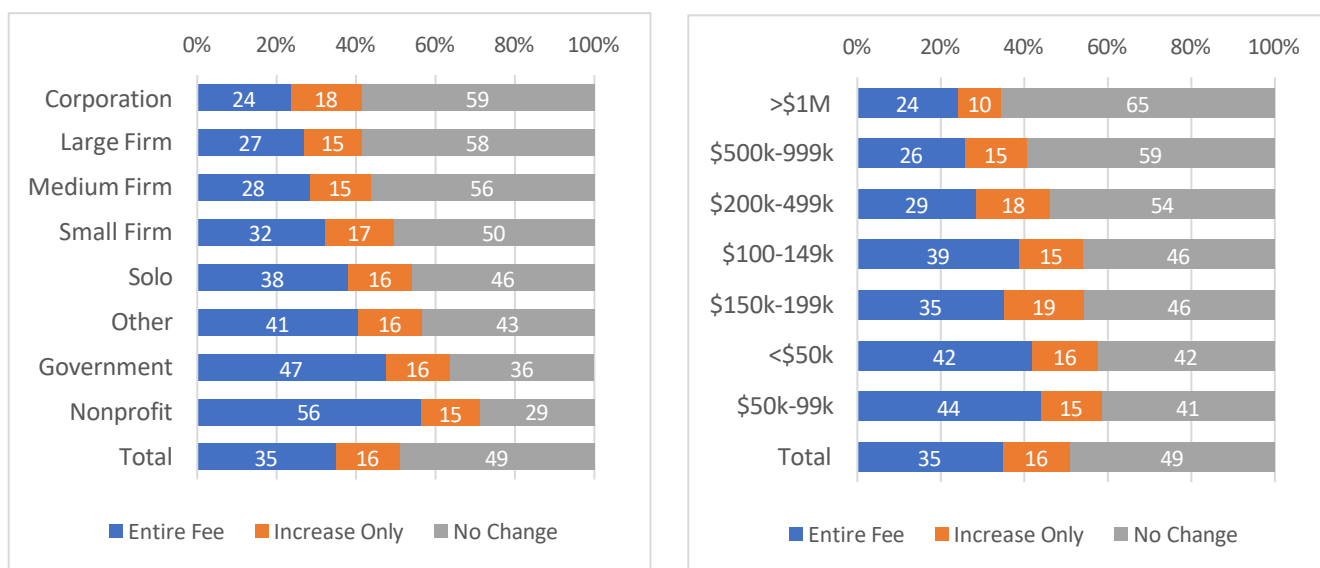
Similar to their preferences for fee structure options, attorneys’ views on the specific fee component that should be subject to change also correlated with their practice settings and income level. In figure 3, the categories for both practice sector and income are sorted in descending order according to the proportion of attorneys who preferred no change in fee structure. Across practice sectors, corporate and large-firm attorneys are ranked at the top, with nearly 60 percent expressing opposition to fee structure changes—or 40 percent in support of some form of new fee structure; at the other end of the continuum, nonprofit and

government attorneys are located at the bottom with the smallest proportion indicating a preference for no change. From the opposite perspective, an overwhelming majority (over 70 percent) of government and nonprofit attorneys are in support of a new fee structure.

Organized by income level, higher income levels are generally associated with increased opposition to any new fee structure, from more than 50 percent of those reporting income higher than \$200,000 opposed down to about 40 percent opposition from those with income below \$100,000. Again, even though the overall trend is clear, there are significant percentages—between 45 and 41 percent—of attorneys with income of \$500,000 to \$1,000,000+ annually who expressed support for a more progressive fee structure.

Overall, 49 percent of respondents expressed a preference for no change to the fee assessment model, 35 percent of attorneys support changes being applied to the entire fee, and 16 percent support limiting any change to the increase amount only.

**Figure 3. Preference for Fee Change Method, Sorted by Responses in Opposition to Any Change**



### Attorney Feedback from ThoughtExchange

As noted earlier, the attorney survey invited respondents to participate in an online forum to share more of their thoughts about the fee structure options. Nearly 5,000 attorneys engaged in this exercise. As part of this process attorneys were able to collectively rate (on a 5-point agreement scale, with 5 indicating highest agreement) all shared thoughts.

