Judicial Council of California . Administrative Office of the Courts

455 Golden Gate Avenue · San Francisco, California 94102-3688

www.courtinfo.ca.gov

REPORT TO THE JUDICIAL COUNCIL

For business meeting on: October 29, 2010

Title
Trial Court Budget: Allocation of Trial Court Funding for FY 2010–2011, and Various Funding Policies and Other Adjustments

Rules, Forms, Standards, or Statutes Affected
N/A

Recommended by
Trial Court Budget Working Group
Administrative Office of the Courts
Stephen Nash, Director, Finance Division, and Chair, Trial Court Budget Working Group

Agenda Item Type
Action Required

Effective Date
October 29, 2010

Date of Report
October 26, 2010

Contact
Stephen Nash, 415-865-7584
stephen.nash@jud.ca.gov

Executive Summary

The Administrative Office of the Courts (AOC) and the Trial Court Budget Working Group (TCBWG) recommend the allocation of funding to the trial courts for fiscal year (FY) 2010–2011. These recommendations are provided in three sections: I. Adjustments for Prior Year Expenditures; II. Budget Allocations for FY 2010–2011; and III. Other Related Information and Recommendations. Due to the delay in the enactment of the State Budget, it is recommended that the council take action at this meeting to enable courts to implement local funding and expenditure plans. Each of these items is discussed in more detail in the following pages.

Summary of Recommendations

The Administrative Office of the Courts and the Trial Court Budget Working Group recommend (except for recommendation 13, which is a technical item that the TCBWG did not review) that the Judicial Council take the following actions, effective immediately:

I. Adjustments for Prior Year Expenditures

1. Revise the preliminary allocation of $5.000 million in the Voluntary Salary Waiver Program (VSWP) by adjusting it to $4.599 million, the actual level of program savings, and reallocate the funding based on the results of each court's actual program proceeds, based on the following thresholds:
   - Threshold 1: Courts in which judges' VSWP savings exceed 100 percent of the assumed level of savings ($5.000 million statewide) would be allocated 155 percent of their assumed savings.
   - Threshold 2: Courts in which judges' VSWP savings are between 50 and 100 percent of the assumed level of savings would be allocated 75 percent of their assumed savings.
   - Threshold 3: Courts in which judges' VSWP savings are between 10 and 50 percent of the assumed level of savings would be allocated 30 percent of their assumed savings.
   - Threshold 4: Courts in which judges' VSWP savings are below 10 percent but above zero percent of the assumed level of savings would be allocated 5 percent of their assumed savings.
   - Threshold 5: Courts in which judges' VSWP savings are zero percent of the assumed level of savings would be allocated zero percent of the overall savings in the program.

   (This adjustment is displayed in column J of Attachment 1.)

2. Approve a policy that $4.839 million in savings associated with the court interpreters reimbursement program in FY 2009–2010, and any future program savings, be set aside and made available to address future reimbursable court interpreter costs, including base funding.

3. Approve adjusting the cost of administrative fees related to the Judicial Branch Workers' Compensation Program (JBWCP) so that all administrative costs are distributed across the entire program proportionately.

4. Approve use of credits received from excess premium and third party administrator charges for fiscal years 2008–2009 and 2009–2010, a combined amount of $285,400, to partially offset combined workers' compensation program charges of $513,098, with the remaining deficit of $227,698 to be absorbed by the Judicial Branch Workers' Compensation Fund.

II. Budget Allocations for FY 2010–2011

5. Approve the use of $6.000 million, on a one-time basis in FY 2010–2011, from Trial Court Trust Fund (TCTF) reserves to offset the impact of additional reductions to trial court funding and to partially offset the impact of this year's late budget implementation upon revenues from new fees and fee increases, as follows:
   - $36.000 million from Trial Court Trust Fund (TCTF) reserves;
   - $31.600 million from special funds (TCTF, Trial Court Improvement Fund, or Judicial Administration Efficiency and Modernization Fund); and

- $98.400 million from facility program funds – $25.000 million from the State Court Facilities Construction Fund, and $73.400 million from the Immediate and Critical Needs Account.

6. Approve the following allocation on a pro rata basis (see columns E and F of Attachment 2):
   - $96.313 million in one-time funding as an offset to court funding reductions; and
   - $17.981 million in ongoing funding as an offset to court funding reductions.

7. Allocate $1.375 million from the TCTF to offset the overall security funding shortfall.

8. Adjust individual court allocations for security in the amount of $14.798 million to reflect anticipated cost adjustments for FY 2010–2011 (see column G of Attachment 2).

9. Allocate a security funding shortfall of $12.726 million to all courts based upon each court's share of the total statewide security funding (see column H of Attachment 2), replacing the $10.257 million reduction from FY 2009–2010.

10. Distribute funding to courts once the court has provided documentation to AOC staff verifying that security compensation and retirement cost increases are confirmed and ratified. As in previous years, some of the projected court security cost increases are based on projected cost changes for security employee compensation and retirement that have not been confirmed or ratified, and thus may be subject to adjustment.

11. Approve two one-time transfers to the Court-Appointed Dependency Counsel Program as follows: (a) $7.075 in FY 2010–2011; and (b) $3.538 million in FY 2011–2012.

III. Other Related Information and Recommendations

12. Approve revisions to the Trial Court Fund Balance Policy (see Attachment 4), which incorporate revised fund balance classifications consistent with the Governmental Accounting Standards Board's Statement No. 54, for implementation commencing in FY 2010–2011.

13. Delegate authority to the Administrative Director of the Courts to make minor or technical one-time and ongoing allocations and adjustments to allocations of funds to courts, as necessary, to address unanticipated needs and contingencies and to reflect updated cost estimates, to the extent that sufficient funding is available. Adjustments made under this provision will be reported to the council after the end of the fiscal year.

I. Adjustments for Prior Year Expenditures

Recommendation 1: Voluntary Salary Waiver Program

1. Revise the preliminary allocation of $5.000 million in the Voluntary Salary Waiver Program (VSWP) by adjusting it to $4.599 million, the actual level of program savings, and reallocate the funding based on the results of each court's actual program proceeds, based on the following thresholds:
   - Threshold 1: Courts in which judges' VSWP savings exceed 100 percent of the assumed level of savings ($5.000 million statewide) would be allocated 155 percent of their assumed savings.
   - Threshold 2: Courts in which judges' VSWP savings are between 50 and 100 percent of the assumed level of savings would be allocated 75 percent of their assumed savings.
   - Threshold 3: Courts in which judges' VSWP savings are between 10 and 50 percent of the assumed level of savings would be allocated 30 percent of their assumed savings.
   - Threshold 4: Courts in which judges' VSWP savings are below 10 percent but above zero percent of the assumed level of savings would be allocated 5 percent of their assumed savings.
   - Threshold 5: Courts in which judges' VSWP savings are zero percent of the assumed level of savings would be allocated zero percent of the overall savings in the program.

   (This adjustment is displayed in column J of Attachment 1.)

Previous council action

In FY 2009–2010, the Legislature approved reductions to trial court funding of $360.809 million. The Legislature, in response to concerns raised by Judicial Branch leadership regarding the size of the cuts, approved measures to partially reduce the impact to courts of these cuts. One such measure was approval of statutory authority for the council to mandate one-day-per-month statewide court closures in FY 2009–2010. In response to the need to assist courts in reducing costs, the council approved a statewide court closure plan. As part of this overall approach, judges were invited to participate in reductions of compensation consistent with the level of impacts to be experienced by court employees. In order to provide judges who elected to participate a means for doing so, the council established a statewide Voluntary Salary Waiver Program (VSWP). Because the State Controller pays the cost of salaries and benefits for judges directly from the Trial Court Trust Fund (TCTF), savings from judges that participated in the program accumulated in that statewide fund.

The council's action was premised on a commitment that the entire funding saved from judicial participation in the VSWP would be allocated to courts for purposes of offsetting court funding reductions. The AOC preliminarily estimated annual savings from the VSWP would total approximately $5.000 million. Based on this information, the council, at its July 29, 2009, business meeting, approved allocation of the estimated $5.000 million as an offset, on a preliminary basis, with the understanding that the allocation would be subsequently adjusted based on actual savings achieved in the program. (See column A of Attachment 1.)

Rationale for recommendation 1

The initial preliminary allocation adjusted all courts equally, based on each court's pro rata share of the total statewide nonsecurity funding. At the time the initial allocation was made, the fact that judges in some courts would participate in the statewide VSWP only minimally or not at all was not anticipated, and thus it was assumed that a pro rata distribution of program proceeds to all courts was an equitable approach, at least initially. Subsequent to the initial distribution, however, various courts announced local judicial donation programs that judges could participate in, in place of the statewide VSWP. Because a feature of some of these local programs is that funds be made available to the court locally to address funding needs, other courts without these local donation programs indicated concern that the pro rata allocation of VSWP proceeds meant that their judges were, in effect, subsidizing other courts that received not only the proceeds from local judicial donation programs, but also an equal share of the total statewide VSWP proceeds. Also, it has been determined that the actual proceeds from judicial participation in the VSWP in FY 2009–2010 totaled $4.599 million. (See column B of Attachment 1.) Because this amount is below the initial estimate of $5.000 million, the total statewide allocation needs to be adjusted.

The recommended adjustment would address both (1) the adjustment of the overall allocation to reflect lower actual savings; and (2) a more equitable distribution of program proceeds.

Alternatives considered and policy implications

An alternative considered by staff and the TCBWG would not apply thresholds, but instead would adjust each court's share of the preliminary $5.000 million statewide allocation based on each court's pro rata share of statewide nonsecurity funding to reflect actual VSWP proceeds. While this option would adjust each court's allocation to reflect actual program proceeds, it would not reallocate funding to reflect significant differences in the level of participation of each court's judges in the VSWP. For this reason, this option is not recommended.

