

Judicial Council of California

ADMINISTRATIVE OFFICE OF THE COURTS

FINANCE DIVISION

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RONALD M. GEORGE Chief Justice of California Chair of the Judicial Council

WILLIAM C. VICKREY

Administrative Director of the Courts

RONALD G. OVERHOLT Chief Deputy Director

STEPHEN H. NASH Director, Finance Division

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,

Senators Denise Ducheny and Tom Torlakson and Assembly Members John Laird and Mark Leno October 22, 2007 Page 2

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

Styles Make

SHN/BF

Attachments (3)

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

Drew Soderborg, Fiscal and Policy Analyst, Legislative Analyst's Office

William C. Vickrey, Administrative Director of the Courts

Ronald G. Overholt, AOC Chief Deputy Director

Donna Hershkowitz, Acting Director, AOC Office of Governmental Affairs

Marcia Caballin, Assistant Director, AOC Finance Division

Ruben Gomez, Senior Manager, Office of Budget Management, AOC Finance Division

Eraina Ortega, Manager, AOC Office of Governmental Affairs

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.

Approved Allocation of FY 2007-2008 SAL Funding, BCP Funding and Other Adjustments

				Retirement Rate and Plan Changes	Kate and Figur	226			1					Accession of the Party of the P		400 CO DC 3		The real Property lies and the least lies and the lies and the least lies and the lies and the least lies and the lies and t		
							FY 2007-08 One-Time Funding for Non-	FY 2007-08 Ongoing Funding for Non-	FY 2007-08 One-Time Funding for Security for	FY 2007-08		Workload Growth &	FY 2007-08				One-Month		Adjusted FY 2007-08	
	FY 2007-08 Base Budget*	. 08	FY 2007-08	FY 2006-07 Adjustments			Security Expenses of New and	Security Expenses of New and	New and Transferring Facilities			Equity RAS Funding		Ongoing New Entrance	One-Time for New Entrance			One-Time New	(excludes one- time, limited term, and	FY 2005-06 and 2006-07 Adjustment
Court System	(excluding security)	Base Budget**	Total Base Budget	and Annualization	FY 2007-08 Ratified	FY 2007-08 Non-Ratified	Transferring Facilities	Transferring Facilities	(Screening Stations)	Transferring Facilities	Inflation & Workforce	(above 10% threshold)	Security funding)	Screening	Screening	Judgeships	Judgeships	Judgeships	FY 2008-09 amounts)	to JBWCP Premium
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Amador			2,787,122				24,924	6,600	32,000		102,451	76,997	47,660						3,052,830	289
SE			2.455.028	1	(2 449)		3,040				394,561	74 800	99,505			8,220	28.234	29,000	11,574,271	1.933
			1.722,337		(16.834)	,					72,632	53.866	22,027				T		1.854,028	(78
Contra Costa			53,503,930		(281,640)	ī					1,758,641		446,976			14.677	38,395	59.000	55,442,583	(2,220
de de	7 471 467	167,881	2,603,500	(45 307)		130					109,717	247,050	29,694	76,082	37,000	4.821	30,041	65,500	3,070,865	
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mboldt			6,814,323		(12,157)		000	000	000 000		251,888	H	74,896						7,128,941	(22
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			42,102,997			(119,857)					1,451,715		210,325			33,239	99,042	151,000	43,678,418	(12,202
			6,806,252	19,901	14,274				-		260,708	-	75,064			6,646	27,244	29,000	7,280,720	37
Lake			2 407 155		4 644						137.647	135,000	41,451						3,964,626	19
Los Angeles	504,749,646		640,401,572			(4,822,684)	291,962				20,330,990		14.314,833			10,177	39,581	29.000	670.234.888	2
Madera			7,065,715	,	,	3,155					272,118	135,317	138,799			7.786	28,370	59,000	7,622,889	
farings		57.471	1 163 265	1	2 761						691,141	3335	79,622						19,466,162	(384
Mendocino	5,039,603		6,253,408		(98,176)						227,019		48,466						6.430.718	36