**Figure 4. Frequently Appeared Words in Thoughts Posted by Attorneys in Online Forum**



An assessment of the engagement results involves identifying common themes, rating those themes, and assessing how they are related to one another. As a first step, figure 4 provides some clues as to the words, ideas, and sentiments most frequently used in the thoughts posed by participating attorneys. Among more than 5,000 postings, about 10 percent contained references related to attorneys in inactive, retired, or semi-retired status. These attorneys generally oppose any fee increase and in fact, suggest that the State Bar implement a new lower-fee retirement status option.

Another topic that received considerable attention was the years-in-practice option, with generally strong opposition to the idea expressed. Examples of related shared thoughts include:

*“Years in practice? Absurd and a violation of fairness to retirees or those with few cases, especially as this discriminates on elderly licensees.”*

*“The number of practice years is the worst idea because those practicing a long time don’t necessarily make more money and may not even be employed.”*

*“Using years in practice is akin to age discrimination. It discriminates against those who maintain good standing, and penalize those with low income.”*

*“I’m 83 and on a fixed income and working pro bono so I can’t afford a fee hike.”*

Beyond specific points of contention, general opposition to any fee increase was a widely shared view among exchange participants. Primary reasons for this opposition other than those outlined above included:

- Lack of Value: Participants expressed that they do not see enough value or benefits from

the State Bar to justify an increase in fees. They feel that the organization does not provide enough support or services that are beneficial to them.

- **Financial Burden:** Some participants mentioned that the current fees are already a financial burden, especially for those in lower income brackets, those working in public interest roles, or those who are semi-retired. An increase in fees would exacerbate this issue.
- **Dissatisfaction with the State Bar:** Some participants expressed dissatisfaction with the State Bar's operations and management. They feel that the organization is inefficient, wasteful, and does not effectively address issues within the profession. They believe that the State Bar should focus on improving its operations before considering a fee increase.

Conversely, some participants did express support for a fee increase, citing commonly understood necessitating factors, like inflation. In addition, many shared their affirmative views on how fees should be assessed with participants broadly expressing that a flat fee structure is unfair, as it does not take into account the varying incomes and financial situations of different attorneys. These commenters suggested that the fee should be based on income or practice sector.

Participants also provided ideas for other innovative structures, including assessing fees based on practice area risk, with emerging technology and high-stakes civil litigation identified as examples.

### **Policy Setting by the Board of Trustees**

The Board of Trustees considered options for structuring licensing fees at meetings in early 2024. Based on these deliberations, staff input as to the relative administrative burden associated with each of the options modeled, and in consideration of feedback received from attorneys who would be subject to the fee, the Board determined that:

- A practice sector-based fee assessment model should be proposed;
- The model should be applied to the entire mandatory licensing fee;
- For General Fund fees, no sector should pay less in absolute value terms than they are paying today;
- No sector should realize a more than 100 percent increase in licensing fees; and
- The corporate sector should be further disaggregated to account for variances in business size.

A revised model reflecting these policy decisions along with the final fee increase request amount of \$125, is provided in table 8. Under this approach, Other, largely comprised of retirees, would see no fee increase. Increases progressively escalate with large firms and large corporations, defined as entities with more than 100 California attorneys, would realize a 97 percent increase in assessed fees.

**Table 8. Practice-Sector-Based Model Incorporating Feedback from Multiple Sources**

<b>Practice Sector</b>	<b>Active Attorneys</b>	<b>Increase Amount</b>	<b>Current Base Fee + Fee Increase Amount</b>	<b>Change From Current Base Fee (\$404) - Percent</b>
Solo	45,401	16	420	4%
Small Firm	28,804	51	455	13%
Medium Firm	20,229	266	670	66%
Large Firm	23,591	391	795	97%
Government	29,192	31	435	8%
Nonprofit	7,953	16	420	4%
Corporation - Small	12,833	51	455	13%
Corporation - Medium	8,776	266	670	66%
Corporation - Large	7,917	391	795	97%
Other Private	6,792	96	500	24%
Other	4,620	0	404	0%
<b>Total</b>	<b>196,109</b>	<b>125</b>	<b>529</b>	<b>31%</b>

## **Appendix A1: Survey on Options for Licensing Fee Structure**

### **BACKGROUND**

The State Bar of California is planning to seek a fee increase in 2025, which is anticipated to be substantial. This is due to the significant discrepancy between our current mandatory base fee and the fee amount adjusted for inflation (\$404 compared to \$709). In light of the expected magnitude of the increase we are exploring new methods for assessing fees, transitioning from the existing flat fee model, where nearly all licensees pay the same amount.