Recommendation 2: Court Interpreters

2. Approve a policy that $4.839 million in savings associated with the court interpreters reimbursement program in FY 2009–2010, and any future program savings, be set aside and made available to address future reimbursable court interpreter costs, including base funding.

Rationale for recommendation 2

The FY 2009–2010 court interpreter appropriation from the TCTF was $92.794 million. On August 20, 2010, an annual year-end court interpreter adjustment survey was sent to all 58 trial courts. In this survey, courts identify and certify prior year interpreter expenditures that are eligible for reimbursement. In the surveys, courts certified statewide expenditures of $87.955 million in FY 2009–2010, which resulted in one-time savings of approximately $4.839 million. The savings appear to be largely attributed to the 10 statewide court closure days instituted by the Judicial Council at its July 29, 2009, meeting. Had these and perhaps other measures not been implemented, interpreter costs would have been higher.

Total statewide expenditures eligible for reimbursement during FY 2009–2010, based on court certified surveys received from all 58 superior courts, and savings are identified below.

FY 2009–2010 Court Interpreter Appropriation	$ 92,794,000
Less Expenditures Eligible for TCTF Reimbursement	$ (87,955,067)
FY 2009–2010 Savings	$ 4,838,933

With respect to the total statewide reimbursable costs for the interpreter program in FY 2010–2011, expenditures are expected to increase above FY 2009–2010 expenditure levels. Expenditures increased by 6.38 percent from FY 2006–2007 to FY 2007–2008 and an additional 5.91 percent from FY 2007–2008 to FY 2008–2009, when costs exceeded the appropriation by $911,893. In that year, the Judicial Council approved a one-time allocation of up to $1.000 million from statewide special funds to cover the shortfall. Given this historical experience, and since most of the savings in FY 2009–2010 resulted from the statewide one-day-per-month court closures, it is expected that any savings in this program will be substantially lower this fiscal year.

Alternatives considered and policy implications

No alternatives were considered.

Recommendations 3–4: Judicial Branch Workers' Compensation Program

3. Approve adjusting the cost of administrative fees related to the Judicial Branch Workers' Compensation Program (JBWCP) so that all administrative costs are distributed across the entire program proportionately.

4. Approve use of credits received from excess premium and third party administrator charges for fiscal years 2008–2009 and 2009–2010, a combined amount of $285,400, to partially offset combined workers' compensation program charges of $513,098, with the remaining deficit of $227,698 to be absorbed by the Judicial Branch Workers' Compensation Fund.

Rationale for recommendations 3–4

The Workers' Compensation Oversight Committee meets once a year for the purpose of reviewing the program's prior year claims audit, actuarial evaluation, and the next fiscal year's premium allocation distribution to the trial courts. The oversight committee met on May 14, 2010, and, as a result of the annual review of program results and expected costs, determined that some minor adjustments to the allocation methodology were necessary. The oversight committee presented recommendations to the TCBWG at its July 9, 2010, meeting and proposed that the adjustments be implemented beginning in FY 2010–2011.

Allocation to courts of administrative costs: Program costs include administrative fees for claims handling provided by a third party administrator (TPA) and administrative fees for the consultation and brokering of the program (broker fees). Recommendation 3 proposes that the cost for these fees be adjusted so that 100 percent of the cost would be distributed across all participating organizations in the program using the same methodology.

Allocation of insurance costs: Recommendation 4 proposes, on a one-time basis, the consideration for retaining the total credit adjustments for fiscal years 2008–2009 and 2009–2010 in the amount of $285,400. This credit amount would be applied to the overall additional plan charges in the amount of $513,098. Combining the credits and the charges equals a net charge of $227,698 to be absorbed by the JBWCP.

II. Budget Allocations for FY 2010–2011

Recommendations 5–6: Restored Funding Allocation

5. Approve the use of $166.000 million in special funds, on a one-time basis in FY 2010–2011, to offset the impact of additional reductions to trial court funding and to partially offset the impact of this year's late budget implementation upon revenues from new fees and fee increases, as follows:
    - $36.000 million from Trial Court Trust Fund (TCTF) reserves;
    - $31.600 million from special funds (TCTF, Trial Court Improvement Fund, or Judicial Administration Efficiency and Modernization Fund); and
    - $98.400 million from facility program funds – $25.000 million from the State Court Facilities Construction Fund, and $73.400 million from the Immediate and Critical Needs Account.

6. Approve the following allocation on a pro rata basis (see columns E and F of Attachment 2):
    - $96.313 million in one-time funding as an offset to court funding reductions; and
    - $17.981 million in ongoing funding as an offset to court funding reductions.

Rationale for recommendations 5–6

There are two major components to this allocation item: (1) identifying the impact of new funding and funding transfers, as well as new reductions, upon the overall ongoing reduction to trial court funding; and (2) determining how to allocate one-time and ongoing funding to courts as partial restoration of court funding that was previously reduced.

Identifying the net impact of funding changes in this year's budget. The Budget Act of 2010 (Stats. 2010, ch. 712) includes new unallocated reductions, funding offsets in the form of new and increased fees to generate additional revenue, and one-time transfers of statewide trial court special funds to mitigate the impact of the reductions on trial court funding allocations.

Including the reduction of $360.800 million to trial court funding approved by the Legislature in FY 2009–2010, the net impact in FY 2010–2011 of the new reductions and offsets is a reduction of $68.757 million to trial court operations (nonsecurity) allocations. Below is a description of each of the trial court funding reductions and funding offsets included in the identification of the reduction amount.

Unallocated Reductions to Trial Court Funding ($315.809 million). Unallocated reductions include:

- Ongoing reduction: The 2009 Budget Act includes an ongoing reduction of $260.809 million to trial court funding ($92.240 million and $168.569 million). (Note: the 2010–2011 Governor's proposed budget included continuation of an additional $100 million in reductions. This amount was ultimately not included in the budget.)

- New ongoing reduction ($25.000 million): The 2010 Budget Act includes a new ongoing reduction of $25.000 million to trial court funding.

- Additional reduction ($30.000 million): The 2010 Budget Act includes a reduction of $30.000 million from the General Fund transfer to the Trial Court Trust Fund (TCTF).

Funding Offsets ($247.052 million). These funding offsets include:

- One-time offsets ($160.000 million), as follows:
  - $130.000 million: The 2010 Budget Act specifies that the Judicial Council provide one-time funding offsets of (1) a total of $31.600 million to be identified from the TCTF, Judicial Administration Efficiency and Modernization Fund, and Trial Court Improvement Fund; (2) $25.000 million from the State Court Facilities Construction Fund; and (3) $73.400 million from the Immediate and Critical Needs Account, as a means of mitigating the impact of reductions to courts in FY 2010–2011.

  - $30.000 million: The AOC is recommending an additional allocation of $30.000 million from the TCTF to offset the impact to courts of the $30.000 million reduction added as part of the final action by the Legislature on the budget. This funding has been identified as available based upon a review of state fund revenues, expenditures, and carryover fund balance.

- Estimated new/increased fee revenue ($66.290 million), as follows:
  - $5 first paper fee increase ($6.500 million): Trailer bill language (SB X4 13) associated with the 2009 Budget Act provides a permanent $5 first paper civil filing fee increase related to court reporters. The revenue from this fee increase is estimated to be $6.500 million in FY 2010–2011.

  - $10 postjudgment/miscellaneous fee increase ($8.400 million): Trailer bill language (SB X4 13) associated with the 2009 Budget Act increases by $10 fees authorized by Government Code section 70626. The revenue from this fee increase is estimated to be $8.400 million in FY 2010–2011. Starting in FY 2011–2012 revenue from this fee increase must be used for the Sargent Shriver Civil Counsel Act.

- $300 summary judgment motion fee increase ($4.378 million): Trailer bill language (SB 857; Stats. 2010, ch. 720) associated with the 2010 Budget Act provides a $300 increase to the current $200 fee authorized by Government Code section 70617(d). The revenue from this fee increase is estimated to be $4.378 million in FY 2010–2011 (8.5-month implementation) and $6.180 million in FY 2011–2012 (12-month implementation). The fee increase will sunset on June 30, 2013.

- New $20 telephonic appearance fee ($4.271 million): Trailer bill language (SB 857) associated with the 2010 Budget Act provides a new $20 fee for telephonic appearances. The revenue from this new fee is estimated to be $4.271 million in FY 2010–2011 (8.5-month implementation) and $6.030 million in FY 2011–2012 (12-month implementation). The fee will sunset on June 30, 2013.

- $20 and $40 first paper fee increase ($28.404 million): Trailer bill language (SB 857) associated with the 2010 Budget Act provides a $20 increase on fees for limited civil cases under $10,000 and a $40 increase on fees for unlimited and limited civil cases above $10,000 authorized by various Government Code sections. The revenue from these new fees is estimated to be $28.404 million in FY 2010–2011 (8.5-month implementation) and $40.100 million in FY 2011–2012 (12-month implementation). The fee increase will sunset on June 30, 2013.

- $250 pro hac vice fee increase ($531,250): Trailer bill language (SB 857) associated with the 2010 Budget Act provides a $250 increase to the current $250 fee authorized by Government Code section 70617(e). The revenue from this fee increase is estimated to be $531,250 in FY 2010–2011 (8.5-month implementation) and $750,000 in FY 2011–2012 (12-month implementation). The fee increase will sunset on June 30, 2013.

