

**JUDICIAL COUNCIL OF CALIFORNIA
ADMINISTRATIVE OFFICE OF THE COURTS**

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Report

TO: Members of the Judicial Council

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DATE: April 12, 2005

SUBJECT: State Appropriations Limit Allocation Process and Template (Action Required)

Issue Statement

The Legislature is required to make an annual budget appropriation for the operations of the trial courts based on the request of the Judicial Council. Effective with fiscal year 2005–2006, Government Code section 77202 (a)(1) requires the Judicial Council’s budget request to include a base funding adjustment for operating costs that is computed based upon the year-to-year percentage change in the annual State Appropriations Limit (SAL). The Judicial Council is required to allocate the appropriation to the trial courts each year.

In order to allocate the annual appropriation, a new methodology to ensure that the funds are distributed in a uniform and equitable manner is being proposed by the Trial Court Budget Working Group and staff of the Administrative Office of the Courts (AOC) for approval by the council. This report presents the proposed methodology for the allocation process.

Recommendation

The Trial Court Budget Working Group and AOC staff recommend:

1. Adoption of the State Appropriations Limit Allocation Process and Template which is attached as Appendix 1; and,
2. Delegation of authority to the Administrative Director of the Courts to make amendments to the State Appropriations Limit Allocation Process and Template when technical corrections are necessary.

Rationale for the Recommendation

The attached SAL allocation process methodology and allocation template are being proposed because their use will ensure distribution to courts of new monies to address

mandated costs in a uniform and equitable manner, provide for increases and adjustments in funding for reimbursable cost areas, provide for Judicial Council priorities, allocate discretionary funds for the courts to use to address operational needs, and provide a means of addressing funding needs for areas that have not been priorities in the past, including under-resourced courts and courts with growing workloads due to population increases.

Background

In prior years, funding that was provided to the trial courts in annual Budget Acts was based upon needs reported through Budget Change Proposals (BCPs) to the Department of Finance (DOF) and the Legislature for specific trial court operational costs including employee compensation, retirement, court security, county services, and other fixed costs. These funding requests competed for limited resources with funding proposals of the executive and legislative branches, as well as requests from other trial courts, and were often approved for a reduced amount or not at all. Once approved, the funding was allocated to the courts for those items based upon their needs that were specifically identified in the BCPs.

In past years when the economic situation was unfavorable for requesting and receiving increases in funding, only BCPs for mandatory cost increases were submitted. In more prosperous fiscal times, courts had the opportunity to request funds to expand existing or create new trial court programs. However, even when BCP requests were not limited to mandatory cost increases, courts were often limited to either a specific number of program areas in which they could request funding, or to a specific amount of money that they could request. This resulted in a certain amount of “guessing” by the courts as to which program area would ultimately be funded through the state budget process. In addition, due to the timing of the state budget process, courts were required to submit initial requests in May to address costs that may not materialize until the next fiscal year, and to receive funding that would not be available for more than a year later. These are only some of the factors that made it difficult for courts to estimate their funding requirements and submit funding requests in prior years.

In order to address the annual funding problems that were imposed upon the trial courts by the state budget process, Senate Bill 1102 (Chapter 227, Statutes of 2004), a trailer to the 2004 budget bill, amended the statutes governing the trial court budget process to authorize the trial court budget to be calculated based upon the year-to-year percentage change in the SAL. The Judicial Council was supportive of this measure, and this report provides the methodology to implement and maintain the new budget process.

The annual SAL adjustment and allocation process will provide a more predictable and timely budget process for the trial courts. This proposed allocation process is designed to annually address all trial court funding needs and changes in trial court operational costs, including employee compensation costs and other employee related costs, and allows for

annual adjustments for statewide mandatory costs including items such as workers' compensation rate change costs. It is a comprehensive approach designed to thoroughly address all annual trial court funding requirements. It includes the establishment of a system to respond to changes in employer retirement contribution rates and security costs increases, and provides a process for setting aside funds to respond to contingencies or revenue shortfalls.

This allocation process also provides a means for annual consideration of Judicial Council funding priorities. The allocation for these increases will be made based upon the need identified for each trial court within each priority area, as approved by the Judicial Council, after recommendations and input from AOC staff, the Trial Court Budget Working Group, employee organizations, and other advisory groups.

The methodology for the SAL allocation process is briefly outlined below and more thoroughly described in the Appendix 1 attachment. In addition, the SAL Growth Factor Allocation Template, which is an integral component of the SAL allocation process, is also included in the Appendix 1 attachment. This template describes the actual trial court cost components that will be adjusted by the funding allocations that will be made based upon the proposed allocation process methodology.

Proposed Methodology for SAL Allocation Process

The use of the SAL funding adjustment for funding the trial courts was approved to ensure that trial court funding is not eroded and that sufficient funding is provided to trial courts so that they are able to accommodate increased costs without degrading the quantity or quality of court services. The base funding adjustment is calculated based upon operating costs, which include, but are not limited to, all expenses for court operations, court employee salaries and salary-driven benefits, but do not include the costs of compensation for judicial officers, subordinate judicial officers, or funding for assigned judges. Not included in the SAL adjustment, but to be separately identified and justified through the annual budget process, are non-discretionary costs driven by law or county government that exceed the annual SAL and other adjustments required to accommodate other operational and programmatic changes.

