



Judicial Council of California
ADMINISTRATIVE OFFICE OF THE COURTS

FINANCE DIVISION

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October 22, 2007

Hon. Denise Ducheny
California State Senate
Chair, Committee on Budget and Fiscal Review
State Capitol, Room 5019
Sacramento, California 95814

Hon. Tom Torlakson
California State Senate
Chair, Committee on Appropriations
State Capitol, Room 4203
Sacramento, California 95814

Hon. John Laird
California State Assembly
Chair, Committee on Budget
State Capitol, Room 6026
Sacramento, California 95814

Hon. Mark Leno
California State Assembly
Chair, Committee on Appropriations
State Capitol, Room 2114
Sacramento, California 95814

Re: Reporting of Approved Trial Court Allocations and Policy Governing Trial Court Reserves

Dear Senators Ducheny and Torlakson and Assembly Members Laird and Leno:

The Supplemental Report of the 2007 Budget Act (Item 0250-101-0932) specifies that the Judicial Council report all approved allocations to the trial courts in the current fiscal year,

including funding received through augmentations received in accordance with Government Code Section 77202(a)(1)(b), to the chairs of the fiscal committees of the Senate and Assembly. The Supplemental Report also directs the Judicial Council to include the policy governing trial court reserves.

The Judicial Council respectfully submits the attached report consistent with the supplemental reporting requirements. Attachment 1 displays the base budget for each trial court along with funding adjustments approved by the council for allocation¹. Attachment 2 provides brief descriptions of each of the funding allocations included in the spreadsheet. Lastly, the policy on court reserves adopted by the council in October 2006 is included as Attachment 3.

If you have any questions about this information, please do not hesitate to contact me by phone at 415-865-7584.

Sincerely,



Stephen H. Nash
Director, Finance Division

SHN/BF

Attachments (3)

cc: Diane Cummins, Chief Fiscal Policy Advisor, Office of Senate President pro Tempore Perata
Shelley Curran, Consultant, Office of Senate President pro Tempore Perata
E. Dotson Wilson, Chief Clerk of the Assembly
Gregory Schmidt, Secretary of the Senate
Diane Boyer-Vine, Legislative Counsel
Craig Cornett, Budget Director, Office of Assembly Speaker Núñez
Fredericka McGee, General Counsel, Office of Assembly Speaker Núñez
Seren Taylor, Fiscal Director, Senate Republican Fiscal Office
Allan Cooper, Senior Consultant, Assembly Republican Fiscal Office
Chuck Nicol, Principal Consultant, Assembly Appropriations Committee
Nora Lynn, Consultant, Senate Appropriations Committee
Janus Norman, Consultant, Assembly Budget Committee
Keely Martin Bosler, Consultant, Senate Budget and Fiscal Review
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Donna Hershkowitz, Acting Director, AOC Office of Governmental Affairs
Marcia Caballin, Assistant Director, AOC Finance Division
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Eraina Ortega, Manager, AOC Office of Governmental Affairs

¹ Certain allocations to the trial courts remain pending, such as those for a litigation pilot project, court appointed counsel for children in dependency cases, security equipment replacement, and new judgeship funding.

Description of Fiscal Year 2007–2008 Allocations to State Trial Courts

Retirement Rate and Plan Changes – Funding to address changes in retirement rate and plan costs for trial court employees (other than judges). Funding is allocated when the underlying agreement upon which the change is based is ratified or confirmed.

Funding for Non-Security Expenses of New and Transferring Facilities – One-time and/or ongoing funding was made available to trial courts, based on specific criteria, to address staffing and operating costs for facilities that would open or transfer to state ownership between the period July 1, 2007 to September 2008.

Funding for Security for New and Transferring Facilities – One-time and/or ongoing funding was made available to trial courts, based on specific criteria, to address entrance screening costs for facilities that would open or transfer to state ownership between the period July 1, 2007 to September 2008. One-time funding, up to the maximum indicated, will be allocated on a reimbursement basis as AOC staff are notified by the courts of the purchase of approved screening equipment.