- New $3 parking citation penalty ($7.806 million): Trailer bill language (SB 857) associated with the 2010 Budget Act provides for a $3 parking citation penalty. The revenue from this new penalty is estimated to be $7.806 million in FY 2010–2011 (6.5-month implementation) and $11.020 million in FY 2011–2012 (12-month implementation). This penalty will sunset on June 30, 2013.

- As a result of the delayed enactment of this year's budget and associated budget trailer legislation, fee revenue increases discussed above will not be implemented for a full year in FY 2010–2011. Consistent with a staff recommendation which was approved by the council in FY 2009–2010 under similar circumstances, the AOC is recommending an allocation of $6.000 million from Trial Court Trust Fund reserves to partially offset the impact of the delayed implementation of the fee changes.

- Allocation of a portion of the overall reduction to security and other programs ($20.762 million), as follows:
  - $3.713 million is the pro rata share of the reduction related to other TCTF and General Fund programs, including jury, grants, and prisoner hearings.

- $17.049 million is the pro rata share of the overall reduction related to the security base allocation.

Net Reductions to court allocations for FY 2010–2011. With funding offsets and allocations that total $247.052 million, the total net reduction to court allocations in FY 2010–2011 is $68.757 million. In FY 2009–2010, the council approved an allocation of ongoing reductions to courts of $190.127 million. Because the ongoing reduction exceeds the current computed reduction, there is approximately $121.370 million in restored funding available for allocation for court operations. However, if, as recommended by the AOC and the TCBWG (see discussion of Recommendation 11 in this report), a portion of the restored funding is used to fund the estimated current-year shortfall of $7.075 million in the court-appointed dependency counsel program, the total net reduction to court allocations in FY 2010–2011 would be $75.832 million and the funding available to offset reductions would be $114.295 million. While most of this funding to restore cuts to courts is one-time in nature, $17.981 million of this proposed allocation would be an ongoing restoration of court cuts.

(Note: the recommended offset amounts are slightly lower – $4.000 million funding restoration, $1.000 million security – than was discussed with the Trial Court Budget Working Group. These slightly amended recommendations result from additional careful staff review of TCTF revenue projections.)

The following table displays the various reductions and offsets identified in the discussion above.

I. Base Reductions	FY 2010–2011	
Baseline Reduction—FY 2009–10	-92,240,000	
Baseline Reduction—FY 2009–10	-168,569,000	
New Ongoing Reduction	-25,000,000	
Additional Reduction	-30,000,000	
	-315,809,000	-315,809,000
II. Funding Transfers		
Special Funds (TCTF, TCIF, or Modernization)	31,600,000	
Construction Funds	98,400,000	
TCTF—Revenue and Expenditure Adjustments	30,000,000	
	160,000,000	160,000,000
III. New Revenues		
2009 Budget Act		
$5 First Paper Filing Fee	6,500,000	
$10 Post Judgment/Misc Fees (thru 2010–11)	8,400,000	
2010 Budget Act		
Summary Judgment	4,377,500	
Telephonic Hearing	4,271,250	
First Paper Filing	28,404,167	
Pro Hac Vice	531,250	
Parking Citation	7,805,833	
Funding from TCTF for Partial-Year Receipts	*6,000,000*	
Estimated New/Increased Fee Revenue	66,290,000	66,290,000
Total Reduction		**-89,519,000**
IV. Reduction Adjustments		
Add: Share of Reduction - Other Programs		3,713,000
Add: Security Share of Reduction		17,049,000
Reduction to Court Allocations		-68,757,000
Less: One-time Offset – Court-Appointed Counsel		-7,075,000
Net Operations Reduction		**-75,832,000**
Less: 2009–2010 Court Ongoing Reduction Allocation		-190,126,592
Court Funding Restoration		**114,294,592**
Ongoing Allocation		17,980,975
One-Time Allocation		96,313,617

Allocating the reduction offset of $114.295 million. Two options for allocating the ongoing reduction offset were considered. They are described below.

Option 1 – 100 Percent Pro Rata: Allocate the reduction offset of $114.295 million based on each court's pro rata share of statewide nonsecurity funding.

Option 2 – Pro Rata and Reduction of RAS Underfunding to 25 Percent: Allocate the funding restoration of $114.295 million using the methodology described in Option 1. In addition, make funding adjustments based on funding needs indicated in the FY 2010–2011 Resource Allocation Study (RAS) model. Specifically, courts that are more than 25 percent underfunded according to the RAS model would receive an ongoing funding adjustment to reduce their underfunding to 25 percent. This would marginally reduce the allocations to courts that were identified as less than 25 percent underfunded.

Under this approach, $110.637 million of the reduction offset of $114.295 million (or 96.80 percent) would be allocated according to each court's pro rata share of statewide nonsecurity funding and $3.658 million (or 3.2 percent) of the reduction offset would be allocated according to the funding needs indicated in the FY 2010–2011 RAS model. (See columns E, F, G, and H of Attachment 3.)

As background, at its July 28, 2009 meeting, the Judicial Council approved an allocation of a $190.127 million reduction to all courts based on each court's relative share of the FY 2009–2010 nonsecurity base allocation. Staff were directed to return to the council with options for lessening the impact of the reduction allocated to the most underresourced courts, with consideration given to the level of these courts' fund balances. Subsequently, at its August 14, 2009, business meeting, the council approved a one-time offset for the Superior Court of San Joaquin County, which was identified as a court that was one of the lowest resourced courts using the RAS model, that also had limited reserves. At the same time, the council approved distribution of a corresponding one-time reduction increase to each of the other 57 courts, based on their proportionate share of the original $190.127 million ongoing reduction.

For this year's allocation of restored funding, the AOC and the TCBWG recommend that the Judicial Council approve Option 1, which would apply a straight pro rata adjustment to all courts, as an equitable means of allocating the restored funding. This approach would not, however, reduce the impact to courts that are relatively less resourced, and those that have minimal fund balances. One reason for not recommending Option 2 this fiscal year is that there is concern that the RAS methodology and data need to be updated. An updated process for allocating funding for underresourced courts might be developed based on the efforts of the AOC's Office of Court Research, which is currently working on a project to evaluate workload for case processing staff in the trial courts. In addition, because the funding available for allocation represents a restoration of cuts incurred by the courts, rather than new funding, and most of that is available on a one-time basis only, it appears appropriate to restore funding to courts on a pro rata basis, consistent with how the initial reductions were implemented.

Alternatives considered and policy implications

As discussed above, an alternative was considered that would provide a special allocation to the most underresourced courts. Because (1) this funding represents a restoration of court operations funding previously reduced from court allocations, and (2) underresourced courts will still receive a significant offset under the pro rata option preferred by the majority of TCBWG members, this alternative allocation approach was not recommended.

Recommendations 7–10: Security

7. Allocate $1.375 million from the TCTF to offset the overall security funding shortfall.

8. Adjust individual court allocations for security in the amount of $14.798 million to reflect anticipated cost adjustments for FY 2010–2011 (see column G of Attachment 2).

9. Allocate a security funding shortfall of $12.726 million to all courts based upon each court's share of the total statewide security funding (see column H of Attachment 2), replacing the $10.257 million reduction from FY 2009–2010.

10. Distribute funding to courts once the court has provided documentation to AOC staff verifying that security compensation and retirement cost increases are confirmed and ratified. As in previous years, some of the projected court security cost increases are based on projected cost changes for security employee compensation and retirement that have not been confirmed or ratified, and thus may be subject to adjustment.

Rationale for recommendations 7–10

For FY 2009–2010 security base funding totaled $507.580 million. This base includes $30.599 million in one-time security funding to address ongoing security costs and $7.200 million in unfunded security allocations for FY 2009–2010. In addition, based on the annual cost survey of courts and sheriffs submitted during spring 2010, $14.798 million is needed to fund FY 2010–2011 cost increases associated with salary and benefit changes for existing court security programs. The following funding offsets are available to mitigate this overall cost impact:

1. One-time funding totaling $2.641 million. This amount includes prior year savings from ongoing funding of (a) new entrance screening stations included in the Budget Act of 2006 (Stats. 2006, ch. 47) that are not yet implemented, and (b) screening stations for new facilities that are not yet implemented.

2. Ongoing new funding from increases to the security fee authorized by Penal Code section 1465.8. The increase from $20 to $30 implemented in FY 2009–2010 is estimated to generate $36.528 million, and the increase from $30 to $40 implemented as part of the 2010–2011 State Budget, is estimated to generate $16.375 million in FY 2010–2011. (The latter increase will sunset June 30, 2011.)

Beyond these amounts, no new funding was provided by the Legislature to address cost increases in the court security program.

In order to determine the statewide allocation of security funding, a Court Security Survey was sent to the trial courts in May 2010. In response to the survey, the courts and sheriffs provided cost information for:

- salaries;
- pay differentials;
- overtime;
- benefits;
- retirement; and
- services and supplies and other costs.

This information was used to estimate the change in costs that will be incurred by courts for the *existing security service level*.

Analysis of Requests. The AOC reviewed the surveys, and consistent with the funding approach that was recommended by the Working Group on Court Security and approved by the Judicial Council in 2007, the following principles were applied in developing the statewide security funding recommendations:

1. Security staffing changes in excess of the prior year levels cannot be accommodated within the limited funding. This does not apply to courts that received separate security allocations such as for entrance screening. As in prior years, funding standards for security equipment, supplies and services, professional services, and vehicle costs were utilized. Any costs above standards were not included in recommended funding.
2. All items that are not specifically authorized in Government Code section 69927 were not recommended. This includes all costs listed in Section 14.01 of the *Trial Court Financial Policies and Procedures Manual*, page 25, Section II: Non-Allowable Cost Narratives. Examples include costs for flashlights, parking, tasers, and basic training for new personnel assigned to the court.
3. Only allowable equipment, services, supplies, and benefits that have been previously paid by the courts were included in the AOC funding recommendations, consistent with existing law.