Merced	9,694,668	2.107,876	11.802,544		438,729						405,483	591,031	38,267			20,662	61,809	105.000	13,296,716	(1.21
	1 383 398	1	1 502 156		1	26.484					43,150		-	81,036	37,000				1,155,640	
Monterey	15,518,367	3,393,106	18,911,474		16,158	,					688.807	421,493	370,878			11,078	32.093	59,000	20,419,868	729
Napa		1,724,141	5 263,461		18,261	1					329,479		60,448						9,671,649	30.
		37,910,593	184 772,510		T	502,765			37,000	212,073	6.364,083		4.409.507			12.392	36.812	59 000	196 310 330	34
Pacer		2.644.126	15,450,458		44,300		275,000			85.486	543,919	794,998	616.352			19,426	72,835	105,000	17,554,949	92
Riverside		14.189,171	85,330,371		21.919	3,308	29.250	2 970			3.061.820	2 457 877	18,165			67.879	205 529	348 000	1,924,438	14
ento		20,131,614	93,241,218			(113,081)			74,000	39,924	3,179,057	1	694,077			75,309	222,156	302,000	97,190,504	7.29
San Benito	2.616.679	191,982	2,808,662	1	(5,356)	1 00 000					117,874	166	14,623						3,101,801	
San Diego		30,148,056	181,184,070			1,000,000	305.975				6 604 135		1 761 519			78,465	224,715	348,000	103,866,919	(11.94
ancisco		9.215.097	72,002,165	H	(149,795)						2,727,300	1 1	638,616		Ī				75,218,286	(5.48)
Bottin		6.537,440	31,504,200	129,465		67,841			37,000	154,076	1,101,601	-	759,927			36,600	106,611	151,000	35,426,790	(2.78
San Mateo		7,924,332	43,712,557		(49.726)						1 556 275	070,024	492 280			+			45 711 304	(75
Santa Barbara		4,710,283	25.354,054			232,950					899,754		170,172						26.656.930	1.082
7,17		25,431,873	14 502 422		2,055,479		210 502	17 500		46.531	3,774,090 527,881		1,748,226						118,118,998	(2.84
		1,772,463	10,412,498			53,480				-	381,948	301,641	98.682			6,035	29.747	65.500	11.254.284	(1.820
Ī		21,248	613,506		3,414		202.77				26,679	ΙÌ							643,600	52.
			24,871,420		70,605		38,705				173,605		191,176			10 222	35 190	59 000	4,724,267	2 26
Sonoma		1	28,283,301		,	w.	497,687	16,256			958,806		258,809			13,644	40,672	59.000	29,670,672	(4,314
Stanislaus	16,614,917	- 1	20,256,763		, 000	(121,159)			37,000	74.212	726.148	581,113	71,633	354,586	74,000	19,444	67,770	105,000	21,999,740	(45
lama	3,292,439	398,386	3,690,824		9,338	-					148 315	114 065	21.355				1	-	4,896,128	(1.45)
	1,108,012	144,459	1,252,471	(12,666)	36.530						49,913		56,762						1,383,010	15
lare	15,319,065	4,042,640	19,361,705	1		79,388					561,698	530,568	821,598			14,329	56.781	105.000	21,469,285	2.03
Columne	29.915.769	11,123,598	41.039.367	(24.818)	121 039						139,982		479 799						3,711,501	483
	7,905,614	2,304,140	10,210,753	+	(12,075)						333,253	260,839	207,221			8,105	30,874	900'69	11,008,096	1.128
	3,619,819	533,256	4,153,075	-:-	10.022	- 0000	0,000	200	000	1000	163,062	125,625 22.135	22.135			-	Ш		4,473,583	
ž	1,753,713,732	7 1 416,084,754	191.209.646	396,929	2.835,447	(2.744.719)	1.889.340	926.66	291,000	729.646	74 743 605	12 373 965	24 4 2 2 4 4 4 4	244 704	148 000 1	218 077	1 652 880	00000000	246 252 5/11	(86.676)

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.

<u>Contractual</u> - 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.

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

<u>Unrestricted Fund Balance</u> 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.

Annual Actual Expenditures

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. <u>Local Infrastructure (technology and non-technology needs)</u> 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. <u>Unfunded pension liability</u>. 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. <u>Unfunded retiree health care liability</u>. 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. <u>Professional and consultant services</u> Examples include human resources, information technology, and other consultants.
- **8.** <u>Security</u> 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.