Other SAL Funding

Inflation and Workforce – Funding to address staff compensation, operating expenses, and other budget priorities of the courts was provided to courts through the Inflation and Workforce component of the SAL growth factor. The adjusted Inflation and Workforce percentage was applied to each court's base budget (excluding security). It provides a funding stream to each court based on the relative size of each court's budget, to address the costs of court operations.

Workload Growth and Equity – RAS Funding – This funding was allocated based on the application of the Resource Allocation Study (RAS) model to address growing resource needs in courts with growing workload, caused by an increase in specific types of filings and filings that have become more complex and require more proceedings, resulting in some courts being relatively under-resourced compared to other courts of similar size.

FY 2007–2008 Security – Funding to address changes in the costs for security salaries, retirement, other benefits, and other mandatory security costs, from FY 2006–2007 to FY 2007–2008. As with employee retirement, this funding will be allocated when the underlying agreements upon which the changes are based have been ratified or confirmed.

FY 2007–2008 BCPs

New Entrance Screening Stations – This is funding provided through the 2007 Budget Act (Stats. 2007, ch. 171) to be allocated to specific courts to address ongoing costs for staffing and one-time costs for equipment to implement four new entrance screening stations in three court systems. The equipment costs, up to a maximum amount per station, will be funded on a reimbursement basis upon receipt and review of invoices.

New Judgeships Funding – The security component of this allocation represents one month of ongoing funding for courtroom security for the 22 courts that are authorized to receive new judgeships by Assembly Bill 159 (Stats. 2007, ch. 722). These courts will also receive one

month of ongoing funding for other non-judicial staffing and operational costs. The allocation also includes one-time funding related to the staff positions. The allocation does not include funding for judges' salaries and benefits (which is not distributed directly to the courts) or for the one-time and ongoing costs related to facilities.

FY 2005–2006 and 2006–2007 Adjustment to the Judicial Branch Workers Compensation Program (JBWCP) Premium – This represents an adjustment of the cost of the JBWCP program to all participating courts, based on the actual program performance and results for the past two fiscal years.

FUND BALANCE (RESERVE) POLICY

BACKGROUND

Minimum financial accounting and reporting standards and guidelines have been established by the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB). The Trial Court Financial Policy and Procedures Manual, in compliance with these standards and guidelines, specifies that the trial courts are responsible for the employment of “sound business, financial and accounting practices” to conduct their fiscal operations. One important policy concerns fund balance or “reserves” that courts manage.

In 2006, the Legislature in the Supplemental Report of the 2006 Budget Act in Item 0250-101-0932 2(b) specified the following information on fund balance be submitted.

- (i) The Judicial Council shall report all approved allocations to the trial courts . . . by September 30, 2006. The report shall include a statement of the intended purpose for which each allocation was made. The report shall also include the policy governing trial court reserves.
- (ii) The trial courts shall report to the Judicial Council by September 15, 2007, all court revenues, expenditures, and reserves from the prior fiscal year for funding from all fund sources.

In addition to this specific reporting, Government Code section 77203 specifies that the Judicial Council has the authority to authorize trial courts to carry over unexpended funds from one year to the next. Consistent with this provision, there is a need for a clear policy that ensures courts are able to identify resources that address statutory and contractual obligations as well as maintain a minimum level of operating and contingency funds. This policy provides the necessary structure to ensure funds are available to maintain service levels for various situations that confront the trial courts including a late state budget.

PURPOSE

Government agencies/entities report the difference between their assets and liabilities as fund balance, which is divided into restricted and unrestricted components. The function of the restricted fund balance is to isolate the portion of fund balance that represents resources required to address statutory or contractual obligations and is not available for the following period’s budget. Unrestricted fund balance can serve as a measure of current available, uncommitted financial resources.

The purpose of this policy is to establish uniform standards for the reporting of fund balance by trial courts and to maintain accountability over the public resources used to finance trial court operations.

POLICY

As a publicly funded entity and as good public policy, trial courts must ensure that the funds allocated and received from the state and other sources are used efficiently and accounted for properly and consistently. The trial courts shall account for and report fund balance (“reserves”) in accordance with established standards, utilizing approved categories. Additionally, a fund balance can never be negative.

