

**State Bar of Texas**  
**Minimum Reserves / Commitment of Increase in Fund Balance**  
**FY 2019-2020 Audited Financial Results**

The total General Fund audited fund balance at the end of fiscal year (FY) 2019-2020 is \$20,390,298. The proposed amount to be available for Board commitments during the FY 2021-2022 budget process totals \$4,333,072. This amount is composed of 3 separate amounts:

The first amount results from the excess funds of \$3,366,405 available as a result of FY 2019-2020 financial operations.

The second proposed amount is reclassifying \$100,000 of a prior board commitment from FY 2013-2014 for the Statewide ProBono Campaign. The original commitment was for \$794,250, of which all but \$141,975 has been spent. Only \$41,975 of the commitment is currently needed for the ProBono Campaign purposes. The board will be asked to recommit the \$100,000 as an amount available for commitment during the budget process for FY 2021-2022.

The third proposed amount of \$866,667 comes from a board commitment made during the FY 2020-2021 budget process ear-marked for "Future Board Commitments". The re-classified amount will be used to fund other commitments for FY 2021-2022 as shown below.

The amount available for Board Commitment is shown below. The Board Commitments and non-spendable amounts are as follows:

<b>Total General Fund Balance at May 31, 2020</b>	<b>\$20,390,298</b>
<b>Current Board Commitments:</b>	
Minimum operating expenditures	(7,640,350)
Transfer from minimum reserves to purchase 1415 Lavaca	(3,500,000)
Technology Fund Transfer	(1,240,000)
Texas Opportunity and Justice Incubator Program	(489,141)
Reserve for Future Board Commitments	(866,667)
Reserve for Future Board Commitments re-classified	866,667
TATJF Student Loan Repayment Assistance Program	(515,000)
Client Security Fund Transfer	(333,333)
Sheeran Crowley Memorial Trust	(225,000)
Law Practice Resource Website	(200,000)
Presidential Initiatives	(186,776)
Statewide Pro Bono Campaign	(141,975)
Statewide Pro Bono Campaign re-classified	100,000
Rules Vote Reserve	(150,000)
Legal Reserve	(100,000)
Host Southern Conference of Bar Presidents	(75,000)
Run-off Election Reserve	(70,000)
Archives Digitization Project	(63,500)
Public Information Campaign	(20,000)
Professionalism & Ethics Initiative	(11,495)
Law Focused Education Programs	(6,179)
<b>Non-Spendable Funds:</b>	
Prepaid expenditures	(802,933)
Inventories	(11,572)
Fair market value adjustments of investments	(374,972)
<b>Amount Available for Board Commitment</b>	<b><u><u>\$4,333,072</u></u></b>

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In 2005, the State Bar of Texas Board adopted a minimum reserve policy. That policy specifies certain areas that should be considered when addressing the minimum reserve needs of the State Bar. The items to be considered are the following:

- 1) Operating Expenditures – Consider committing money for 2-4 months of budgeted expenditures.
  - The current \$11,059,004 designated for this purpose represents 3.0 months of budgeted operating expenditures based on the current FY 2020-2021 budget. On November XX, 2020, the Texas Supreme Court amended minimum reserves, at the request of the Board of Directors, to allow the State Bar to purchase 1415 Lavaca by reducing minimum reserves by (\$3,500,000). The amended level of minimum reserves for FY2020-2021 budget is \$7,640,350 or 2.1 months of operating expenditures. With the contribution of \$1,500,000 to minimum reserves for the FY2021-2022 budget, the new balance of reserves would be \$9,140,350, or approximately 2.5 months of operating expenditures.
- 2) Legal Reserves – Consider setting-aside monies to cover any contingent liabilities for legal expenditures that are known, but not yet accrued, and expected to require funding within 12-24 months of budgeting.
  - Per the State Bar Legal Counsel's recommendation, additional reserves of \$250,000 should be set aside with the designation for legal-related expenditures and held separately from the amount of minimum reserves maintained by the State Bar. This will bring the total held in reserves for legal expenditures to \$350,000. However, no known contingent liabilities are expected.
- 3) Capital Assets Replacement/Construction – Consider large capital asset replacement or construction projects planned for the next 1-3 years.
  - In FY 2004-2005, the State Bar Board developed a five year real estate strategic plan to include remodeling and redesigning the interior of the Texas Law Center which has been completed. Pursuant to Section 3.08.03 of the Board Policy Manual, a permanent building or maintenance fund has been established to maintain the Texas Law Center. According to Board policy, the General Fund shall make an annual transfer to the building fund in an amount representing 80% to 100% of the annual capital equipment straight-line depreciation of those items replaced during the remodeling of the Texas Law Center. The FY 2021-2022 General Fund budget includes a transfer of \$288,800 to the building fund which is 80% of the annual capital equipment straight-line depreciation.
- 4) New Programs - Consider committing money for new programs or research and development.
  - There are no new programs requesting in the FY2021-2022 budget.

