

**Judicial Council of California**  
ADMINISTRATIVE OFFICE OF THE COURTS

FINANCE DIVISION

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January 16, 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, P.O. Box 942849  
Sacramento, California 94249

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

January 12, 2007

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

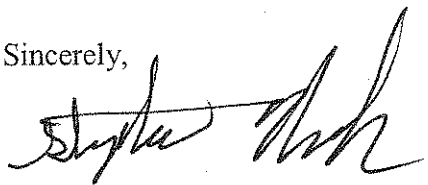
The Supplemental Report of the 2006 Budget Act (Item 0250-101-0932) specifies that the Judicial Council report all approved allocations to the trial courts in the current fiscal year, including funding received through augmentations received in accordance with Government Code Section 77202(a)(1)(b), to the chairs of the fiscal committees of the Senate and Assembly by September 30, 2006. The Supplement Report also directs the Judicial Council to include the policy governing trial court reserves.

In a letter to former chair Senator Chesbro and Assembly Member Laird dated September 22, 2006, the Judicial Council stated its intent to comply with the reporting requirements stated above. A final report, however, could not be submitted until the Judicial Council met to approve fiscal year 2006–07 trial court funding allocations. At the Judicial Council’s meeting in August, the council approved many—but not all—trial court funding allocations for the current year. Other allocations for fiscal year 2006–07 were subsequently approved by the council at the October and December business meetings. The council also took action to adopt a 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 allocation. Attachment 2 provides brief descriptions on each of the funding allocations included in the spreadsheet. Lastly, the policy on court reserves adopted by the council in October 2006 is included in 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  
Acting Director, Finance Division

SHN/BF

cc: Diane Cummins, Chief Fiscal Policy Advisor, Office of Senate President pro Tempore Perata  
Shelley Curran, Consultant, Office of Senate President pro Tempore Perata  
Keely Martin Bosler, Consultant, Senate Budget and Fiscal Review

Nora Lynn, Consultant, Senate Appropriations Committee  
David Lewis, Consultant, Senate Republican Fiscal Office  
Craig Cornett, Budget Director, Office of Assemble Speaker Nùñez  
Fredericka McGee, Counsel, Office of Assemble Speaker Nùñez  
Janus Norman, Consultant, Assembly Budget Committee  
Chuck Nicol, Consultant, Assembly Appropriations Committee  
Allan Cooper, Consultant, Assembly Republican Fiscal  
Edgar Cabral, Fiscal and Policy Analyst, Legislative Analyst's Office  
William C. Vickrey, Administrative Director of the Courts  
Ronald G. Overholt, AOC Chief Deputy Director of the Courts  
Kathleen Howard, Director, AOC Office of Governmental Affairs  
Marcia Caballin, Manager, Trial Court Budget Services, AOC Finance Division  
Eraina Ortega, Manager, AOC Office of Governmental Affairs



## **Description of Fiscal Year 2006–2007 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 only when underlying agreement upon which the change is based is ratified or confirmed.

**Self-Help Centers** – Funding to support self-help programs. All courts received a base of \$34,000. The remainder of the funding was allocated to the courts based on 2006 population figures from the Department of Finance (DOF).

**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.

**Pro Rata Growth Funding** – Per Supplemental Report Language, for fiscal year (FY) 2006–2007, the Workload Growth and Equity Funding percentage was applied to the trial court base budget (excluding security), and the amount separated into two pools for allocation. The Pro rata growth funding was allocated to all courts based on their portion of the total base budget.

**97 Screening Stations** – This is funding provided through the 2006 Budget Act (Stats. 2006, ch. 47) to be allocated to specific courts to address ongoing costs for staffing and one-time costs for equipment to implement 97 new entrance screening stations. The equipment costs, up to a maximum amount per station, will be funded on a reimbursement basis upon receipt and review of invoices.

**Offset to FY 2006–2007 Judicial Branch Workers Compensation Program Premium** – This represents an adjustment of the current year cost of the JBWCP program to all participating courts.

**IT Staffing** – Beginning in FY 2000–2001, one-time funding was provided to courts that had little or no information technology staff or support. This funding has continued to be provided on an annual basis to a number of small courts without IT staff. These courts are now receiving a permanent increase to their base budgets.

**Mandatory Security Costs** – Funding to address changes in the costs for security salaries, retirement, and other benefits. As with employee retirement, this funding will not be allocated until the underlying agreements upon which the changes are based have been ratified or confirmed.

**Staffing and Operating Costs for New Facilities (non-security)** – 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, 2006 to September 2007.

**RAS Funding** – This is the second half of the Workload Growth and Equity 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.

**One-Time Funding for Under-Resourced Courts Receiving New Judgeships** – One-time funding that was allocated to those courts that will receive new judgeships and that are relatively underfunded. It is to be used for one-time purposes or for costs that would support the implementation of new judgeships, such as early hiring of new staff for these judges, and training.

**Maximum One-Time Funding for Replacement of Magnetometers and X-Ray Machines** – This is 2006 Budget Act funding to be used in the establishment of a screening station equipment replacement schedule. Approved criteria was utilized and a schedule for FY 2006–2007 established. The amounts are maximums and will be reimbursed to the courts upon purchase of equipment.

**Security Funding for New and Transferring Facilities** – This is the security component of the Staffing and Operating Costs item described earlier. As with that item, one-time and/or ongoing funding was made available to trial courts, based on specific criteria, to address security costs for facilities that would open or transfer to state ownership between the period July 1, 2006 to September 2007. Security funding standards were applied. The amount of funding for the current fiscal year was based on the estimated opening date of the facility. One-time funding, up to the maximum indicated, will be allocated on a reimbursement basis as AOC staff are notified by the courts of purchase of approved reimbursable equipment.

**TCIF Distribution for 50/50 Excess Fines Split Revenue** – Senate Bill 940 (Chapter 275, Statutes of 2003) added statutory language that requires the Judicial Council each year to allocate part of the 50/50 Excess Fines Split Revenue that exceeds the amount deposited in FY 2002–2003 to the trial courts located in the counties from which the excess revenues were collected. Pursuant to Government Code section 77205(a) and Rule 10.105 of the California Rules of Court, specific amounts were approved to be allocated to the trial courts for FY 2005–2006 from the fee, fine, and forfeiture revenue deposited to the Trial Court Improvement Fund for FY 2005–2006 that exceeds the amount of FY 2002–2003 50/50 Excess Fines Split Revenue.

## FUND BALANCE (RESERVE) POLICY

### BACKGROUND

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

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

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

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

### PURPOSE

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

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

## **POLICY**

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

### **Fund Balance Categories**

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

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

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

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

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

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

### **Designated Fund Balance**

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

Designations or planned uses include but are not limited to:

#### **1. Operating and Emergency**

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



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

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

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

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

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

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

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

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

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

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

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

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

9. Other (required to provide detail)

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