Based on this methodology, statewide cost increases for security for existing service levels are projected to be a net of $14.798 million in FY 2010–2011. Some of that projected net increase is based on contracts that have yet to be ratified or on estimated cost-of-living increases that will be finalized at a later date. This amount may be, consequently, subject to minor adjustment.

Funding Shortfall. As identified in the table below, projected court security costs in the state exceed security funding by $14.101 million. To partially address this shortfall, the AOC

recommends a one-time allocation of TCTF monies representing a portion of the loss of revenues related to the late implementation of the new security fee increase (increasing the fee from $30 to $40). The proposed adjustment from TCTF would be $1.375 million. If this recommended adjustment is included in the calculation, the net shortfall would be $12.726 million. From a technical standpoint, approval of the recommendations would result in reversal of the $10.257 million shortfall in security funding allocated to courts in FY 2009–2010 and, instead, allocation of the $12.726 million shortfall for this year. In total, though, there would be an actual overall increase in the security budget of approximately $13 million over the budget for FY 2009–2010.

Trial Court Security Costs FY 2010–2011

Security Base Allocations FY 2009–2010	$	507,579,640
Add: FY 2009–2010 Allocations	$	7,199,609
FY 2010–2011 Projected Funding Changes	$	14,798,196
Projected Security Costs FY 2010–2011	$	529,577,445

Trial Court Security Funding FY 2010–2011

Security Base Allocations FY 2009–2010	$	507,579,640
Less: Unfunded Ongoing Costs		-30,599,056
Share of Statewide Unallocated Reduction		-17,049,000
Add: Estimated Security Fee Increase Revenue ($20 to $30)		36,528,435
Estimated Security Fee Increase Revenue ($30 to $40)		16,375,000
Undistributed Perimeter Screening Funds		2,641,311
FY 2010–2011 Security Funding	$	515,476,330

Projected Security Funding Shortfall FY 2010–2011	$	-14,101,115
Add: *Funding from TCTF for Partial-Year Receipts*		*1,375,000*
Proposed Net Shortfall	$	-12,726,115

Alternatives considered and policy implications

An alternative to this recommendation considered by the AOC and the TCBWG was to not allocate additional TCTF funding to partially offset the late implementation of the FY 2010–2011 security fee increase. This alternative was not recommended, because the council approved a similar recommendation to offset lost funding last year, and TCTF monies are available to address some of the funding need.

Recommendation 11: Court-Appointed Dependency Counsel

11. Approve two one-time transfers to the Court-Appointed Dependency Counsel Program as follows: (a) $7.075 million in FY 2010–2011; and (b) $3.538 million FY 2011–2012.

Rationale for recommendation 11

Fiscal year 2009–2010 court-appointed counsel program expenditures totaled $110.808 million, an amount that exceeds the baseline budget for this program of $103.725 million by approximately $7.075 million. Program costs have exceeded baseline funding available for the program for the last six fiscal years; full funding has been achieved via one-time transfers from other court operations areas in each of the last five years. For FY 2010–2011, staff projects program expenditures will remain at the levels experienced in FY 2009–2010. However, this amount would exceed baseline resources by $7.075 million.

Since FY 2004–2005, annual court-appointed counsel expenditures have exceeded the funding available for this program. The shortfall had been growing; expenditures exceeded available funding in FY 2004–2005 by 3 percent, while FY 2009–2010 costs exceeded available funding by approximately 7 percent. Current year expenditure levels, though, are expected to be equal to prior year costs. Also, current year expenditures are projected to be below the historical program high of $114.049 million in FY 2008–2009. The table below displays the base funding available, actual (or projected) expenditures in the program, and the amount of one-time funding approved by the Judicial Council to address program shortfalls. Because of the timing of the request for additional funding, the amount approved by the council may have exceeded the eventual final program costs in a year.

Fiscal Year	Court-Appointed Counsel Base Funding	Actual or Projected Expenditures*	One-Time Funding Approved by JC
2004–2005	$85,392,000	$88,237,426	$0
2005–2006	90,890,951	96,538,577	13,655,000
2006–2007	94,912,559	105,302,646	10,390,087
2007–2008	99,885,977	112,377,705	12,483,000
2008–2009	103,725,445	114,049,221	9,270,000
2009–2010	103,725,445	110,808,348	9,280,000
2010–2011	103,725,445	110,808,348	pending
2011–2012	$103,725,445	$110,808,348	pending

* Source: AOC's Center for Families, Children & the Courts.

Attaining adequate funding for dependency counsel has been a council priority for several years. In addition, the need for resources in this area has been a focus of litigation. As a result, when new funding was made available in prior years, resources for this program were increased in amounts that were in excess of increases in other trial court programs. In the past two years, the

program did not sustain reductions consistent with reductions in other programs, and expenditure shortfalls were addressed with available one-time funding.

Because it takes some time to negotiate funding changes to dependency counsel provider contracts, this recommendation would include one-time allocations for this year and next fiscal year as well.

Alternatives considered and policy implications

Four alternatives to the recommendation were considered: (1) a transfer of $7.075 million in FY 2010–2011 and a permanent transfer of $3.538 million in FY 2011–2012; (2) a one-time transfer of funding to the program in the amount of $7.075 million in FY 2010–2011 with no consideration of additional funding in FY 2011–2012; (3) no additional funding to the program in FY 2010–2011 maintaining it at its base of $103.725 million; and (4) no additional funding in FY 2010–2011 and applying a proportionate share of the FY 2010–2011 ongoing reduction to the program.

These alternatives were not supported for various reasons. Based on the allocation methodology used in the program that was approved by the Executive and Planning Committee on behalf of the Judicial Council in June 2008, alternatives 3 and 4 would result in reductions of up to 12 and 15 percent, respectively, for some court systems. Such cuts would be difficult for courts to absorb, given that the first quarter of the current year has already closed, and these cuts were not noticed or accounted for in court contracting decisions. For this reason, neither of these alternatives are recommended. Alternative 2 would not provide any relief for FY 2011–2012. Based on the fact that program costs for each of the past six years have exceeded the current program base budget, and that it takes significant time to renegotiate contracts with providers to bring costs down, this option is also not recommended. The Trial Court Budget Working Group recommended that additional funding not be permanently allocated to the program (as in alternative 1) until a working group has a chance to look into the program in more depth and determine what the cost drivers were and establish best practices to handle these types of cases. In an effort to accomplish this goal, the working group established a subcommittee to review the costs and operation of this program in order to identify potential savings and efficiencies. The subcommittee will report back to the working group at a future meeting.

Program Update (information only)

Employee retirement, retiree health, and health benefits

From FY 2005–2006 through 2008–2009, the Trial Court Trust Fund received new monies based on either the adjustment to the State Appropriations Limit (SAL) or the Consumer Price Index (CPI). These funds were allocated to trial courts to address court operational costs. As part of the Legislature's response to the state's current difficult fiscal challenges, these adjustments were suspended beginning in FY 2009–2010. Subsequent to this change, AOC staff met with Department of Finance (DOF) staff to identify a process to fund, on an ongoing basis, nondiscretionary court baseline cost changes in areas such as employee retirement, retiree health,

and health benefits. These are costs that are generally funded for executive branch agencies. As a result of these discussions, an ongoing process was proposed to fund these nondiscretionary cost areas. In addition, the 2010–2011 Governor's budget proposed baseline increases for these costs based upon preliminary court estimates. The Legislature reviewed these proposed changes and appropriated funding for the costs in the 2010 Budget Act.

The AOC surveyed the courts in the spring of 2009 to obtain information on FY 2009–2010 and preliminary 2010–2011 cost changes for employee retirement, retiree health, and health benefits. (For health benefits, courts were resurveyed in September 2009 to obtain updated information, as many courts did not have confirmed information at the time of the original survey because the effective date of change for many of the benefits was January 1, 2010.) Based upon these surveys, the following funding need in these areas was submitted to the DOF in late fall 2009, and subsequently included in the Governor's proposed budget for FY 2010–2011:

Retirement	$ 6,663,905
Retiree Health	327,465
Health Benefits	10,870,854
Total:	$17,862,223

The Budget Act of 2010 (Stats. 2010, ch. 712) includes $17.862 million to address these needs. However, because these amounts were preliminary and largely reflected FY 2009–2010 cost changes, the AOC surveyed courts in late spring of 2010 to obtain updated cost estimates for FY 2010–2011. The AOC has compiled and reviewed this information. Based upon this review, the level of projected and confirmed cost increases for FY 2010–2011 and 2011–2012 for retirement, retiree health, and health benefits is identified in the table below.

Trial Court Unfunded Cost	Cost Change From FY 2009–2010 to FY 2010–2011	Full-Year Cost Change From FY 2009–2010 to FY 2011–2012
Retirement Contributions	$28,407,811	$30,738,131
Retiree Health	2,277,397	2,277,397
Health Benefits	13,780,235	21,517,479
Total Cost	**44,465,444**	**54,533,008**
Funding Provided in Budget Act of 2010	-17,862,223	-17,862,223
Net Funding Need	**$26,603,221**	**$36,670,785**

The FY 2010–2011 cost for health benefits includes cost changes in the areas of medical, dental, vision, and cafeteria plan/flexible benefits/health insurance subsidies.