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The President-Elect, the Audit & Finance Committee, and the Executive Director make the following recommendations to the Budget Committee for the best use of the \$4,333,702 available for Board commitment:

- Commit \$1,500,000 to replenish the level of minimum reserves from 2.1 months to 2.5 months of operating expenditures. This level of reserves is in line with auditor recommendations to have between 2 to 4 months of operating reserves available.
- Commit \$250,000 to fund a legal reserve account. This commitment will establish a reserve for possible payments to outside legal counsel for the State Bar of Texas, and will bring the total reserve to \$350,000.
- Commit \$25,000 to raise the balance maintained as a reserve for future Presidential initiatives to a level just above \$200,000. The balance in the Presidential initiatives account is not reflective of money to be spent in any given year; but is maintained to ensure that money is set aside and available for future initiatives.
- Commit \$400,000 to the Client Security Fund. This commitment will be funded at the rate of \$200,000 for each of the next two fiscal years: 2021-2022 and 2022-2023. In addition to the \$500,000 annual transfer from the General Fund described above, this commitment would make the amount available for payment of claims equal to \$700,000.
- Commit \$114,674 to fund payment of additional insurance expenses. These one-time expenses will help ensure appropriate coverage for the Bar.
- Commit \$15,000 to host the ABA Young Lawyer's Division (YLD) Summit event. The ABA YLD Mountain West Summit is a meeting held annually that involves young lawyer divisions from across the Mountain West states, including Colorado, Wyoming, Utah, New Mexico, Nevada and Arizona. Attendees of the Summit include young lawyers from not only the host state but other states involved in the Summit. TYLA is requesting \$15,000 to host the 3 day event that involves networking amongst young lawyers and young lawyer affiliates, two days of CLE, a service project, and the sharing of projects and ideas amongst local affiliates. The Summit provides an opportunity for TYLA to showcase its award-winning projects to young lawyers from other states. TYLA would like to take this opportunity to host the Summit to highlight the great work of TYLA, Texas young lawyers, Texas bar leaders, and members of the judiciary.
- Commit \$515,000 to the Texas Access to Justice Foundation – Student Loan Repayment Assistance Program. TAJF administers the program with funding from the State Bar of Texas, the TAJF and individual donors. The SLRAP was created in 2003 to encourage and enable recent law school graduates to work for Texas legal aid organizations and to assist legal aid programs in retaining experienced lawyers. Attorneys are eligible for the SLRAP if they work full-time for any Texas legal aid program that currently receives a grant from the Texas Access to Justice Foundation and have been licensed to practice law fewer than 10 years. The commitment at this level is possible from a recommitment of the Statewide ProBono Campaign discussed on page 1 of this document.

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- Commit \$513,398 to the State Bar's Technology Fund: This commitment will fund, in part, the procurement of a new Chief Disciplinary Counsel (CDC) case management software. The current Justware case management software used by the CDC for the past 8 years is being unexpectedly sunset by the vendor JournalTech. The Information Technology team is working with the CDC department to do a full evaluation of JournalTech's new software as well as other competitors to ensure we find the best and most cost effective system on the market. This software currently supports all of the CDC functions and is vital to its operations. The current system also supports all of the Unauthorized Practice of Law Committee case load and data exchanges between CDC and BODA.
  
- Commit \$500,000 for Operations of Lavaca Building: This commitment is being requested to maintain a two-year reserve account for operating expenses associated with the purchase of the Lavaca building. Anticipated expenses include utilities, security, maintenance, and other operating expenses.
  
- Commit \$500,000 for Renovation/Repair of Lavaca Building: The exact amount needed for necessary renovations and/or repairs for the Lavaca Building are as yet undetermined. However, this reserve will provide funds to cover these expenses as they become necessary. Any funds not needed for these purposes, may be recommitted by the Board at a later time for other purposes.