At this time we would like to get your input on three alternative fee structures we have developed so far: Practice Sector-Based Income-Based and Years in Practice-Based approaches. For the purpose of illustration, each model presumes a necessary increase of \$150 in the licensing fee under a flat fee structure. Please bear this in mind while evaluating the options—the baseline increase for comparison is set at \$150. Thus, a suggested fee hike of \$300, for instance, should be evaluated against a \$150 increase in a flat fee scenario. For context and assessment, we have also included the current Flat Fee model.

Before we solicit your views on these three models, we request you provide some basic demographic information. This will assist us in understanding responses provided within a broader context. Your answers will be evaluated and shared only at an aggregate level and will not be personally attributable.

At the end of the survey you will find a link to a platform called ThoughtExchange where you can share any additional ideas you have for how licensing fees could be structured.

We appreciate your participation and thank you in advance for your comments and thoughts by **March 6, 2024**.

### **DEMOGRAPHIC INFORMATION**

**What is your practice sector? How many years have you been licensed?**

**What is your annual income range?**

### **FEE STRUCTURES FOR CONSIDERATION**

**Please rank order the four options, going from most preferred (1) to least preferred (4).**

Option 1 – Years in Practice Based Fee

Option 2 – Practice Sector Based Fee

Option 3 – Income Based Fee

Current Model – Flat Fee

**Do you think the State Bar should seek to apply a new fee structure to the entire licensing fee or only the 2025 growth request?**

- Entire base fee
- Increase amount only
- I don't think the current fee structure should be changed

**PROVIDE ADDITIONAL THOUGHTS OR A DIFFERENT OPTION BY VISITING [THOUGHTEXCHANGE HERE](#).**

Submit Comment

## APPENDIX B: GENERAL FUND FINANCIAL CONDITION

This appendix provides an overview of the condition of the State Bar’s General Fund. It is constructed to mirror the format for the presentation of similar information in the [“State Bar of California – It Will Need a Mandatory Licensing Fee Increase in 2024 to Support its Operations”](#) 2022-031 audit of the State Bar to facilitate easy comparison. Each section begins with the relevant excerpt from the audit 2022-031; an update with 2025 figures immediately follows.

The conclusion highlights the fact that the State Bar will end 2024 with a reserve of approximately \$13.9 million, or 11.8 percent. This reserve balance is not sufficient for the State Bar to meet its obligations to staff in 2025, let alone support all the other critical public protection functions of the organization. Some of the State Bar’s other restricted funds have healthier fund balances; should the Legislature look to any of these funds, or the State Bar’s General Fund, as a way to offset the present fee increase request, the limited-term nature of these funding sources must be realistically considered.

### REVENUE

#### State Audit 2022-031

**Table 1. The State Bar Collects Three Types of Fees**

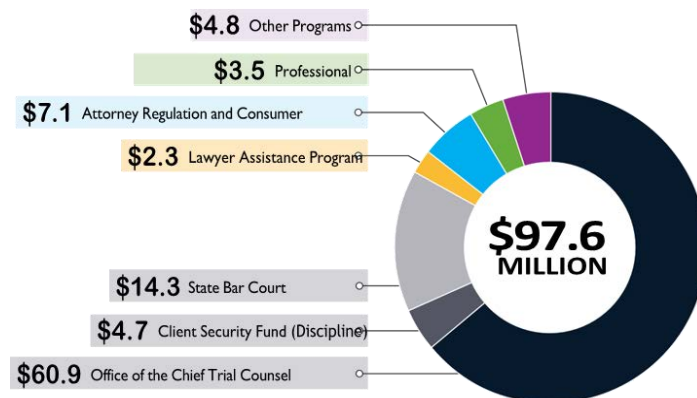
FEE TYPE	2023 FEE AMOUNT ACTIVE LICENSEES	2023 FEE AMOUNT INACTIVE LICENSEES
<b>MANDATORY FEES</b>		
Annual License	\$390	\$92.40
Client Security Fund	40	10
Discipline	25	25
Lawyer Assistance	10	5
<b>TOTALS</b>	<b>\$465</b>	<b>\$132.40</b>
<b>VOLUNTARY, OPT-OUT FEES</b>		
Legal Services Assistance	\$45	\$45
Elimination of Bias <i>(fee amount included in annual licensing fee)</i>	2	2
Legislative Activities	5	5
<b>TOTALS</b>	<b>\$52</b>	<b>\$52</b>