The 2010 Budget Act provides that subsequent to its passage, the funding appropriated in this item for support for operation of the trial courts will be allocated upon order of the Director of Finance to the trial courts, and that the funding may be increased by order of the Director of Finance to address unanticipated cost increases that exceed the amount appropriated for the item. Consistent with this language, the AOC will coordinate the provision of detailed cost information to the DOF in order to justify the level of funding needed. As indicated above, the Legislature has included increased funding of approximately $17.862 million in the State Budget, but the actual funding need is $26.603 million in FY 2010–2011, and $36.671 million to fund the full-year cost of these changes. The AOC will work with the DOF in an attempt to secure the full level of funding needed in the current fiscal year and in succeeding fiscal years.

III. Other Related Information and Recommendations

Recommendation 12: Trial Court Fund Balance Policy

12. Approve revisions to the Trial Court Fund Balance Policy (see Attachment 4), which incorporate revised fund balance classifications consistent with the Governmental Accounting Standards Board's Statement No. 54, for implementation commencing in FY 2010–2011.

Rationale for recommendation 12

As required by the Legislature, the Judicial Council must report annually on trial court reserves. The Judicial Council adopted a fund balance policy in October 2006, later revised in April 2009, which reflected the standards and guidelines established by the Financial Accounting Standards Board (FASB) and the Governmental Accounting Standards Board (GASB) at that time. The current fund balance policy establishes uniform standards for the reporting of fund balances by trial courts and maintains accountability over the public resources that support trial court operations.

GASB, the independent organization that establishes and improves standards of accounting and financial reporting for U.S. state and local governments, recently released *Statement No. 54: Fund Balance Reporting and Governmental Fund Type Balance* (GASB 54) with the intent of enhancing "the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. It also establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds." (GASB 54, Summary Page.)

Accounting and reporting standards for reporting government funds have been significantly clarified by GASB 54. Implementation of these revised standards is intended to result in greater consistency and transparency regarding how governmental funds are *reserved*.

The prior fund balance reporting requirements had two categories; this has now been expanded to five classifications, with the most significant difference being a new classification titled "Nonspendable Fund Balance". This last classification, though, will have only a marginal impact on the reserve statements of the trial courts. It includes such items as inventories, prepaid expenditures, long-term loans and note receivables, and principal amounts related to certain funds, which have only minimal or negligible relevance to trial court finances. The remaining categories of "Restricted," "Committed," "Assigned," and "Unassigned" more closely resemble the prior policy and instructions from GASB. The two categories of most interest will be the Committed and Assigned categories. Committed Fund Balance relates to *policy issues,* which are established by the Judicial Council. Determination of how and where funds can be spent falls under the classification of Assigned Fund Balance; this will be typically under the purview of the presiding judge of each trial court, consistent with rule 10.603 of the California Rules of Court, which specifies the authority and responsibilities of the presiding judge.

Implementation of the GASB 54 requirements should have no impact upon trial court operations. The data pertinent to GASB 54 is merely being reconfigured, and will only impact a portion of year-end financial reporting. Modest configuration changes will be made in the Phoenix Financial System. The changes in how reserve information is displayed will provide a clearer depiction of these resources.

Revising the current fund balance policy to be in conformance with GASB 54 will ensure that trial courts are in compliance with the requirements specific to governmental agencies that must report on use of resources of funds within the public sector.

There was discussion at the TCBWG meeting regarding adding an additional classification for bridge financing to address the need for reserved funds to transition to ongoing funding changes. The AOC received input from court staff on appropriate language to address this concern. The revised (and attached) policy incorporates this language, as item 8, on the next to last page of Attachment 4.

Alternatives considered and policy implications

The only alternative discussed was to not incorporate any additional changes to the policy. This would leave the branch policy in non-compliance with GASB 54.

Recommendation 13: Delegation of Authority

13. Delegate authority to the Administrative Director of the Courts to make minor or technical one-time and ongoing allocations and adjustments to allocations of funds to courts, as necessary, to address unanticipated needs and contingencies and to reflect updated cost estimates, to the extent that sufficient funding is available. Adjustments made under this provision will be reported to the council after the end of the fiscal year.

Rationale for recommendation 13

This is a technical delegation to the Administrative Director of the Courts, needed to manage the budget during the fiscal year. For some of the allocations included in this report, the actual amounts may change as updated information is received from the courts, such as changes in agreements for retirement or security salary and benefit costs. Rather than being required to return to the council during the fiscal year to seek authority to amend these allocations, having the authority delegated to the Administrative Director to do so in advance will facilitate allocating funding when final amounts are known.

In addition, each year some courts incur unanticipated costs that may create an immediate cash flow problem. Such unanticipated issues make it advisable that the Administrative Director have the ability to direct unallocated statewide special fund monies in an efficient and flexible manner.

Alternatives considered and policy implications

This is standard technical authority needed to manage the annual budget. No specific alternatives were considered, other than coming back to the council any time technical adjustments need to be made or if unanticipated costs arise. This approach, though, would cause delays for getting necessary funding to courts.

Comments From Interested Parties

No comments were solicited from other agencies or the public.

Attachments

1. Proposed Allocation of Voluntary Salary Waiver Program Savings Based on Participation Thresholds
2. Proposed Allocation of FY 2010–2011 Trial Court Funding and Reduction Adjustments
3. Allocation of FY 2010–2011 Restored Funding
4. Revised Fund Balance Policy

Attachment 1

Proposed Allocation of FY 2009-2010 Voluntary Salary Waiver Program Savings Based on Participation Thresholds

Court	Preliminary Allocation: Pro-rata Share of Estimated Savings	Actual VSWP Proceeds	VSWP Proceeds as a % of Initial Allocation	Threshold 1 (above 100%) 155% of Assumed Savings	Threshold 2 (between 50% and 100%) 75% of Assumed Savings	Threshold 3 (between 10% and 50%) 30% of Assumed Savings	Threshold 4 (below 10%) 5% of Assumed Savings	Threshold 5 (0%) 0% of Assumed Savings	Allocation of Statewide VSWP Savings	Net Adjustment
	A	B	C (B/A)	D	E	F	G	H	I (sum of D to H)	J (I - A)
Alameda	243,626	329,302	135.17%	378,623	-	-	-	-	378,623	134,997
Alpine	1,753	13,905	793.40%	2,724	-	-	-	-	2,724	971
Amador	7,128	2,106	29.55%	-	-	2,138	-	-	2,138	(4,989)
Butte	25,738	73,790	286.69%	40,000	-	-	-	-	40,000	14,262
Calaveras	6,479	-	0.00%	-	-	-	-	-	-	(6,479)
Colusa	4,690	11,124	237.19%	7,288	-	-	-	-	7,288	2,599
Contra Costa	114,286	70,211	61.43%	-	85,715	-	-	-	85,715	(28,572)
Del Norte	7,702	7,021	91.16%	-	5,777	-	-	-	5,777	(1,926)
El Dorado	20,738	-	0.00%	-	-	-	-	-	-	(20,738)
Fresno	113,753	229,906	202.11%	176,786	-	-	-	-	176,786	63,032
Glenn	6,089	13,905	228.37%	9,462	-	-	-	-	9,462	3,374
Humboldt	17,644	-	0.00%	-	-	-	-	-	-	(17,644)
Imperial	22,704	43,503	191.61%	35,285	-	-	-	-	35,285	12,581
Inyo	5,760	13,905	241.40%	8,952	-	-	-	-	8,952	3,192
Kern	92,929	53,691	57.78%	-	69,697	-	-	-	69,697	(23,232)
Kings	17,413	34,651	199.00%	27,062	-	-	-	-	27,062	9,649
Lake	10,684	22,165	207.47%	16,603	-	-	-	-	16,603	5,920
Lassen	6,731	-	0.00%	-	-	-	-	-	-	(6,731)
Los Angeles	1,383,376	70,211	5.08%	-	-	-	69,169	-	69,169	(1,314,207)
Madera	20,185	35,160	174.19%	31,370	-	-	-	-	31,370	11,185
Marin	45,790	54,517	119.06%	71,163	-	-	-	-	71,163	25,373
Mariposa	3,249	-	0.00%	-	-	-	-	-	-	(3,249)
Mendocino	14,149	46,256	326.93%	21,989	-	-	-	-	21,989	7,840
Merced	30,380	41,438	136.40%	47,214	-	-	-	-	47,214	16,834
Modoc	3,244	-	0.00%	-	-	-	-	-	-	(3,244)
Mono	4,013	-	0.00%	-	-	-	-	-	-	(4,013)
Monterey	45,500	86,318	189.71%	70,713	-	-	-	-	70,713	25,212
Napa	21,477	26,983	125.64%	33,377	-	-	-	-	33,377	11,900
Nevada	13,948	-	0.00%	-	-	-	-	-	-	(13,948)
Orange	416,618	211,320	50.72%	-	312,464	-	-	-	312,464	(104,155)
Placer	39,583	13,794	34.85%	-	-	11,875	-	-	11,875	(27,708)
Plumas	4,841	6,278	129.69%	7,523	-	-	-	-	7,523	2,682
Riverside	210,112	152,206	72.44%	-	157,584	-	-	-	157,584	(52,528)
Sacramento	208,530	214,872	103.04%	324,080	-	-	-	-	324,080	115,550
San Benito	8,629	13,905	161.13%	13,411	-	-	-	-	13,411	4,782
San Bernardino	221,959	380,762	171.55%	344,950	-	-	-	-	344,950	122,991
San Diego	427,985	778,099	181.81%	665,138	-	-	-	-	665,138	237,153
San Francisco	177,058	262,533	148.27%	275,169	-	-	-	-	275,169	98,111
San Joaquin	80,189	25,469	31.76%	-	-	24,057	-	-	24,057	(56,133)
San Luis Obispo	38,178	42,815	112.15%	59,333	-	-	-	-	59,333	21,155
San Mateo	101,527	79,847	78.65%	-	76,146	-	-	-	76,146	(25,382)
Santa Barbara	60,385	95,955	158.90%	93,846	-	-	-	-	93,846	33,460
Santa Clara	252,863	360,002	142.37%	392,979	-	-	-	-	392,979	140,116
Santa Cruz	34,990	68,270	195.11%	54,379	-	-	-	-	54,379	19,389
Shasta	26,549	64,842	244.23%	41,261	-	-	-	-	41,261	14,711
Sierra	1,851	1,390	75.11%	-	1,388	-	-	-	1,388	(463)
Siskiyou	11,217	22,853	203.73%	17,433	-	-	-	-	17,433	6,216
Solano	56,141	90,365	160.96%	87,249	-	-	-	-	87,249	31,108
Sonoma	63,766	88,796	139.25%	99,100	-	-	-	-	99,100	35,334
Stanislaus	49,213	39,235	79.73%	-	36,910	-	-	-	36,910	(12,303)
Sutter	11,469	27,671	241.27%	17,825	-	-	-	-	17,825	6,355
Tehama	9,809	23,527	239.84%	15,245	-	-	-	-	15,245	5,436
Trinity	3,025	7,021	232.10%	4,701	-	-	-	-	4,701	1,676
Tulare	45,094	115,228	255.53%	70,082	-	-	-	-	70,082	24,987
Tuolumne	9,142	-	0.00%	-	-	-	-	-	-	(9,142)
Ventura	83,541	84,666	101.35%	129,832	-	-	-	-	129,832	46,291
Yolo	23,745	33,798	142.34%	36,902	-	-	-	-	36,902	13,157
Yuba	10,831	13,216	122.02%	16,833	-	-	-	-	16,833	6,002
Total	**5,000,000**	**4,598,800**	**91.98%**	**3,745,881**	**745,680**	**38,070**	**69,169**	**-**	**4,598,800**	**(401,200)**