The proposed allocation process for the SAL funding adjustment is designed to ensure distribution to courts of new monies to address mandated costs in a uniform and equitable manner, and allows for the funding of Judicial Council approved priorities.

The proposed SAL allocation process provides growth in the Trial Court Improvement Fund and Judicial Administration Efficiency and Modernization Fund. It also provides for excess retirement funding, when available, to be set aside to address retirement cost increases due to retirement rate changes in future years.

Statewide programs that reimburse trial court costs for the interpreter, court-appointed counsel, jury, extraordinary homicide trials, prisoner hearings, services of process for protective orders, civil case coordination, elder abuse protective orders, and other local assistance programs will be adjusted by the SAL percentage factor to ensure that there is sufficient funding to address these costs. As part of this budget process, these reimbursable program increases can be adjusted on a one-time or ongoing basis by the Judicial Council, as needed. For example, if it is determined that there is already more funding than needed in a certain reimbursable program area, funds can be transferred to another program. Funding for the interpreter program cost increases for employee compensation, workload growth, or any other interpreter program costs will be allocated consistent with the methodology for allocations for increases in other employee compensation/personal services, workload or program growth, and increases in all other trial court costs in non-interpreter program areas.

The methodology allows for allocations and/or adjustments for mandatory programs including security negotiated salary increases, retirement, and benefits; employee retirement – employer rate changes; reimbursement for AOC costs incurred for provision of administrative support services for the trial courts, and non-discretionary rate changes in workers’ compensation for those courts participating in the Judicial Branch Workers’ Compensation Program to be made based upon actual costs, rather than the increase provided by the SAL adjustment factor.

The methodology seeks to address potential critical funding needs by (1) setting aside two percent of the total SAL adjustment for mid-year or year-end shortfalls in reimbursable trial court costs, and (2) permitting funds to be set aside to respond to fluctuations in Trial Court Trust Fund revenue projections to make sure that adequate funds are available for each court’s budgeted operations.

As in previous years, with input from the Trial Court Budget Working Group, other court personnel, and advisory committees, recommendations may be made to the Judicial Council to approve one-time or ongoing funding for specific priority areas from the SAL adjustment.

Finally, the methodology allows for all other costs not noted above to be addressed using the three specific components of the SAL growth factor:

1. The percentage change in the price of goods and services in the economy (Inflation);
2. An average of the percentage change in California population and the average daily attendance in schools (Population); and
3. The “real” deflated change in per capita personal income (Productivity).

These allocations will be made to address employee compensation cost increases, and workload or program growth due to increases in population and court filings. The methodology will allow for allocations for courts determined to be under-funded, and to address costs associated with future new judgeships, as well as to address any other operating cost increases not previously or fully addressed in any other allocation line.

Timing of SAL Process

The DOF will provide the initial SAL adjustment percentage to state entities in October of each year. The Governor's Budget, which is presented in January, will include the proposed SAL adjustment plus any other baseline or policy changes to the judicial branch budget. AOC staff, with input from advisory committees and other court personnel, will meet with the Trial Court Budget Working Group to review and approve initial SAL allocation projections and to develop recommendations to the Judicial Council for funding priority areas. The recommendations will be presented to the council in February of each year for their consideration.

AOC staff will develop survey instruments to obtain cost information from the trial courts for specific program areas, including court staff retirement, court security, and the Judicial Council funding priority areas. The surveys will be due back from the courts on May 15 of each year and contain cost information for allocations to be made two months later (as opposed to 13 months later as in the previous budget process).

The SAL allocation template will then be completed using the latest SAL adjustment factor, most recent Schedule 7A salary and benefits information, and updated cost information and presented to the Trial Court Budget Working Group for their review, input, and recommendation. AOC staff will then present the tentative SAL allocation model to the Judicial Council with recommendations for initial approval at the June council meeting. Staff will request that authority be delegated to the Administrative Director of the Courts to make final adjustments to the allocations based upon updated Schedule 7A information and the final SAL amount.

Alternative Actions Considered

As described in the section below, since the adoption of SAL for funding of the trial courts, the methodology for allocation of the funding has received substantial review and has been revised extensively throughout its development.

Comments from Interested Parties

The allocation process methodology and allocation template have been reviewed with court personnel on several occasions and revised based on comments received. The Trial Court Budget Working Group began meeting to develop the methodology for the SAL allocation process and the allocation template in October 2004 and has provided input to resolve outstanding issues on several subsequent occasions. On February 24, 2005, the methodology and template were presented for review and input at three workshops for

trial court presiding judges and executive officers at the Statewide Issues Meeting held in conjunction with their respective advisory committees. At its March 17, 2005 meeting the Trial Court Budget Working Group unanimously agreed to recommend these documents for Judicial Council approval. Staff has also consulted with the State Economist in developing specific proposals for implementation of the SAL model.

Implementation Requirements and Costs

There are no additional funds needed to implement this recommendation.