As Figure 1 shows, the State Bar spent most of this revenue—\$60.9 million—operating the Office of the Chief Trial Counsel of the State Bar. The Office of the Chief Trial Counsel receives, reviews, and analyzes complaints against attorneys; investigates allegations of unethical and unprofessional conduct against attorneys; and prosecutes attorneys in formal disciplinary hearings for violations of the State Bar Act or the Rules of Professional Conduct. During this



same period, the State Bar spent more than \$14 million for the operation of the State Bar Court. Composed of independent professional judges, the State Bar Court adjudicates formal disciplinary matters filed by the Office of the Chief Trial Counsel that may result in the imposition of discipline or a recommendation of discipline to the California Supreme Court.

**Figure 1. The State Bar Spends Most of Its Mandatory Licensing Fee Revenue on Attorney Discipline**



In contrast to the mandatory licensing fees, the voluntary fees provide funding for specific State Bar functions that may not directly relate to regulating the legal profession or admitting or disciplining attorneys. In total, the State Bar received \$8.2 million in revenue from voluntary fees in 2022. One voluntary fee is responsible for the largest portion of this revenue. State law authorizes the State Bar to collect a \$45 fee to support eligible organizations that provide legal services, without charge, for indigent persons. Of that \$45 fee, the State Bar must earmark \$5 for summer fellowships for law students to work with those legal aid organizations. In 2022 the State Bar received about \$7.1 million of such revenue, which it allocates through its Legal Services Trust Fund Commission. Another voluntary fee, the State Bar’s Elimination of Bias fee, funds programs that address concerns of access and bias in the legal profession and the justice system. In 2022 the State Bar received more than \$320,000 in revenue from this fee.

Finally, in 2022, the State Bar collected nearly \$3 million in service fees it charged attorneys and the public for specific services. One such fee provides attorneys with Certificates of Standing, a document verifying an attorney’s name, bar number, admission date, current status, any name or status changes, and any public discipline as of the date of the certificate. The State Bar collected over \$300,000 from this fee in 2022. The State Bar also collects a suite of fees to certify Minimum Continuing Legal Education (MCLE) providers and to monitor attorneys’ compliance with MCLE requirements, which include requirements related to the subject areas of legal ethics and competence. The State Bar collected over \$554,000 in MCLE-related fees in 2022.

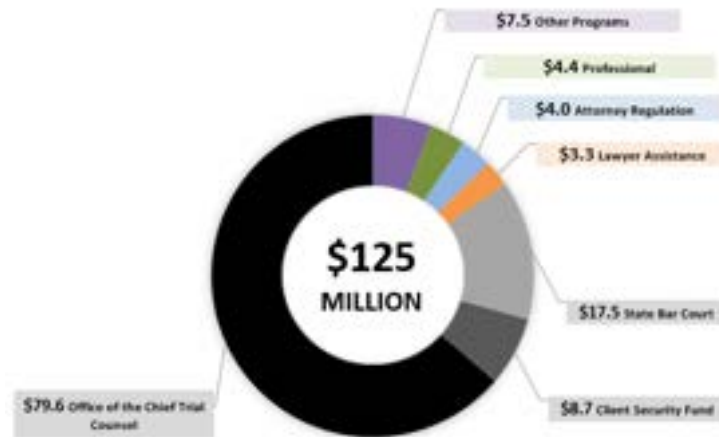
2025 Update

Updated Table 1. The State Bar Collects Three Types of Fees

FEE TYPE	2025 FEE AMOUNT ACTIVE LICENSEES	2025 FEE AMOUNT INACTIVE LICENSEES
<b>MANDATORY FEES</b>		
Annual License	\$383	\$97.40
Client Security Fund	\$40	\$10
Discipline	\$25	\$25
Lawyer Assistance	\$10	\$5
<b>TOTALS</b>	<b>\$458</b>	<b>\$137.40</b>
<b>VOLUNTARY FEES, OPT-OUT FEES</b>		
Legal Services Assistance	\$45	\$45
Elimination of Bias	\$2	\$2
Legislative Activities	\$5	\$5
<b>TOTALS</b>	<b>\$52</b>	<b>\$52</b>