Fund Balance Categories

Restricted Fund Balance This is a fund balance that is not available for purposes other than contractual or statutory purposes.

Contractual - A restricted fund balance set aside for executed contractual commitments beyond the current year (e.g., multi-year contracts). Contractual obligations expected to be incurred in the current year should be budgeted and encumbered in the current year.

Statutory - A restricted fund balance that is unspent, receipted revenues that have a statutory restriction on their use.

Unrestricted Fund Balance This is a fund balance that is comprised of funds that are neither contractually nor statutorily restricted but may, by policy, require minimum amounts be maintained or identified.

Designated - The portion of unrestricted fund balance that is subject to tentative management plans beyond the current fiscal year. For each specific plan, trial courts must select a specific sub-category that is provided and provide a detailed description of the planned use of the fund balance. Specific plans that fall under the same sub-category should be designated separately.

Undesignated - The portion of fund balance that is neither restricted nor designated.

Designated Fund Balance

For designated fund balances that are based on estimates, particularly the operating and emergency, leave liabilities, and retirement fund balance categories, explanations of the methodology used to compute the designated amount must be provided. The trial court should fund the operating and emergency fund category prior to any other designated fund balance category being funded. In addition, if there is insufficient fund balance to designate total estimated liabilities, the shortfall should be provided in attached footnotes.

Designations or planned uses include but are not limited to:

1. Operating and Emergency

Each court shall maintain a minimum operating and emergency fund balance at all times as determined by the following calculation based upon total actual expenditures of the previous fiscal year.

<u>Annual Actual Expenditures</u>
5 percent of the first \$ 10,000,000
4 percent of the next \$ 40,000,000
3 percent of expenditures over \$50,000,000

If a court determines that it is unable to identify in its annual budget the minimum operating and emergency fund balance levels identified above, the court shall immediately notify the Administrative Director of the Courts, or designee, in writing and provide a plan with a specific timeframe to correct the situation.

2. **One-time facility – Tenant improvements** Examples include carpet and fixture replacements.
3. **One-time facility – Other** Examples include leases paid by AOC on behalf of courts.
4. **Statewide Administrative Infrastructure Initiatives**
5. **Local Infrastructure (technology and non-technology needs)** Examples include interim case management systems and non-security equipment.
6. **One-time employee compensation (leave liability, retirement, etc.)**
Amounts included in this category are exclusive of employee compensation amounts already included in the trial court's operating budget and not in a designated fund balance category.

a. One-time leave payments at separation from employment and other estimated or planned leave payments. If amounts are not already accounted for in a trial court's operating budget, estimated one-time payouts for vacation or annual leave to employees planning to separate from employment within the current fiscal year should be in this designated fund balance category. This amount could be computed as the average amount paid out with separations or other leave payments during the last three years. Any anticipated non-normal or unusually high payout for an individual or individuals should be added to the average amount calculated.

In a footnote, the trial court should note the amount of their employees' currently earned leave balance that is more than the established designated fund balance. The amount would be determined by multiplying the hours of earned vacation or annual leave on the payroll records for each employee times their current salary rate minus the designated fund balance established

b. Unfunded pension liability. If documented by an actuarial report, the amount of unfunded pension liability should be included as a designated fund balance. Employer retirement plan contributions for the current fiscal year must be accounted for in the trial court's operating budget.

In a footnote, the trial court should note the amount of the current unfunded pension liability that is in excess of the established designated fund balance.

c. Unfunded retiree health care liability. If documented by an actuarial report, and appropriate, the amount of unfunded retiree health care liability should be included as a designated fund balance.

In a footnote, the trial court should note the amount of the current unfunded retiree health care liability that is in excess of the established designated fund balance.

d. Workers compensation (if managed locally). The amount estimated to be paid out in the current fiscal year.

7. Professional and consultant services Examples include human resources, information technology, and other consultants.

8. Security Examples include security equipment, and pending increases for security service contracts.

9. Other (required to provide detail)

Any other planned commitments that are not appropriately included in one of the above designated fund balance categories should be listed here with a description in sufficient detail to determine its purpose and requirements.