Attachments

**METHODOLOGY FOR ALLOCATION OF
THE STATE APPROPRIATIONS LIMIT (SAL)
FUNDING ADJUSTMENT**

The annual SAL adjustment and allocation process provides a more predictable and timely budget process for the trial courts. This allocation methodology is designed to ensure distribution to courts of new monies to address mandated costs in a uniform and equitable manner, to annually address all trial court funding needs and changes in trial court operational costs, including employee compensation costs and other employee related costs, and allows for annual adjustments for statewide mandatory costs including items such as workers' compensation rate change costs. It is a comprehensive approach structured to thoroughly address all annual trial court funding requirements, and includes the establishment of a system to respond to changes in employer retirement contribution rates and security costs increases, and provides a process for setting aside funds to respond to contingencies or revenue shortfalls. It allows for a more effective and meaningful collective bargaining process, and provides a means for annual consideration of Judicial Council funding priorities.

The annual budget for trial court funding will be adjusted by a factor equal to the annual percentage change in the State Appropriations Limit (SAL). The trial court base budget that is used to calculate the SAL growth factor adjustment does not include the budgets for Judges' Compensation, Subordinate Judicial Officers Compensation, or the Assigned Judges Program. As such, these items are not amended by the SAL growth factor funding adjustment.

In order to ensure a fair and equitable distribution of the SAL adjustment factor, allocations for certain areas of trial court expenditures will be based upon the actual annual SAL factor, some will be based upon projected increases (decreases) in expenditures, and other allocations will be based upon specific components of the SAL growth rate.

The SAL growth rate is composed of the following factors: (1) the percentage change in price of goods and services in the economy (**Inflation**), (2) an average of the percentage change in California population and the average daily attendance in schools (**Population**), and (3) the "real" deflated change in per capita personal income, (**Productivity**).

The allocation template (see Attachment 1) is designed to demonstrate the determination of the allocation for each area of trial court expenditure. Column A provides the base budget amount for each of the expenditure components. Column B indicates the preliminary adjustment to the base budget (provided in details below). Column C provides the prorated adjustment, if needed, to adjust preliminary adjustments that are calculated in excess of the total SAL adjustment amount. Column D is the final SAL adjustment after prorated adjustments have been made. Columns E and F display the adjustment amount as it is determined to be either one-time or ongoing.

The template provides for allocation of the SAL funding adjustment on the following basis:

I. INDIVIDUAL COURT ALLOCATIONS

The following adjustments will be made to each court's base budget, which is allocated on a monthly basis.

A. Employee Actual Costs:

1. **Employee Retirement**—Specific allocations and adjustments will be made for cost changes associated with employee (excluding Interpreter employee, marshal, and other court security employee) retirement rates. Retirement plan changes including changes in the employer's share will not be addressed through this allocation. This allocation will be made only for employer rate changes for employees funded by TCTF non-grant¹ allocations based upon the actual increased cost. If the SAL allocation rate is less than the percent increase in employee retirement costs, the difference between actual cost increases and the funding provided by SAL will be funded first by any balance in the Trial Court Employee Retirement Account before providing additional SAL funding. To the extent that future year costs decrease for an individual court, an adjustment will be made to that court's allocation to capture the savings for redirection to offset court retirement costs, statewide. In the event that the SAL allocation factor is greater than the actual statewide percent increase in retirement costs in any year, the difference between the actual costs and the funding provided for retirement based upon the SAL factor for that year will be transferred to the Trial Court Employee Retirement Account as a set-aside to address retirement increases in future years.
2. **Workers' Compensation**—Judicial Branch Workers' Compensation Program (JBWCP)—Adjustment due to Non-Discretionary Rate Changes Based on Payroll. This adjustment will reflect actual cost increases or decreases in the portion of Workers' Compensation costs for employees (excluding Interpreter employees, marshals, and other court security employees) funded by TCTF non-grant allocations that are based on payroll (as opposed to the portion based directly upon loss experience). This adjustment is determined annually based upon the annual Workers' Compensation each court based on the proportion of its TCTF non-grant salary costs to the total TCTF non-grant salary costs of all courts in the JBWCP. (See additional discussion on Workers' Compensation costs under

¹ Excludes grant funding

Application of the SAL Inflation Rate for Personal Services
Adjustments below).

B. Discretionary Funding - Including Employee Compensation (Based on SAL Inflation Rate): This allocation will be available, at the discretion of each court, to meet the various needs of the trial courts, including cost increases for employee (excluding Interpreter employee, marshal, and other court security employee) compensation. This allocation will be made available to each court based on a prorated share of its total court employee TCTF non-grant personal services budget.

This allocation may also be used to address changes in Trial Court Trust Fund (non-grant funded) workers' compensation costs that are the result of actual losses incurred by each court as determined by the annual actuarial workers' compensation report for courts in the JBWCP, and for all workers' compensation costs for all other courts. Since each court is able to manage factors that contribute to losses, the funding provided by this adjustment for workers' compensation increases may not be needed by courts with little or no claim losses.

This allocation will be computed by multiplying the SAL inflation percentage by the adjusted personal services base amount for employee (excluding Interpreter employee, marshal, and other court security employee) compensation for employees funded by the TCTF non-grant allocations. This includes salaries, benefits, and retiree costs and excludes employee retirement and workers' compensation costs from the JBWCP based on salaries.