In 2025, the State Bar is forecasted to receive \$97.1 million in mandatory fee revenue. As Figure 2 shows (below), the State Bar is expected to spend most of the mandatory fee revenue on attorney discipline. \$79.6 million will go toward operating OCTC. During this same period, the State Bar also plans on allocating \$17.5 million to operate the State Bar Court.

### Updated Figure 1. The State Bar Spends Most of Its Mandatory Licensing Fee Revenue on Attorney Discipline – 2025



Source: State Bar's 2024 Adopted Budget.

In total, the State Bar expects to receive \$8.5 million in revenue from voluntary fees in 2025. One voluntary fee is responsible for the largest portion of this revenue. State law authorizes the State Bar to collect a \$45 fee to support eligible organizations that provide legal services, without charge, for indigent persons. Of that \$45 fee, the State Bar must earmark \$5 for summer fellowships for law students to work with those legal aid organizations. In 2025 the State Bar expects to receive about \$7.1 million of such revenue, which it allocates through its Legal Services Trust Fund Commission. Another voluntary fee, the State Bar's Elimination of Bias (EOB) fee, funds programs that address concerns of access and bias in the legal profession and the justice system. In 2025 the State Bar expects to collect \$326,000 in revenue from this fee.

Finally, in 2025, the State Bar expects to collect \$6.6 million in service fees it charges attorneys and the public for specific services compared to \$3 million in 2022. This increased revenue is due in large part to the significant fee increases levied by the Board of Trustees in 2023. One such fee provides attorneys with Certificates of Standing, a document verifying an attorney's name, bar number, admission date, current status, any name or status changes, and any public discipline as of the date of the certificate. The State Bar expects to collect \$412,000 from this fee in 2025. The State Bar also collects a suite of fees to certify Minimum Continuing Legal Education (MCLE) providers and to monitor attorneys' compliance with MCLE requirements, which include requirements related to the subject areas of legal ethics and competence. The State Bar expects to collect \$874,000 in MCLE-related fees in 2025.

### *The State Bar Has Operated Its General Fund at a Deficit*

The State Bar deposits the majority of its mandatory licensing fee revenue into its general fund. It then uses the general fund to pay for office operations and most of its public protection programs. In fact, nine of the 11 State Bar programs funded by mandatory licensing fees receive their funding from the general fund; the only exceptions are the Client Security Program and the Lawyer Assistance Program, which receive funding from the Client Security Fund and Lawyer Assistance Program Fund, respectively. The financial health of the general fund is therefore critical to the State Bar's ability to fulfill its public protection mission.

However, in recent years, spending from the State Bar's general fund has often exceeded its revenues, creating a spending deficit (deficit). The general fund's primary source of funding is the annual mandatory licensing fees that both active and inactive licensees of the State Bar pay. Although the Legislature authorized a mandatory licensing fee increase beginning in 2020, the State Bar's general fund reserve fell from \$19 million at the end of 2020 to just \$12.4 million by the end of 2022. Further, the State Bar projected in its 2023 approved budget that its revenue would fall short of its expenditures by \$1.5 million in 2022 and by \$4.3 million in 2023. These deficits jeopardize the State Bar's ability to continue fully funding the performance of its key responsibilities.