Attachment 2

Proposed Allocation of FY 2010-2011 Trial Court Funding and Reduction Adjustments

	Information Only				Proposed Allocations				
Court System	FY 2010-2011 Beginning Base (excluding Security)	FY 2009-2010 Security Base	FY 2009-2010 Security Funding Adjustment	FY 2010-2011 Total Beginning Base Budget (A + B + C)	Allocation of $96.31 Million One-Time Reduction Offset in FY 2010-2011	Allocation of $17.98 Million Ongoing Reduction Offset in FY 2010-2011	FY 2010-2011 Security Funding Adjustment	FY 2010-2011 Security Funding Shortfall	Adjusted FY 2010-2011 Base Budget (D thru H)
	A	B	C	D	E	F	G	H	I
Alameda	81,217,852	24,883,637	100,113	106,201,602	4,669,636	871,783	(62,404)	(598,877)	111,081,740
Alpine	586,209	12,034	-	598,243	33,704	6,292	-	(289)	637,950
Amador	2,384,914	562,331	-	2,947,245	137,121	25,599	-	(13,513)	3,096,452
Butte	8,650,330	2,347,148	22,690	11,020,168	497,352	92,852	(22,680)	(56,404)	11,531,288
Calaveras	2,166,734	277,312	16,511	2,460,557	124,577	23,257	56,438	(8,417)	2,656,412
Colusa	1,563,587	132,002	-	1,695,589	89,899	16,783	13,800	(3,504)	1,812,568
Contra Costa	38,324,545	13,527,878	(182,536)	51,669,887	2,203,477	411,371	146,121	(324,209)	54,106,647
Del Norte	2,575,544	292,514	21,193	2,889,250	148,081	27,646	12,065	(7,829)	3,069,213
El Dorado	6,909,324	2,181,504	(42,446)	9,048,381	397,253	74,164	270,320	(57,899)	9,732,220
Fresno	37,456,456	13,729,011	496,921	51,682,388	2,153,566	402,053	458,274	(352,872)	54,343,410
Glenn	2,030,449	329,013	37,623	2,397,086	116,741	21,795	-	(8,811)	2,526,811
Humboldt	5,886,112	1,203,256	26,883	7,116,250	338,423	63,181	52,242	(30,816)	7,539,280
Imperial	7,390,783	1,583,744	2,324	8,976,851	424,934	79,332	-	(38,114)	9,443,003
Inyo	1,948,338	359,609	2,925	2,310,872	112,020	20,913	-	(8,712)	2,435,094
Kern	31,372,431	9,061,620	166,711	40,600,762	1,803,764	336,748	548,366	(234,941)	43,054,700
Kings	5,801,266	1,402,171	(35,178)	7,168,259	333,545	62,270	(6,252)	(32,700)	7,525,123
Lake	3,507,312	661,008	16,987	4,185,307	201,654	37,647	17,891	(16,723)	4,425,776
Lassen	2,265,776	446,935	6,739	2,719,450	130,271	24,321	2,859	(10,971)	2,865,929
Los Angeles	469,235,949	163,853,532	(1,611,085)	631,478,397	26,978,810	5,036,726	(1,100,155)	(3,872,362)	658,521,417
Madera	6,531,568	1,328,292	63,002	7,922,862	375,534	70,109	70,184	(35,120)	8,403,568
Marin	15,263,578	2,815,070	102,133	18,180,782	877,582	163,838	90,380	(72,274)	19,240,307
Mariposa	1,084,734	189,802	3,539	1,278,075	62,367	11,643	4,977	(4,766)	1,352,297
Mendocino	4,631,293	1,615,040	37,907	6,284,240	266,277	49,712	(17,406)	(39,303)	6,543,520
Merced	10,009,874	2,515,309	152,475	12,677,658	575,520	107,445	151,404	(67,747)	13,444,279
Modoc	1,085,572	104,137	-	1,189,709	62,415	11,652	-	(2,502)	1,261,274
Mono	1,334,120	434,901	53,440	1,822,461	76,706	14,320	(16,596)	(11,336)	1,885,554
Monterey	15,154,436	4,650,177	110,559	19,915,172	871,307	162,666	(117,071)	(111,590)	20,720,483
Napa	7,149,050	1,805,325	68,055	9,022,431	411,036	76,737	31,938	(45,786)	9,496,356
Nevada	4,678,035	1,140,295	1,528	5,819,858	268,965	50,214	73,022	(29,194)	6,182,864
Orange	138,244,481	41,913,237	1,259,864	181,417,582	7,948,393	1,483,901	2,086,206	(1,087,613)	191,848,470
Placer	13,206,911	3,216,866	399,659	16,823,436	759,334	141,762	170,573	(91,007)	17,804,098
Plumas	1,618,633	326,225	20,374	1,965,232	93,064	17,374	33,620	(9,137)	2,100,154
Riverside	69,229,956	15,823,546	627,312	85,680,814	3,980,390	743,107	881,273	(416,503)	90,869,079
Sacramento	69,738,152	22,538,304	1,665,747	93,942,203	4,009,608	748,562	3,225,887	(659,161)	101,267,099
San Benito	2,881,842	356,207	8,702	3,246,751	165,692	30,933	17,477	(9,189)	3,451,664
San Bernardino	73,564,871	27,003,817	55,844	100,624,533	4,229,626	789,637	1,585,126	(688,354)	106,540,568
San Diego	142,889,038	33,094,093	(1,094,299)	174,888,831	8,215,433	1,533,755	1,225,064	(798,416)	185,064,666
San Francisco	59,663,108	10,645,041	667,978	70,976,127	3,430,342	640,417	(168,438)	(267,812)	74,610,636
San Joaquin	26,544,672	8,320,632	416,168	35,281,472	1,526,191	284,928	(63,038)	(208,437)	36,821,116
San Luis Obispo	12,824,697	3,776,855	226,048	16,827,600	737,358	137,659	81,301	(98,146)	17,685,772
San Mateo	33,918,738	9,037,426	148,953	43,105,118	1,950,164	364,080	1,423,327	(254,959)	46,587,730
Santa Barbara	20,317,633	6,077,235	256,024	26,650,892	1,168,166	218,087	381,497	(161,360)	28,257,283
Santa Clara	85,751,809	26,744,444	900,804	113,397,057	4,930,317	920,450	1,915,276	(710,360)	120,452,740
Santa Cruz	11,669,416	2,739,232	74,932	14,483,580	670,935	125,258	155,734	(71,369)	15,364,139
Shasta	8,817,292	2,317,068	102,503	11,236,864	506,952	94,644	6,266	(58,295)	11,786,431
Sierra	619,278	27,000	-	646,278	35,606	6,647	-	(649)	687,882
Siskiyou	3,760,456	664,032	(34,221)	4,390,268	216,208	40,364	(2,565)	(15,073)	4,629,202
Solano	18,349,057	5,357,531	250,320	23,956,908	1,054,983	196,957	430,362	(145,102)	25,494,107
Sonoma	21,153,376	6,791,670	666,959	28,612,006	1,216,217	227,058	54,345	(180,542)	29,929,084
Stanislaus	16,285,891	4,695,932	64,484	21,046,307	936,360	174,811	(193,303)	(109,751)	21,854,424
Sutter	3,833,010	783,152	13,676	4,629,838	220,380	41,143	(1,810)	(19,105)	4,870,447
Tehama	3,266,230	547,197	7,153	3,820,580	187,793	35,059	4,109	(13,420)	4,034,120
Trinity	1,087,797	391,788	32,821	1,512,406	62,543	11,676	32,820	(10,992)	1,608,452
Tulare	14,916,757	4,991,568	435,444	20,343,768	857,642	160,115	187,747	(134,927)	21,414,345
Tuolumne	3,053,844	942,006	16,497	4,012,347	175,581	32,780	55,800	(24,374)	4,252,133
Ventura	28,194,571	11,615,452	65,107	39,875,131	1,621,052	302,637	362,351	(289,400)	41,871,772
Yolo	7,938,650	2,774,951	283,091	10,996,692	456,434	85,213	233,847	(79,106)	11,693,080
Yuba	3,623,186	622,526	22,652	4,268,364	208,316	38,891	19,629	(15,976)	4,519,223
Total:	**1,675,159,529**	**507,579,640**	**7,199,608**	**2,189,938,778**	**96,313,617**	**17,980,975**	**14,798,196**	**(12,726,115)**	**2,306,305,451**