NOTE: The allocation provided in this item may be used to address all known increases in personal services costs that were previously incurred but were not funded on an ongoing basis.

C. Judicial Council Approved Priorities: Each year, normally at the February Judicial Council meeting, based upon recommendations from the Trial Court Budget Working Group, and with input which may be provided by presiding judges and court executive officers, as well as employee organizations and other advisory groups, the council may approve priority areas for one-time or ongoing increases to be funded from the SAL adjustment. The allocation for these increases will be made based upon the need identified for each trial court within each priority area, as approved by the Judicial Council.

D. Security (Based on SAL Growth Factor): An allocation for court security cost increases in an amount equivalent to the annual SAL growth factor will be identified. This allocation is intended to cover employee salary, benefit, and retirement increases (including costs for marshals and court security employees), as well as workload and operating expense increases. It is intended that the TCTF non-grant security baseline budget (and future annual budgets as

adjusted by the SAL growth factor) will be used only for security costs and may not be redirected for any other purpose. This is to ensure that current and future costs can be addressed with a secure and predictable funding source. Allocations of the security adjustment will be prorated to each court based upon need as determined by the security standard allocation methodology.

Note: The current statewide security baseline budget is not adequate to fund all courts at the security standards and to fully fund costs associated with the implementation of SB 1396 of 2002. As such, the Administrative Office of the Courts (AOC) plans to submit a 2006-2007 BCP for Security costs to the Department of Finance in September 2005 to address this deficiency. Each year, if cost increases exceed the SAL rate and other funding cannot be identified, one of three courses of action, or a combination thereof, will need to be taken to cover the security cost shortfalls: (1) the court and sheriff will need to renegotiate the security contract within the available funding, or (2) the court will need to redirect other funds, or (3) the sheriff or county will need to absorb the cost increases. **These actions should only be used to ensure adequate funding is available to cover the security costs that have been determined by the security standard allocation methodology process. These actions are not to be used to fund security costs that are in excess of the security standards.**

E. Workload Growth and Equity Funding (Based on SAL Population Growth Rate): Because a share of the SAL increase relates to population growth and, thus by extension, workload, the percentage of SAL associated with growth will provide funding 1) to address workload and/or program growth (excluding Interpreter workload growth) due to increases in population and increases in court filings, based upon methodology approved by the JC; 2) for allocation to Under-Resourced Courts as determined by the Resource Allocation Study; and 3) for support costs associated with new Judgeships added in future years (beyond the proposed base adjustment of 150 judges that will be submitted and considered outside of the SAL allocation process).

This allocation will be computed by multiplying the SAL population growth rate by the adjusted personal services base amount for employee (excluding Interpreter employee, marshal, and other court security employee) compensation for employees funded by TCTF non-grant allocations. This includes salaries, benefits, and retiree costs, and excludes employee retirement and workers' compensation costs from the JBWCP based on salaries, and the remaining portion of TCTF non-grant Operating Expenses and Equipment (OE&E) base that has not been adjusted within any other category.

NOTE: The allocation is limited to courts that qualify for one of the three criteria identified above.

The funding provided in this allocation is not available for general employee compensation increases. However, it may be used to address pay parity issues due to below-market salary ranges.

F. Remaining Cost Increases (Based on Inflation and Productivity Rates):

This allocation will be used at the court's discretion to address all other operational cost increases that have not been addressed or fully addressed by the previous allocations. This may include items such as: 1) increased costs for office supplies, postage, subscriptions, library materials, maintenance contracts, minor and major equipment, court transcripts, communication expenses, travel, training, contractual obligations, and other operating expenses; 2) costs for information technology projects and equipment; 3) costs for new or expanded programs; 4) all other costs not previously addressed or fully addressed.

This allocation will be calculated by applying the SAL adjustment rate (both Inflation and Productivity) to the remaining TCTF non-grant OE&E base that has not been adjusted within any other category, and by multiplying the SAL Productivity rate by the adjusted personal services (excluding Interpreter employees, marshals, and other court security employees) base.

Although the combined total of the Productivity, Inflation, and Population factors has resulted in a positive SAL allocation factor in prior years, there have been instances in which the Productivity factor, by itself, has been negative. In the event that the Productivity factor is negative in any fiscal year, the calculation for this third application of funding will be adjusted to reflect the effect of the negative factor. To accomplish this, there will be no allocation based upon the Productivity factor, and the allocations that are based upon the Inflation and Population factors will be reduced in a pro-rated manner to offset the reduction resulting from the negative factor.

NOTE: The allocation provided in this item may be used to address all known increases in these costs that are currently unfunded.