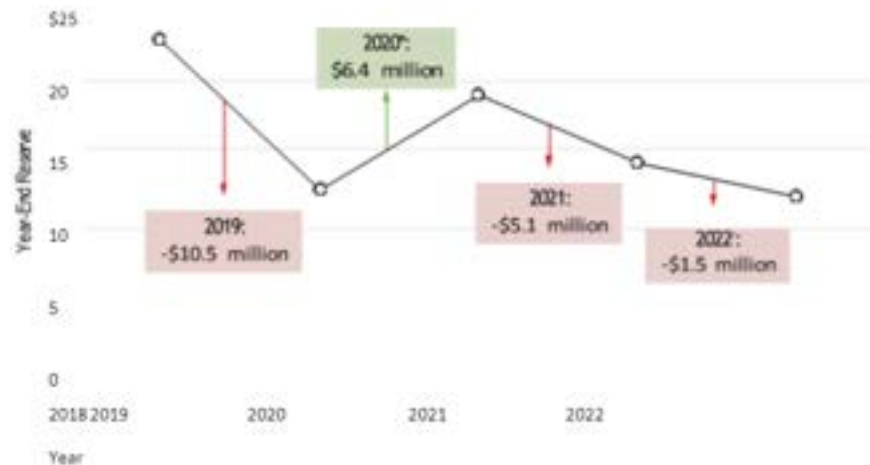
A likely cause of the State Bar's deficits is rising personnel costs throughout the organization. The State Bar paid \$79.5 million in personnel costs from its general fund in 2019. In 2022 these costs had increased to \$84.8 million. The State Bar expects its personnel costs to continue to increase, as we describe in the next section.

To address its recent deficits, the State Bar has relied on its general fund reserve. The Government Finance Officers Association (GFOA) recommends that organizations maintain at least a two-month reserve in their general funds to protect them from unexpected changes in financial condition. To comply with GFOA best practices and to address a 2015 recommendation we made to the Legislature regarding its general fund reserve, the State Bar established a reserve policy in 2016 that states that it should maintain a minimum reserve equal to two months, or 17 percent, of its annual operating expenditures. In alignment with that policy, the State Bar had a general fund reserve of \$23 million in 2018. However, as Figure 2 shows, its reserve fell to \$12.4 million by the end of 2022. Based on its 2022 expenditures, its general fund reserve should have been more than \$16 million at that time. Further, the State Bar projects that its reserves will fall to just \$8.1 million at the end of 2023. *If the State Bar continues to operate its general fund at a deficit, it risks depleting its reserve and not being able to pay for its programs and administrative offices.*

We expected that to avoid operating at a deficit, the State Bar would have requested that the Legislature increase the maximum mandatory licensing fees as necessary. However, when it introduced its recent legislative priorities to legislative staff, the State Bar did not provide clear explanations of the need for its proposed increases. When we asked the State Bar about its recent proposed increases, the executive director explained that because its effective collaboration and partnership with the Legislature is critical to the State Bar's ability to carry out its mission, the State Bar did not publicly seek fee increases in all instances where it

believed it needed more funding. She stated that State Bar staff have preliminary conversations with legislative staff and key legislators annually, and these conversations have addressed the State Bar’s need for mandatory licensing fee increases and a stable and consistent funding mechanism for the State Bar. However, she explained that the State Bar has received feedback from legislative staff and key legislators indicating that they will not consider increases to the maximum mandatory licensing fee or that these requests are unwelcome. Given this feedback, the executive director believes it is not in the best interests of the State Bar to destabilize these relationships by continuing to request fee increases.

**Figure 2. In Recent Years, the State Bar’s General Fund Reserve Has Decreased**



## 2025 Update

### *The State Bar Has Operated Its General Fund at a Deficit*

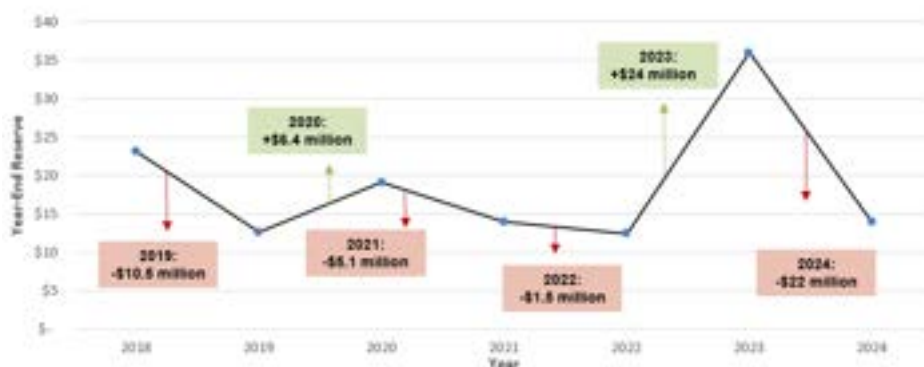
In recent years, spending from the State Bar’s General Fund has often exceeded its revenues, creating a deficit. The General Fund’s primary source of funding is the annual mandatory fees that both active and inactive licensees of the State Bar pay. To address its recent deficits, the State Bar has relied on its General Fund reserve. The GFOA recommends that organizations maintain at least a two-month reserve in their general funds to protect them from unexpected changes in financial condition. To comply with GFOA best practices, the State Bar established a reserve policy in 2016 that states that it should maintain a minimum reserve equal to two months, or 17 percent, of its annual operating expenditures.