Attachment 3

Allocation of FY 2010-2011 Restored Funding

				Option 1			Option 2	
	FY 2010-2011 TCTF Beginning Base Allocation	FY 2009-2010 TCTF Base Security Allocation	FY 2010-2011 TCTF Beginning Base Non-Security Allocation	Pro-Rata Allocation of Net Reduction Offset Using Courts' Share of Non-Security Allocation	One-Time Reduction Offset	Ongoing Reduction Offset	RAS Ongoing Funding Adjustment	
Court	A	B	C (A - B)	D	E	F	G	H
Alameda	106,101,489	24,883,637	81,217,852	5,541,419	4,669,636	871,783	-	(180,772)
Alpine	598,243	12,034	586,209	39,996	33,704	6,292	-	(1,057)
Amador	2,947,245	562,331	2,384,914	162,721	137,121	25,599	-	(5,172)
Butte	10,997,478	2,347,148	8,650,330	590,204	497,352	92,852	-	(19,068)
Calaveras	2,444,046	277,312	2,166,734	147,834	124,577	23,257	-	(4,742)
Colusa	1,695,589	132,002	1,563,587	106,682	89,899	16,783	-	(3,242)
Contra Costa	51,852,423	13,527,878	38,324,545	2,614,848	2,203,477	411,371	-	(88,177)
Del Norte	2,868,057	292,514	2,575,544	175,727	148,081	27,646	-	(5,946)
El Dorado	9,090,828	2,181,504	6,909,324	471,417	397,253	74,164	-	(15,997)
Fresno	51,185,467	13,729,011	37,456,456	2,555,619	2,153,566	402,053	-	(91,322)
Glenn	2,359,463	329,013	2,030,449	138,536	116,741	21,795	198,229	-
Humboldt	7,089,368	1,203,256	5,886,112	401,604	338,423	63,181	-	(13,520)
Imperial	8,974,527	1,583,744	7,390,783	504,266	424,934	79,332	-	(17,272)
Inyo	2,307,947	359,609	1,948,338	132,933	112,020	20,913	16,073	-
Kern	40,434,051	9,061,620	31,372,431	2,140,512	1,803,764	336,748	-	(71,867)
Kings	7,203,437	1,402,171	5,801,266	395,815	333,545	62,270	-	(12,878)
Lake	4,168,320	661,008	3,507,312	239,301	201,654	37,647	-	(7,169)
Lassen	2,712,711	446,935	2,265,776	154,592	130,271	24,321	97,978	-
Los Angeles	633,089,481	163,853,532	469,235,949	32,015,537	26,978,810	5,036,726	-	(1,006,016)
Madera	7,859,860	1,328,292	6,531,568	445,643	375,534	70,109	-	(13,450)
Marin	18,078,649	2,815,070	15,263,578	1,041,420	877,582	163,838	-	(32,267)
Mariposa	1,274,536	189,802	1,084,734	74,010	62,367	11,643	-	(2,229)
Mendocino	6,246,334	1,615,040	4,631,293	315,989	266,277	49,712	-	(10,513)
Merced	12,525,183	2,515,309	10,009,874	682,964	575,520	107,445	-	(23,753)
Modoc	1,189,709	104,137	1,085,572	74,068	62,415	11,652	-	(2,188)
Mono	1,769,022	434,901	1,334,120	91,026	76,706	14,320	-	(3,020)
Monterey	19,804,613	4,650,177	15,154,436	1,033,973	871,307	162,666	-	(36,579)
Napa	8,954,376	1,805,325	7,149,050	487,773	411,036	76,737	-	(16,063)
Nevada	5,818,330	1,140,295	4,678,035	319,178	268,965	50,214	-	(10,518)
Orange	180,157,719	41,913,237	138,244,481	9,432,294	7,948,393	1,483,901	-	(322,893)
Placer	16,423,777	3,216,866	13,206,911	901,095	759,334	141,762	553,029	-
Plumas	1,944,858	326,225	1,618,633	110,438	93,064	17,374	-	(3,420)
Riverside	85,053,501	15,823,546	69,229,956	4,723,496	3,980,390	743,107	-	(168,370)
Sacramento	92,276,456	22,538,304	69,738,152	4,758,170	4,009,608	748,562	-	(158,799)
San Benito	3,238,048	356,207	2,881,842	196,625	165,692	30,933	-	(6,195)
San Bernardino	100,568,688	27,003,817	73,564,871	5,019,263	4,229,626	789,637	-	(168,106)
San Diego	175,983,131	33,094,093	142,889,038	9,749,187	8,215,433	1,533,755	-	(334,161)
San Francisco	70,308,149	10,645,041	59,663,108	4,070,759	3,430,342	640,417	-	(133,998)
San Joaquin	34,865,304	8,320,632	26,544,672	1,811,119	1,526,191	284,928	2,508,891	-
San Luis Obispo	16,601,552	3,776,855	12,824,697	875,017	737,358	137,659	-	(29,094)
San Mateo	42,956,165	9,037,426	33,918,738	2,314,244	1,950,164	364,080	-	(73,665)
Santa Barbara	26,394,868	6,077,235	20,317,633	1,386,253	1,168,166	218,087	-	(47,135)
Santa Clara	112,496,253	26,744,444	85,751,809	5,850,767	4,930,317	920,450	-	(197,528)
Santa Cruz	14,408,648	2,739,232	11,669,416	796,193	670,935	125,258	-	(26,339)
Shasta	11,134,360	2,317,068	8,817,292	601,596	506,952	94,644	-	(19,075)
Sierra	646,278	27,000	619,278	42,253	35,606	6,647	-	(1,056)
Siskiyou	4,424,489	664,032	3,760,456	256,572	216,208	40,364	-	(8,114)
Solano	23,706,589	5,357,531	18,349,057	1,251,939	1,054,983	196,957	-	(44,500)
Sonoma	27,945,047	6,791,670	21,153,376	1,443,275	1,216,217	227,058	-	(49,355)
Stanislaus	20,981,823	4,695,932	16,285,891	1,111,171	936,360	174,811	-	(37,669)
Sutter	4,616,163	783,152	3,833,010	261,523	220,380	41,143	158,947	-
Tehama	3,813,426	547,197	3,266,230	222,852	187,793	35,059	124,550	-
Trinity	1,479,585	391,788	1,087,797	74,219	62,543	11,676	-	(2,258)
Tulare	19,908,324	4,991,568	14,916,757	1,017,757	857,642	160,115	-	(35,061)
Tuolumne	3,995,849	942,006	3,053,844	208,361	175,581	32,780	-	(6,378)
Ventura	39,810,024	11,615,452	28,194,571	1,923,690	1,621,052	302,637	-	(63,266)
Yolo	10,713,601	2,774,951	7,938,650	541,647	456,434	85,213	-	(18,162)
Yuba	4,245,712	622,526	3,623,186	247,207	208,316	38,891	-	(8,302)
Total	**2,182,739,169**	**507,579,640**	**1,675,159,529**	**114,294,592**	**96,313,617**	**17,980,975**	**3,657,696**	**(3,657,696)**

FUND BALANCE POLICY

BACKGROUND

In the Supplemental Report of the 2006 Budget Act, the Legislature specified that the Judicial Council report on court reserves and provide its policy governing trial court reserves. On October 20, 2006 and revised on April 23, 2009, the Judicial Council approved a fund balance policy for trial courts. 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 operations.

In addition, 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, this policy provides courts with specific directions for identifying fund balance resources necessary to address statutory and contractual obligations on an accurate and consistent basis as well as maintaining a minimum level of operating and emergency funds. In addition, 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.

GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, is effective for financial statements for periods beginning after June 15, 2010, and will impact year-end closing statements for the fiscal year 2010–2011.

PURPOSE

Governmental agencies/entities report the difference between their assets and obligations as fund balance~~, which is divided into restricted and unrestricted categories. The function of the restricted fund balance is to isolate the portion of fund balance that represents resources required to address statutory and contractual obligations~~. Under GASB Statement 54, fund balances for governmental funds must be reported in classifications that comprise a hierarchy. The statement distinguishes between nonspendable and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Under GASB 54, the number of classifications has been expanded from 2 to 5.

The purpose of this policy is to establish uniform standards, consistent with GASB 54, 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 publicly funded entities, and in accordance with 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 in accordance with established standards, utilizing approved classifications. Additionally, a fund balance can never be negative.