II. TRIAL COURT REIMBURSEMENT PROGRAMS BASE ADJUSTMENTS

Adjustments in the base allocations for reimbursable trial court costs will be established for the Court Interpreter Program, Court Appointed Counsel, Jury, Extraordinary Homicide Trials, Prisoner Hearings, Services of Process for Protective Orders, Civil Case Coordination, and other local assistance programs including Drug Courts, CASA, Model Self-Help, and Family Law Information Centers. The allocations for these programs will be determined on an annual basis and set aside for allocation on a reimbursement basis. The allocation amount for each of the programs will be determined based upon prior year actual expenditures and current year projected expenditures, with adjustments to address estimated changes in workload, costs or other known cost driving factors. This

methodology is designed to ensure that the appropriate level of funding will be available to address the estimated annual cost of these programs

NOTE: Allocations of funding for Interpreter program cost increases for employee compensation, workload growth, or any other Interpreter program costs will be made consistent with the methodology for allocations for increases in employee compensation, workload or program growth, and increases in all other trial court costs as described by Discretionary Funding - Including Employee Compensation, Workload Growth and Equity Funding and Remaining Cost Increases.

III. SET ASIDES

A. Projected Revenue Shortfalls: An adjustment in funding may be made to respond to fluctuations in TCTF revenue projections to ensure stabilization of the TCTF so that adequate funds are available for each court's budgeted operations. Any balance remaining in this set-aside at year-end will remain in the Trial Court Trust Fund for future distribution in the SAL allocation process.

B. Statewide Administrative Services: This adjustment would provide for reimbursement of AOC costs incurred to provide administrative services for the trial courts, including fiscal, human resource, information technology, and legal services. Each year the AOC submits a proposal to the State Department of Finance to request any adjustment to the reimbursement authority that is needed to provide administrative services to the trial courts. Staffing costs are funded by a combination of General Fund, up to 20 percent of the 50-50 excess split from the Improvement Fund, and direct reimbursement from the trial courts that are utilizing the services. If the need is greater than these three sources can provide, the Judicial Council may approve a supplemental allocation from the SAL adjustment, either on a one-time or on-going basis.

C. Contingency: Two percent (2%) of the total SAL adjustment will be set aside for mid-year or year-end shortfalls in reimbursable trial court costs or employee retirement. Any balance remaining in the contingency set-aside at year-end will remain in the Trial Court Trust Fund for future distribution in the SAL allocation process.

IV. TRANSFERS

A. Transfer from Trial Court Trust Fund (TCTF): Any amounts remaining at the end of a previous fiscal year in Reimbursement Programs Base Adjustments or Set Asides (discussed previously) will be added to the SAL funding adjustment to be allocated in the current year.

B. Transfer to Trial Court Improvement Fund (Improvement Fund): If the base amount from which SAL is computed includes funding from the

Improvement Fund in excess of the amount allocated to courts for operational costs (\$31.6 million in 2004-2005), the resulting growth will be transferred to the Improvement Fund.

C. Transfer to Judicial Administration Efficiency and Modernization Fund (Modernization Fund): If the base amount from which SAL is calculated includes the Modernization Fund, the resulting growth will be transferred to the Modernization Fund.

D. Transfer to/from Trial Court Employee Retirement Account: The employer share of retirement rate increases for employees (excluding Interpreter employees, marshals, and other court security employees) funded by TCTF non-grant² allocations will be fully funded, even when the SAL allocation rate is less than the percent increase in employee retirement costs (See discussion under Actual Employee Costs: Retirement-Employer Rate Changes). This adjustment addresses the cost of rate changes associated with existing staff retirement plans only; any plan structural changes including changes in the employer's share would not be addressed as part of this adjustment.

To the extent that the SAL allocation factor exceeds the percentage increase in employee retirement rate costs, the excess funding will be set aside in this account to address future retirement cost increases.

V. Allocation Subtotal: The preliminary calculated adjustments will be totaled to determine if they equal or exceed the SAL adjustment amount available for allocation.

VI. Amount Over Available SAL Adjustment: If the amounts calculated for allocation exceed the available SAL adjustment, the excess amount shall be prorated to reduce the allocations in the following areas: (1) I.E. Workload Growth and Equity Funding (Based on SAL Population Growth Rate) and (2) I.F. Remaining Cost Increases (Based on Inflation and Productivity Rates).

If the excess amount on this line exceeds the preliminary SAL adjustment for I.E. Workload Growth and Equity Funding and I.F. Remaining Cost Increases, a review of the adjustments calculated for discretionary items will be conducted to determine which of those items may be reduced. If there is still an excess on this line item after reducing the adjustments for discretionary items, the adjustment for Discretionary Funding -Including Employee Compensation, will be reduced until the Total Allocation amount balances with the available SAL funding adjustment.

VII Total Allocation: This is the total available for allocation, after adjustments for amounts in excess of the SAL Adjustment.

² Excludes grant funding

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The annual budget for trial court funding will be adjusted by a factor equal to the annual percentage change in the State Appropriations Limit (SAL). The trial court base budget that is used to calculate the SAL growth factor adjustment does not include the budgets for Judges' Compensation, Subordinate Judicial Officers Compensation, or the Assigned Judges Program. As such, these items are not amended by the SAL growth factor funding adjustment.

In order to ensure a fair and equitable distribution of the SAL adjustment factor, allocations for certain areas of trial court expenditures will be based upon the actual annual SAL factor, some will be based upon projected increases (decreases) in expenditures, and other allocations will be based upon specific components of the SAL growth rate.

The SAL growth rate is composed of the following factors: (1) the percentage change in price of goods and services in the economy (**Inflation**), (2) an average of the percentage change in California population and the average daily attendance in schools (**Population**), and (3) the "real" deflated change in per capita personal income, (**Productivity**).