The State Bar ended 2023 with a General Fund reserve balance of \$36 million, the majority of which came from the proceeds of selling the State Bar’s historic flagship building at 180 Howard Street in San Francisco. The 2024 budget anticipates General Fund revenue of \$96 million and expenses of \$118 million. Closing the deficit of \$22 million in 2024 requires the use of General Fund reserves, resulting in a reserve balance of 13.9 million, or 11.8 percent, at the end of 2024.

In 2025, the State Bar anticipates General Fund revenue of \$96 million and expenses of \$120 million with forecasted deficit spending of \$24 million. Absent a fee increase, the State Bar would be insolvent midway through 2025, as its projected 2024 ending reserve balance is just under \$14 million.

### Updated Figure 2 – through 2024

#### In Recent Years, the State Bar’s General Fund Reserve Has Decreased



### State Audit 2022-031

#### *The State Bar’s Administrative and Personnel Costs Are Increasing*

As we previously indicate, the State Bar uses mandatory licensing fee revenue not only to fund most of its public protection programs but also to pay for a significant portion of its administrative costs. In fact, the State Bar paid for nearly 80 percent of its administrative costs using mandatory licensing fee revenue in 2022. In recent years, those costs have risen: overall, the State Bar’s administrative spending increased by about \$6.5 million or 17 percent from 2020 through 2022, and it is likely to keep rising.

The State Bar’s 2023 budget assumes a 15 percent staff vacancy rate across the organization. The executive director indicated that, because some offices have vacancy rates lower than 15 percent, other offices may need to have vacancy rates higher than 15 percent for the State Bar to maintain a 15 percent vacancy rate across the organization. If funding is available and vacancies are not too low in other offices, the State Bar’s budget assumes it may be able to fill some positions in those offices that have higher vacancies. The executive director indicated that performance metrics can inform the State Bar’s budget process and that the State Bar increased the Office of the Chief Trial Counsel’s budget to help it meet that office’s metrics.

In addition to filling its vacant administrative positions, the State Bar’s personnel costs will also likely continue to increase in the coming years because of cost-of-living and merit salary adjustments for its staff. In December 2022, the State Bar reached new agreements with its employee bargaining units that include salary increases to account for rising living costs. The agreements, which became effective in January 2023, include a 5 percent general salary

increase for all State Bar staff as well as a 2.5 percent salary increase for all staff in 2024 and 2025. Attorneys received additional increases in 2023 beyond the 5 percent general salary increase: 5 percent for senior and supervising attorneys and 2.5 percent for other attorneys. The State Bar estimates that the 2023 salary increases will lead to a \$4.2 million increase in personnel costs and that the 2024 increases will lead to about an additional \$2 million increase in personnel costs. The State Bar has not yet projected the impact that salary increases will have in 2025.

In line with other state agencies, the State Bar also provides its staff with 5 percent annual merit salary adjustments. Merit salary adjustments are distinct from the general salary increases in that they are salary increases granted to employees for satisfactory job performance. All State Bar employees who earn a *Meets Requirements* or better overall performance rating receive a 5 percent increase to their salary on their employment anniversary date each year up to the maximum salary for their position. Over time, these adjustments lead to higher personnel costs overall, particularly as the State Bar fills its vacant positions.

