



JUDICIAL COUNCIL OF CALIFORNIA

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REPORT TO THE JUDICIAL COUNCIL

For business meeting on: January 19–20, 2017

Title

Trial Court Budget: Minimum Operating and
Emergency Fund Balance Policy

Agenda Item Type

Action Required

Effective Date

January 19, 2017

Rules, Forms, Standards, or Statutes Affected

None

Date of Report

December 29, 2016

Recommended by

Trial Court Budget Advisory Committee
Hon. Jonathan B. Conklin, Chair

Contact

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Executive Summary

The Judicial Council's suspension of the minimum operating and emergency fund balance policy expired as of July 1, 2016. The minimum operating and emergency fund balance policy, established by the Judicial Council in October 2006 and revised in April 2009, requires trial courts to set aside a percentage of funds for use in emergency situations or when revenue shortages or budgetary imbalances may exist, based on a percentage of the court's prior year's ending total unrestricted general fund expenditures. This policy has been suspended by the Judicial Council since August 31, 2012, due to changes in statute. The Trial Court Budget Advisory Committee recommends that the Judicial Council approve an extension to the suspension of the minimum operating and emergency fund balance policy.

Recommendation

The Trial Court Budget Advisory Committee unanimously recommends that the Judicial Council extend the suspension of the minimum operating and emergency fund balance policy for two fiscal years until June 30, 2018—or earlier if Government Code section 77203 is repealed or amended—while in the interim the council continues to seek the repeal of Government Code section 77203.

Previous Council Action

At the Judicial Council's meeting on August 31, 2012, the Trial Court Budget Working Group presented a recommendation to rescind the minimum operating and emergency fund balance policy, which required courts to maintain a fund balance or reserve that was approximately 3 to 5 percent of their prior-year general fund expenditures (Attachment A). Instead, the council suspended the minimum operating and emergency fund balance policy through June 30, 2014 (Attachment B). The council's action was taken in the context of two statutory changes. First, Government Code section 68502.5 required, starting in 2012–2013, the establishment of the 2 percent reserve in the Trial Court Trust Fund (TCTF) that would be funded from courts' allocations. Each court contributes to the reserve, which by statute is equal to 2 percent of the total TCTF Program 45.10 (Support for Operation of the Trial Courts) appropriation. Any monies that are not allocated by the council through the supplemental funding process are distributed back to each court in the same proportion to their contribution to the reserve. Second, Government Code section 77203 imposed, effective June 30, 2014, a cap on fund balances that courts can carry forward from one fiscal year to the next not to exceed 1 percent of the court's operating budget from the prior fiscal year with exclusions to specified funds received (Attachment 1). In recognition of the efforts to either eliminate or increase the 1 percent cap, the council suspended, instead of eliminated, the minimum operating and emergency fund balance policy.

At the Judicial Council's meeting on October 28, 2014, the Trial Court Budget Advisory Committee (TCBAC) presented a recommendation and the council approved to extend the suspension of the minimum operating and emergency fund balance policy for two more fiscal years until June 30, 2016 (Attachment C). The council requested that the minimum operating and emergency fund balance policy be in addition to the 1 percent reserve cap, while in the interim seeking the repeal of Government Code section 77203.

Effective July 1, 2016, the 2 percent reserve requirement in the TCTF in which each court contributed from its base allocation for operations has been replaced with a new reserve policy for trial courts by providing \$10 million General Fund one-time as a reserve in the TCTF. If any funds from the reserve are used, they would be replenished annually out of base allocations to trial courts. The 1 percent cap on fund balances that courts can carry forward from one fiscal year to the next is still in place.

Rationale for Recommendation

At its November 10, 2016 meeting, the TCBAC discussed options and the recommendation brought forward by Judicial Council Budget Services staff to extend the suspension of the minimum operating and emergency fund balance policy consistent with prior Judicial Council approval.

The TCBAC chose to amend the recommendation to the Judicial Council to remove the request that the minimum operating and emergency fund balance policy be in addition to the 1 percent

reserve cap, since Government Code section 77203 does not allow for both reserves to be in place at the same time. In addition, the TCBAC decided to add language to the recommendation to lift the suspension before the proposed two fiscal years in the event Government Code section 77203 is repealed or amended prior to June 30, 2018, while maintaining that the repeal of Government Code section 77203 will be sought in the interim.

Comments, Alternatives Considered, and Policy Implications

This item was not circulated for comment. Options were considered by the Trial Court Budget Advisory Committee and are discussed in the Rationale for Recommendation section of the report.

Implementation Requirements, Costs, and Operational Impacts

Not applicable.

Relevant Strategic Plan Goals and Operational Plan Objectives

The recommended change to extend the suspension of the minimum operating and emergency fund balance policy, pending statutory changes within the timeframe of the extension, will address the strategic plan goals of Goal I, Access, Fairness, and Diversity; Goal II, Independence and Accountability; Goal III, Modernization of Management and Administration; Goal IV, Quality of Justice and Service to the Public; and Goal VI, Branchwide Infrastructure for Service Excellence.

Attachments and Links

1. Government Code section 77203, at page 4
2. Attachment A: Judicial Council Report, July 29, 2014, including Attachment A: *Fund Balance Policy* located at <http://www.courts.ca.gov/documents/jc-20140729-itemF.pdf>
3. Attachment B: Judicial Council Meeting Minutes, August 30–31, 2012, including Item N: *Trial Court Trust Fund Allocations: Statewide Programs* at <http://www.courts.ca.gov/documents/jc-20120831-minutes.pdf>
4. Attachment C: Judicial Council Meeting Minutes, October 27–28, 2014, including Item M: *Trial Court Budget: 2 Percent State-Level Reserve Process and Minimum Operating and Emergency Fund Balance Policy* at <http://www.courts.ca.gov/documents/jc-20141028-minutes.pdf>

Government Code section 77203 effective June 30, 2014

- (a) Prior to June 30, 2014, a trial court may carry over all unexpended funds from the courts operating budget from the prior fiscal year.
- (b) Commencing June 30, 2014, a trial court may carry over unexpended funds in an amount not to exceed 1 percent of the court's operating budget from the prior fiscal year. The calculation of the 1 percent authorized to be carried over from the previous fiscal year shall not include funds received by the court pursuant to the following:
 - (1) Section 470.5 of the Business and Professions Code.
 - (2) Section 116.230 of the Code of Civil Procedure, except for those funds transmitted to the Controller for deposit in the Trial Court Trust Fund pursuant to subdivision (h) of that section.
 - (3) Subdivision (f) of Section 13963, Sections 26731, 66006, 68090.8, 70640, 70678, and 76223, subdivision (b) of Section 77207.5, and subdivision (h) of Section 77209.
 - (4) The portion of filing fees collected for conversion to micrographics pursuant to former Section 26863, as that section read immediately before its repeal, and Section 27361.4.
 - (5) Sections 1027 and 1463.007, subdivision (a) of Section 1463.22, and Sections 4750 and 6005, of the Penal Code.
 - (6) Sections 11205.2 and 40508.6 of the Vehicle Code.