The allocation template (see Attachment 1) is designed to demonstrate the determination of the allocation for each area of trial court expenditure. Column A provides the base budget amount for each of the expenditure components. Column B indicates the preliminary adjustment to the base budget (provided in details below). Column C provides the prorated adjustment, if needed, to adjust preliminary adjustments that are calculated in excess of the total SAL adjustment amount. Column D is the final SAL adjustment after prorated adjustments have been made. Columns E and F display the adjustment amount as it is determined to be either one-time or ongoing.

The template provides for allocation of the SAL funding adjustment on the following basis:

I. INDIVIDUAL COURT ALLOCATIONS

The following adjustments will be made to each court's base budget, which is allocated on a monthly basis.

A. Employee Actual Costs:

1. **Employee Retirement**—Specific allocations and adjustments will be made for cost changes associated with employee (excluding Interpreter employee, marshal, and other court security employee) retirement rates. Retirement plan changes including changes in the employer's share will not be addressed through this allocation. This allocation will be made only for employer rate changes for employees funded by TCTF non-grant¹ allocations based upon the actual increased cost. If the SAL allocation rate is less than the percent increase in employee retirement costs, the difference between actual cost increases and the funding provided by SAL will be funded first by any balance in the Trial Court Employee Retirement Account before providing additional SAL funding. To the extent that future year costs decrease for an individual court, an adjustment will be made to that court's allocation to capture the savings for redirection to offset court retirement costs, statewide. In the event that the SAL allocation factor is greater than the actual statewide percent increase in retirement costs in any year, the difference between the actual costs and the funding provided for retirement based upon the SAL factor for that year will be transferred to the Trial Court Employee Retirement Account as a set-aside to address retirement increases in future years.
2. **Workers' Compensation**—Judicial Branch Workers' Compensation Program (JBWCP)—Adjustment due to Non-Discretionary Rate Changes Based on Payroll. This adjustment will reflect actual cost increases or decreases in the portion of Workers' Compensation costs for employees (excluding Interpreter employees, marshals, and other court security employees) funded by TCTF non-grant allocations that are based on payroll (as opposed to the portion based directly upon loss experience). This adjustment is determined annually based upon the annual Workers' Compensation each court based on the proportion of its TCTF non-grant salary costs to the total TCTF non-grant salary costs of all courts in the JBWCP. (See additional discussion on Workers' Compensation costs under

¹ Excludes grant funding

Application of the SAL Inflation Rate for Personal Services
Adjustments below).

B. Discretionary Funding - Including Employee Compensation (Based on SAL Inflation Rate): This allocation will be available, at the discretion of each court, to meet the various needs of the trial courts, including cost increases for employee (excluding Interpreter employee, marshal, and other court security employee) compensation. This allocation will be made available to each court based on a prorated share of its total court employee TCTF non-grant personal services budget.

This allocation may also be used to address changes in Trial Court Trust Fund (non-grant funded) workers' compensation costs that are the result of actual losses incurred by each court as determined by the annual actuarial workers' compensation report for courts in the JBWCP, and for all workers' compensation costs for all other courts. Since each court is able to manage factors that contribute to losses, the funding provided by this adjustment for workers' compensation increases may not be needed by courts with little or no claim losses.

This allocation will be computed by multiplying the SAL inflation percentage by the adjusted personal services base amount for employee (excluding Interpreter employee, marshal, and other court security employee) compensation for employees funded by the TCTF non-grant allocations. This includes salaries, benefits, and retiree costs and excludes employee retirement and workers' compensation costs from the JBWCP based on salaries.

NOTE: The allocation provided in this item may be used to address all known increases in personal services costs that were previously incurred but were not funded on an ongoing basis.

C. Judicial Council Approved Priorities: Each year, normally at the February Judicial Council meeting, based upon recommendations from the Trial Court Budget Working Group, and with input which may be provided by presiding judges and court executive officers, as well as employee organizations and other advisory groups, the council may approve priority areas for one-time or ongoing increases to be funded from the SAL adjustment. The allocation for these increases will be made based upon the need identified for each trial court within each priority area, as approved by the Judicial Council.

D. Security (Based on SAL Growth Factor): An allocation for court security cost increases in an amount equivalent to the annual SAL growth factor will be identified. This allocation is intended to cover employee salary, benefit, and retirement increases (including costs for marshals and court security employees), as well as workload and operating expense increases. It is intended that the TCTF non-grant security baseline budget (and future annual budgets as

adjusted by the SAL growth factor) will be used only for security costs and may not be redirected for any other purpose. This is to ensure that current and future costs can be addressed with a secure and predictable funding source. Allocations of the security adjustment will be prorated to each court based upon need as determined by the security standard allocation methodology.