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### 2025 Update

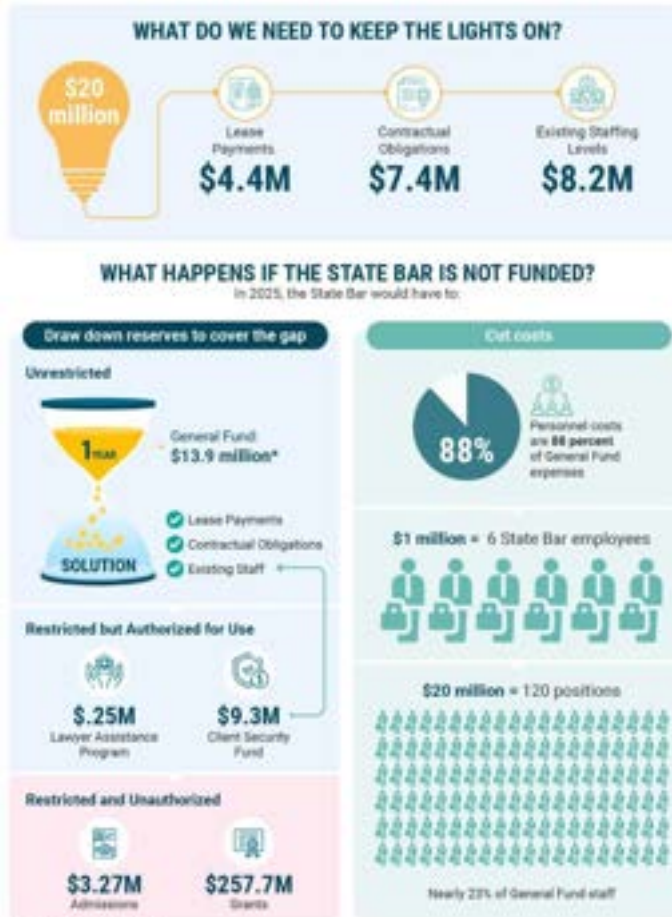
The State Bar uses mandatory licensing fee revenue not only to fund most of its public protection programs but also to pay for a significant portion of its administrative costs. In recent years, those costs have risen. Overall, the State Bar's administrative spending increased by about \$6.5 million or 17 percent from 2020 through 2022, and another \$3.8 million from 2023 to 2025. The increase is primarily a result of filling vacant positions as well as higher leasing expenses following the sale of the San Francisco building.

In addition, the State Bar's personnel costs will also continue to increase in the coming years because of cost-of-living and merit salary adjustments for its staff. In December 2022, the State Bar reached new agreements with its employee bargaining units that include salary increases to account for rising living costs. The agreements, which became effective in January 2023, include a 5 percent general salary increase for all State Bar staff as well as a 2.5 percent cost-of-living adjustment (COLA) for all staff in 2024 and 2025. Attorneys received additional increases in 2023 beyond the 5 percent general salary increase: 5 percent for senior and supervising attorneys and 2.5 percent for other attorneys.

In line with other state agencies, the State Bar also provides its staff with annual merit salary adjustments. Merit salary adjustments are distinct from the general salary increases of 2023 in that they are salary increases granted to employees for satisfactory job performance. All State Bar employees who earn a *Meets Requirements* or better overall performance rating receive a 5 percent increase to their salary on their employment anniversary date each year up to the maximum salary for their position. In 2024 the State Bar estimates personnel costs will total \$98.5 million. The cost of the 2.5 percent COLA and merit increase is \$2.7 million in 2025. Personnel-related expenses that contribute to the operational deficit also include increases to health-care costs and required CalPERS contributions. Personnel costs are forecasted to increase to \$106.2 million in 2025.

## Conclusion

The State Bar will end 2024 with a reserve of approximately \$13.9 million, or 11.8 percent. This reserve balance is insufficient for the State Bar to meet its obligations to staff in 2025, let alone support all of the other critical public protection functions of the organization.



\*Projected available 1/1/25

Some of the State Bar’s restricted funds have healthier reserve balances. The ability to access those restricted funds previously authorized for general operational support in conjunction with use of the entire General Fund reserve would provide just a one-year solution to the State Bar’s Maintaining Public Protection needs.

Should the Legislature look to any of these funds, or the State Bar’s General Fund, as a way to offset the present fee increase request, the limited-term nature of these funding sources must be realistically considered. Detailed information about the projected 2025 reserve balances for all funds can be found in [Attachment C](#).