DRAFT

Fund Balance ~~Categories~~ Classifications

~~When allocating fund balance to the categories and subcategories, allocations are to follow the following prioritization:~~

~~1. Statutory fund balance.~~
~~2. Contractual commitments to be paid in the next fiscal year.~~
~~3. The minimum calculated operating and emergency fund balance.~~
~~4. Other Judicial Council mandates to be paid in the next fiscal year.~~
~~5. Contractual commitments to be paid in subsequent fiscal years.~~
~~6. Other Judicial Council mandates to be paid in subsequent fiscal years.~~
~~7. Other designated subcategories and/or the undesignated subcategory.~~

~~If there is insufficient fund balance to cover any or all of the first four priorities, the shortfall should be explained in detail in attached footnotes. Also, there are additional reporting requirements when the amount allocated to the operating and emergency fund balance is below the minimum required.~~

~~**Restricted Fund Balance**. This fund balance category is not available for purposes other than or contractual purposes.~~

~~**Statutory** – A restricted fund balance that consists of unspent, receipted revenues whose use is statutorily restricted.~~

~~**Contractual** – A restricted fund balance set aside for executed contractual commitments beyond the current fiscal year (e.g., multi-year contracts).~~

~~**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. For each specific plan, courts must select a specific designated sub-category that is listed and provide a detailed description of the planned use of the fund balance. Specific plans that fall under the same designated sub-category must be listed separately.~~

~~**Undesignated** – The portion of fund balance that is neither restricted nor designated.~~

~~Designated Fund Balances~~

~~For designated fund balances that are based on estimates, particularly the operating and emergency (above the minimum required), leave obligations, and retirement fund balance designated subcategories, explanations of the methodology used to compute or determine the designated amount must be provided. Designations or planned uses include but are not limited to:~~

~~**1.** Operating and Emergency~~

DRAFT

~~Each court shall maintain a minimum operating and emergency fund balance at all times as determined by the following calculation based upon that fiscal year's total unrestricted general fund expenditures (excluding special revenue, debt service, permanent, proprietary, and fiduciary funds), less any material one-time expenditures (e.g., large one-time contracts).~~

~~Annual General Fund 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 the minimum operating and emergency fund balance level as 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 amounts paid by the AOC on behalf of the courts.~~

~~**4. Statewide Administrative Infrastructure Initiatives** Statewide assessment in support of technology initiatives (e.g., California Case Management System and Phoenix) will be identified in this designation.~~

~~**5. Local Infrastructure (Technology and non-technology needs)** Examples include interim case management systems and non-security equipment.~~

~~**6. One-time employee compensation (Leave obligation, retirement, etc.)** Amounts included in this category are exclusive of employee compensation amounts already included in the court's operating budget and not in a designated fund balance category.~~

~~a. One-time leave payments at separation from employment. If amounts are not already accounted for in a court's operating budget, estimated one-time payouts for vacation or annual leave to employees planning to separate from employment within the next fiscal year should be in this designated fund balance sub-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 at the average amount calculated.~~

~~In a footnote, the court should note the amount of its 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 his or her current salary rate minus the designated fund balance established.~~

DRAFT

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

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

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

~~The current year's unfunded retiree health care obligation contains: (i) the current year Annual Required Contribution (ARC) based on a 30-year amortization of retiree health costs as of last fiscal year-end **and** (ii) the prior year retiree health care obligation **less** (iii) the retiree health care employer contributions and any transfers made to an irrevocable trust set up for this purpose. The current year's unfunded retiree health care obligation is to be added to the prior year's obligation.~~

~~Note: The ARC amounts are located in each court's actuarial report, which is entitled "Postretirement Benefit Valuation Report".~~

~~In a footnote, the court should note the amount of the cumulative unfunded retiree health care obligation 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 next 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 sub-categories should be listed here with a description in sufficient detail to determine its purpose and requirements.~~

Beginning with the most binding constraints, fund balance amounts must be reported in the following classifications:

- Nonspendable Fund Balance
- Restricted Fund Balance

DRAFT

- Committed Fund Balance
- Assigned Fund Balance
- Unassigned Fund Balance (General Fund only)

When allocating fund balance to the classifications and categories, allocations must follow the following prioritization:

1. Nonspendable Fund Balance
2. Restricted Fund Balance
3. Contractual commitments to be paid in the next fiscal year
4. The minimum calculated operating and emergency fund balance
5. Other Judicial Council mandates to be paid in the next fiscal year
6. Contractual commitments to be paid in subsequent fiscal years
7. Assigned Fund Balance designations
8. Unassigned Fund Balance

If there is insufficient fund balance to cover any or all of the first five priorities, the shortfall should be explained in detail in attached footnotes. Also, there are additional reporting requirements when the amount allocated to the operating and emergency category is below the minimum required.

Nonspendable Fund Balance

Nonspendable Fund Balance includes amounts that cannot be spent because they are either (a) not in spendable form (not expected to be converted to cash) or (b) legally or contractually required to be maintained intact. Examples include:

- Inventories
- Prepaid amounts Long-Term Loans and Notes Receivable
- Principal of a permanent (e.g., endowment) fund

This represents the 'newest' classification in comparison to the descriptions used before the creation of GASB 54. To some extent, the remaining 4 classifications are somewhat mirrored in the prior definitions.

Restricted Fund Balance

Restricted Fund Balance includes amounts constrained for a specific purpose by external parties, constitutional provision or enabling legislation.

- Externally imposed
  Imposed externally by grantors, creditors, contributors, or laws or regulations of other governments (i.e., monies received by a grantor that can only be used for that purpose defined by the grant).
- Imposed by Law (Statutory)
  A restricted fund balance that consists of unspent, receipted revenues whose use is

DRAFT

statutorily restricted (e.g., children's waiting room and dispute resolution program funding).

Committed Fund Balance

Committed Fund Balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Judicial Council. These committed amounts cannot be used for any other purpose unless the Judicial Council removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Committed Fund Balance must also include contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements. While the requirement to include contractual commitments is a policy decision of the Judicial Council, the type, number and execution of contracts is within the express authority of presiding judges or their designee.

The Judicial Council has authorized a stabilization arrangement (Operating and Emergency fund category) to be set aside for use in emergency situations or when revenue shortages or budgetary imbalances might exist. The amount is subject to controls that dictate the circumstances under which the court would spend any of the minimum operating and emergency fund balance.

Each court must maintain a minimum operating and emergency fund balance at all times during a fiscal year as determined by the following calculation based upon the prior fiscal year's ending total unrestricted general fund expenditures (excluding special revenue, debt service, permanent, proprietary, and fiduciary funds), less any material one-time expenditures (e.g., large one-time contracts).

Annual General Fund 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 maintain the minimum operating and emergency fund balance level as identified above, the court must immediately notify the Administrative Director of the Courts, or designee, in writing and provide a plan with a specific timeframe to correct the situation.

Assigned Fund Balance

This is a fund balance that is constrained by the Presiding Judge, or designee, with the intent that it be used for specific purposes or designations that are neither unspendable, restricted nor committed.

Constraints imposed on the use of assigned amounts are more easily removed or modified than those imposed on amounts that are classified as committed. Assigned amounts are

DRAFT

based on estimates and explanations of the methodology used to compute or determine the designated amount must be provided.

Assigned fund balances include:

- All remaining amounts that are reported in governmental funds, other than general fund, that are not classified as nonspendable and are neither restricted nor committed and
- Amounts in the general fund that are intended to be used for a specific purpose in accordance with the provision identified by the Presiding Judge, or designee.

Courts will identify assigned fund balances according to the following categories:

1. **One-time facility – Tenant improvements** Examples include carpet and fixture replacements.

2. **One-time facility – Other Examples** include amounts paid by the AOC on behalf of the courts.

3. **Statewide Administrative Infrastructure Initiatives.** Statewide assessment in support of technology initiatives (e.g., California Case Management System and Phoenix) will be identified in this designation.

4. **Local Infrastructure (Technology and non-technology needs)** Examples include interim case management systems and non-security equipment.

5. **One-time employee compensation (Leave obligation, retirement, etc.)** Amounts included in this category are exclusive of employee compensation amounts already included in the court's operating budget and not in a designated fund balance category.

   a. One-time leave payments at separation from employment. If amounts are not already accounted for in a court's operating budget, estimated one-time payouts for vacation or annual leave to employees planning to separate from employment within the next fiscal year should be in this designated fund balance sub-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 at the average amount calculated.

      In a footnote, the court should note the amount of its 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 his or her current salary rate minus the designated fund balance established.

DRAFT

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

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

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

The current year's unfunded retiree health care obligation contains: (i) the current year Annual Required Contribution (ARC) based on a 30-year amortization of retiree health costs as of last fiscal year-end **and** (ii) the prior year retiree health care obligation **less** (iii) the retiree health care employer contributions and any transfers made to an irrevocable trust set up for this purpose. The current year's unfunded retiree health care obligation is to be added to the prior year's obligation.

Note: The ARC amounts are located in each court's actuarial report, which is entitled "Postretirement Benefit Valuation Report".

In a footnote, the court should note the amount of the cumulative unfunded retiree health care obligation 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 next fiscal year.

e. Use of reserve funds for liquidation of outstanding leave balances for employees in a layoff situation, consistent with the requirements of GASB 45; other examples would include reserving funds for the implementation of "enhanced retirement" or "golden handshake" programs in the interest of eliminating salaries at the "high end" or "top step", and thereby generating salary savings or rehires at the low end of a pay scale for position(s), but realizing one-time costs in the interest of longer term savings for the court.

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

7. **Security.** Examples include security equipment~~,~~ and pending increases for security service contracts.

8. **Bridge Funding.** A court may choose to identify specific short or intermediate term funding amounts needed to address future needs that are otherwise not reportable, nor fit the criteria, in either restricted nor committed classifications, that it believes are

DRAFT

necessary to identify through specific designations. These designations must be listed with a description in sufficient detail to determine their purpose and requirements.

9. **Miscellaneous (required to provide detail).** Any other planned commitments that are not appropriately included in one of the above designated fund balance sub-categories should be listed here with a description in sufficient detail to determine its purpose and requirements.

Unassigned Fund Balance – for General Fund Use Only

Unassigned Fund Balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other fund balance and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The general fund is the only fund that shall report a positive unassigned fund balance amount.

DRAFT