Note: The current statewide security baseline budget is not adequate to fund all courts at the security standards and to fully fund costs associated with the implementation of SB 1396 of 2002. As such, the Administrative Office of the Courts (AOC) plans to submit a 2006-2007 BCP for Security costs to the Department of Finance in September 2005 to address this deficiency. Each year, if cost increases exceed the SAL rate and other funding cannot be identified, one of three courses of action, or a combination thereof, will need to be taken to cover the security cost shortfalls: (1) the court and sheriff will need to renegotiate the security contract within the available funding, or (2) the court will need to redirect other funds, or (3) the sheriff or county will need to absorb the cost increases. **These actions should only be used to ensure adequate funding is available to cover the security costs that have been determined by the security standard allocation methodology process. These actions are not to be used to fund security costs that are in excess of the security standards.**

E. Workload Growth and Equity Funding (Based on SAL Population Growth Rate): Because a share of the SAL increase relates to population growth and, thus by extension, workload, the percentage of SAL associated with growth will provide funding 1) to address workload and/or program growth (excluding Interpreter workload growth) due to increases in population and increases in court filings, based upon methodology approved by the JC; 2) for allocation to Under-Resourced Courts as determined by the Resource Allocation Study; and 3) for support costs associated with new Judgeships added in future years (beyond the proposed base adjustment of 150 judges that will be submitted and considered outside of the SAL allocation process).

This allocation will be computed by multiplying the SAL population growth rate by the adjusted personal services base amount for employee (excluding Interpreter employee, marshal, and other court security employee) compensation for employees funded by TCTF non-grant allocations. This includes salaries, benefits, and retiree costs, and excludes employee retirement and workers' compensation costs from the JBWCP based on salaries, and the remaining portion of TCTF non-grant Operating Expenses and Equipment (OE&E) base that has not been adjusted within any other category.

NOTE: The allocation is limited to courts that qualify for one of the three criteria identified above.

The funding provided in this allocation is not available for general employee compensation increases. However, it may be used to address pay parity issues due to below-market salary ranges.

F. Remaining Cost Increases (Based on Inflation and Productivity Rates):

This allocation will be used at the court's discretion to address all other operational cost increases that have not been addressed or fully addressed by the previous allocations. This may include items such as: 1) increased costs for office supplies, postage, subscriptions, library materials, maintenance contracts, minor and major equipment, court transcripts, communication expenses, travel, training, contractual obligations, and other operating expenses; 2) costs for information technology projects and equipment; 3) costs for new or expanded programs; 4) all other costs not previously addressed or fully addressed.

This allocation will be calculated by applying the SAL adjustment rate (both Inflation and Productivity) to the remaining TCTF non-grant OE&E base that has not been adjusted within any other category, and by multiplying the SAL Productivity rate by the adjusted personal services (excluding Interpreter employees, marshals, and other court security employees) base.

Although the combined total of the Productivity, Inflation, and Population factors has resulted in a positive SAL allocation factor in prior years, there have been instances in which the Productivity factor, by itself, has been negative. In the event that the Productivity factor is negative in any fiscal year, the calculation for this third application of funding will be adjusted to reflect the effect of the negative factor. To accomplish this, there will be no allocation based upon the Productivity factor, and the allocations that are based upon the Inflation and Population factors will be reduced in a pro-rated manner to offset the reduction resulting from the negative factor.

NOTE: The allocation provided in this item may be used to address all known increases in these costs that are currently unfunded.

II. TRIAL COURT REIMBURSEMENT PROGRAMS BASE ADJUSTMENTS

Adjustments in the base allocations for reimbursable trial court costs will be established for the Court Interpreter Program, Court Appointed Counsel, Jury, Extraordinary Homicide Trials, Prisoner Hearings, Services of Process for Protective Orders, Civil Case Coordination, and other local assistance programs including Drug Courts, CASA, Model Self-Help, and Family Law Information Centers. The allocations for these programs will be determined on an annual basis and set aside for allocation on a reimbursement basis. The allocation amount for each of the programs will be determined based upon prior year actual expenditures and current year projected expenditures, with adjustments to address estimated changes in workload, costs or other known cost driving factors. This

methodology is designed to ensure that the appropriate level of funding will be available to address the estimated annual cost of these programs

NOTE: Allocations of funding for Interpreter program cost increases for employee compensation, workload growth, or any other Interpreter program costs will be made consistent with the methodology for allocations for increases in employee compensation, workload or program growth, and increases in all other trial court costs as described by Discretionary Funding - Including Employee Compensation, Workload Growth and Equity Funding and Remaining Cost Increases.

III. SET ASIDES

A. Projected Revenue Shortfalls: An adjustment in funding may be made to respond to fluctuations in TCTF revenue projections to ensure stabilization of the TCTF so that adequate funds are available for each court's budgeted operations. Any balance remaining in this set-aside at year-end will remain in the Trial Court Trust Fund for future distribution in the SAL allocation process.

B. Statewide Administrative Services: This adjustment would provide for reimbursement of AOC costs incurred to provide administrative services for the trial courts, including fiscal, human resource, information technology, and legal services. Each year the AOC submits a proposal to the State Department of Finance to request any adjustment to the reimbursement authority that is needed to provide administrative services to the trial courts. Staffing costs are funded by a combination of General Fund, up to 20 percent of the 50-50 excess split from the Improvement Fund, and direct reimbursement from the trial courts that are utilizing the services. If the need is greater than these three sources can provide, the Judicial Council may approve a supplemental allocation from the SAL adjustment, either on a one-time or on-going basis.

