



JUDICIAL COUNCIL OF CALIFORNIA

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REPORT TO THE JUDICIAL COUNCIL

For business meeting on: May 24, 2018

Title

Trial Court Budget: Minimum Operating and
Emergency Fund Balance Policy

Agenda Item Type

Action Required

Effective Date

July 1, 2018

Rules, Forms, Standards, or Statutes Affected

None

Date of Report

May 11, 2018

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 expires as of June 30, 2018. 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. This policy has been suspended by the Judicial Council since August 31, 2012, due to changes in statute and to provide for the opportunity to seek repeal. 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emergency fund balance policy for two fiscal years until June 30, 2020—or earlier if Government Code section 77203 is repealed or amended—while in the interim the council continues to seek repeal or amendment of Government Code section 77203.

Relevant Previous Council Action

On August 31, 2012, the council suspended the minimum operating and emergency fund balance policy through June 30, 2014, which required courts to maintain a fund balance or reserve that was approximately 3 to 5 percent of their prior year general fund expenditures (Link A). The council's action was taken in the context of two statutory changes. First, Government Code section 68502.5 required, starting in 2012–13, the establishment of the 2 percent reserve in the Trial Court Trust Fund (TCTF). Each court contributed towards the reserve from its base allocation for operations. Second, Government Code section 77203 imposed, effective June 30, 2014, a 1 percent cap on fund balance that courts can carry forward from one fiscal year to the next (Attachment A). In recognition of the efforts to either eliminate or increase the 1 percent cap, the council suspended, instead of eliminated, the minimum operating and fund balance policy.

On October 28, 2014, the council extended the suspension on the minimum operating and emergency fund balance policy for two more fiscal years until June 30, 2016 (Link B). 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.

At its April 15, 2016 business meeting, the Judicial Council adopted a process, criteria, and application form for courts to request funds be retained in the TCTF as restricted fund balance for the benefit of those courts (Link C). The process is intended only for expenditures that cannot be funded by a court's annual budget or three-year encumbrance term, and that require multiyear savings to implement. These requests are reviewed by the Fiscal Planning Subcommittee of the Trial Court Budget Advisory Committee with recommendations made to the Judicial Council.

Effective July 1, 2016, the 2 percent reserve requirement in the TCTF which each court contributed from its base allocation for operations was replaced with a new reserve policy for trial courts by providing \$10 million General Fund one-time as a reserve in the TCTF. In response to requirements set out in Government Code section 68502.5(c)(2)(B), the Judicial Branch Budget Committee recommended, and the Judicial Council approved, the \$10 Million State-Level Reserve Process for requesting emergency funding on October 28, 2016 (Link D). Funds used from the reserve are replenished annually out of base allocations to all trial courts. The 1 percent fund balances that courts can carry forward from one fiscal year to the next are still in place.

On January 19, 2017, the council extended the suspension on the minimum operating and emergency fund balance policy again for two more fiscal years until June 30, 2018—or earlier if Government Code section 77203 is repealed or amended—while in the interim the council would continue to seek repeal of Government Code section 77203 (Link E).

Analysis/Rationale

At its April 5, 2018 meeting, the TCBAC reviewed a recommendation brought forward by Judicial Council Budget Services staff to extend the suspension of the minimum operating and emergency fund balance policy. While consistent with prior Judicial Council approval, this recommendation will allow repeal and amendment efforts of Government Code 77203 to continue with the new administration.

Policy implications

None.

Comments

This item was not circulated for comment. Public comment was not received for this item.

Alternatives considered

None.

Fiscal and Operational Impacts

None.

Attachments and Links

1. Attachment A: Government Code section 77203, at page 4
2. Link A: Judicial Council Meeting Minutes, August 30–31, 2012, including Item N: *Trial Court Trust Fund Allocations: Statewide Programs*, <http://www.courts.ca.gov/documents/jc-20120831-minutes.pdf>
3. Link B: 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*, <http://www.courts.ca.gov/documents/jc-20141028-minutes.pdf>
4. Link C: Judicial Council Meeting Minutes, April 15, 2016, including Item 16-055: *Trial Court Allocations: Trial Court Reserves Held in the Trial Court Trust Fund*, <https://jcc.legistar.com/View.ashx?M=A&ID=463457&GUID=194A3350-D97F-452B-ACF4-1EBE6C105CCA>
5. Link D: Judicial Council Meeting Minutes, October 28, 2016, including Item 16-195: *Trial Court Budget: \$10 Million State-Level Reserve Process*, <https://jcc.legistar.com/View.ashx?M=M&ID=463482&GUID=71780E2D-3758-4213-B3A5-7100073AB7CF>
6. Link E: Judicial Council Meeting Minutes, January 19, 2017, including Item 17-002: *Trial Court Budget: Minimum Operating and Emergency Fund Balance Policy*, <https://jcc.legistar.com/View.ashx?M=M&ID=523723&GUID=AAC05972-68BD-4B48-B46C-240B851E3CEF>

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.