C. Contingency: Two percent (2%) of the total SAL adjustment will be set aside for mid-year or year-end shortfalls in reimbursable trial court costs or employee retirement. Any balance remaining in the contingency set-aside at year-end will remain in the Trial Court Trust Fund for future distribution in the SAL allocation process.

IV. TRANSFERS

A. Transfer from Trial Court Trust Fund (TCTF): Any amounts remaining at the end of a previous fiscal year in Reimbursement Programs Base Adjustments or Set Asides (discussed previously) will be added to the SAL funding adjustment to be allocated in the current year.

B. Transfer to Trial Court Improvement Fund (Improvement Fund): If the base amount from which SAL is computed includes funding from the

Improvement Fund in excess of the amount allocated to courts for operational costs (\$31.6 million in 2004-2005), the resulting growth will be transferred to the Improvement Fund.

C. Transfer to Judicial Administration Efficiency and Modernization Fund (Modernization Fund): If the base amount from which SAL is calculated includes the Modernization Fund, the resulting growth will be transferred to the Modernization Fund.

D. Transfer to/from Trial Court Employee Retirement Account: The employer share of retirement rate increases for employees (excluding Interpreter employees, marshals, and other court security employees) funded by TCTF non-grant² allocations will be fully funded, even when the SAL allocation rate is less than the percent increase in employee retirement costs (See discussion under Actual Employee Costs: Retirement-Employer Rate Changes). This adjustment addresses the cost of rate changes associated with existing staff retirement plans only; any plan structural changes including changes in the employer's share would not be addressed as part of this adjustment.

To the extent that the SAL allocation factor exceeds the percentage increase in employee retirement rate costs, the excess funding will be set aside in this account to address future retirement cost increases.

V. Allocation Subtotal: The preliminary calculated adjustments will be totaled to determine if they equal or exceed the SAL adjustment amount available for allocation.

VI. Amount Over Available SAL Adjustment: If the amounts calculated for allocation exceed the available SAL adjustment, the excess amount shall be prorated to reduce the allocations in the following areas: (1) I.E. Workload Growth and Equity Funding (Based on SAL Population Growth Rate) and (2) I.F. Remaining Cost Increases (Based on Inflation and Productivity Rates).

If the excess amount on this line exceeds the preliminary SAL adjustment for I.E. Workload Growth and Equity Funding and I.F. Remaining Cost Increases, a review of the adjustments calculated for discretionary items will be conducted to determine which of those items may be reduced. If there is still an excess on this line item after reducing the adjustments for discretionary items, the adjustment for Discretionary Funding -Including Employee Compensation, will be reduced until the Total Allocation amount balances with the available SAL funding adjustment.

VII Total Allocation: This is the total available for allocation, after adjustments for amounts in excess of the SAL Adjustment.

² Excludes grant funding

**SAL GROWTH FACTOR
ALLOCATION TEMPLATE**

SAL GROWTH FACTOR	
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	A	B	C	D	E	F
	Base Budget Amount	Preliminary SAL Adjustment	Prorated (Under)/Over Funding Adjustment	Final SAL Adjustment	One-Time	On-Going
2005-2006 SAL FUNDING ADJUSTMENT		\$ -				
I. INDIVIDUAL COURT ALLOCATIONS						
A. Actual Employee Costs						
1. Retirement—Employer Rate Changes		-		\$ -		\$ -
2. Workers' Compensation (JBWCP)—Adjustment for Rate Changes Based on Payroll		-		-		-
B. Discretionary Funding -Including Employee Compensation (Based on SAL Inflation Rate)		-		-		-
C. Judicial Council Approved Priorities:						
1. Equalization of Funding for Trial Courts				-		-
2. Trial Court Facilities Costs				-		-
D. Security (Based on SAL Growth Factor)		-		-		-
E. Workload Growth and Equity Funding (Based on SAL Population Growth Rate)	-	-		-		-
F. Remaining Court Cost Increases (Based on Inflation & Productivity Rates)	-	-		-		-
II. TRIAL COURT REIMBURSEMENT PROGRAMS						
A. Interpreters				-		-
B. Court Appointed Counsel				-		-
C. Jury				-		-
D. Extraordinary Homicide Trials				-		-
E. Prisoner Hearings				-		-
F. Services of Process for Protective Orders				-		-
G. Civil Case Coordination				-		-
H. Other Local Assistance				-		-
1. Drug Courts				-		-
2. CASA				-		-
3. Model Self-Help Program				-		-
4. Family Law Information Centers				-		-
III. SET ASIDES						
A. Projected Revenue Shortfalls	-	-		-		-
B. Statewide Administrative Services	-	-		-		-
C. 2% Contingency	-	-		-		-
IV. TRANSFERS						
A. From Trial Court Trust Fund	-			-		-
B. To Trial Court Improvement Fund	-			-		-
C. To Modernization Fund	-			-		-
D. To/From Trial Court Employee Retirement Account	-			-		-
V. ALLOCATION SUBTOTAL		-		-		-
VI. AMOUNT OVER AVAILABLE SAL ADJUSTMENT (to be reduced from I.E. & I.F. on a prorated basis)		-	-	-		-
VII. TOTAL ALLOCATION		\$ -		\$ -		\$ -