



JUDICIAL COUNCIL OF CALIFORNIA

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

www.courts.ca.gov

REPORT TO THE JUDICIAL COUNCIL

For business meeting on: August 22, 2014

Title	Agenda Item Type
Trial Courts: Benefits Funding Process	Information Only
Submitted by	Date of Report
Judicial Council staff Finance	August 13, 2014
Zlatko Theodorovic, Chief Financial Officer and Director	Contact Patrick Ballard, 818 558-3115 patrick.ballard@jud.ca.gov

Executive Summary

This is an information report on the process to be used for funding trial court benefits cost changes for employee health, retiree health, and retirement. The methodology for requesting and funding of these benefits costs has changed over the years. This report provides information on the background of this subject and the process to be used beginning in the current year for the 2014–2015 trial court benefits cost changes.

Previous Council Action

At its June 27, 2014, business meeting, the Judicial Council approved the preparation and submission of a 2015–2016 proposal to the state Department of Finance (DOF) for trial court benefits cost increases. This proposal would include cost changes that occur during 2014–2015 for employee health, retiree health, and retirement costs for the courts. Even more recently, at its July 29, 2014, meeting, the council approved the distribution of new funding to the trial courts for benefits increases that occurred in 2013–2014.

Methodology and Process

Trial court benefits funding process prior to 2014–2015

From 2005–2006 through 2007–2008, a General Fund base budget adjustment to the Trial Court Trust Fund (TCTF) was made based on the year-to-year percentage change in the State

Appropriations Limit (SAL). In 2008–2009, the funding was provided based on the Consumer Price Index (CPI) growth rate. Funding for statewide increases in retirement costs was taken off the top of the SAL/CPI funding, and the portion of the funding related to inflation and workforce was allocated to the courts to address court operations needs, including increases in benefits costs. Beginning in 2005–2006 and continuing to the present, the Judicial Council adopted the Control Section 3.60 formula to adjust trial courts’ base funding for retirement cost adjustments. The process used for all three benefit types computes funding adjustments that result from year-to-year changes in contribution rates, not changes in year-to-year total costs.

In 2009–2010, because of the state’s worsening fiscal condition, automatic increases in funding by the state were suspended. Courts were required to absorb increases in benefits costs that year. During 2009–2010, Judicial Council staff and the DOF held several meetings to develop a procedure for requesting changes in benefits funding for the courts. The resulting process involved obtaining from the courts cost change information in all three areas, which was then analyzed by Judicial Council staff. A package of documents (rather than a formal budget change proposal (BCP)) containing a statewide summary and court-specific cost change data for each benefit category was submitted to the DOF in September. Backup documentation for the rates was provided, along with any additional information requested by DOF staff. Some of the health benefits amounts provided were estimates because in some courts the new premiums go into effect based on a calendar, rather than a fiscal year. Updated costs were provided to the DOF in November in time for consideration in the Governor’s Budget, which was due by January 10.

As a result of this process, a new appropriation item – 0250-102-0932 – was added to the State budget, and Provision 2 of the item provided that the augmentation could be increased by order of the state Director of Finance to address unanticipated cost increases that exceeded the amount appropriated in the item. Ongoing augmentations for benefits increases were approved for cost increases occurring in 2010–2011 and 2011–2012.

In 2012–2013, an augmentation for benefits increases was provided on a one-time basis with the understanding that the full-year ongoing costs of these changes in 2013–2014 would be funded, on a one-time basis, out of available TCTF expenditure authority. The DOF indicated that the reason for this change was because the DOF was working on a new method for funding these cost changes. The Budget Act of 2012 included a reduction of \$20.525 million that was attributed to the retirement of a pension obligation bond (POB) at the end of 2010–2011. The DOF assumed that because the POB went away, the court no longer had a need for this funding. However, the \$20.525 million was base funding that had not been provided to the court through this benefits change process.

Because of the delay in developing a new process and the fact that Provision 2 was deleted from the Budget Act of 2013, a 2014–2015 BCP had to be submitted in September 2013 requesting funding to address unfunded ongoing costs from 2012–2013, estimated costs for 2013–2014, and the full-year estimated ongoing costs of these 2013–2014 cost changes in 2014–2015. The 2014–2015 BCP separated the funding request into an “interpreter” component and an “all other

employees” component so that any funding augmentation approved for cost increases related to interpreters could be identified to be used to address only interpreter benefits cost changes.

Ultimately, a trial court benefits augmentation of \$42.8 million was approved for 2014–2015. This amount was reduced by \$22 million based on the DOF’s calculation of what the courts would save if they did not subsidize the employees by paying a portion of the employees’ retirement contribution. Judicial Council staff disagreed with this calculation and provided their own calculation of potential savings to the DOF before the May Revision to the Governor’s Budget, but the adjusted calculation was not taken into consideration in the augmentation. Judicial Council staff have continued to talk with the DOF and have developed the process described in the next section of this report for obtaining future augmentations for trial court benefits cost increases.

Trial court benefits funding process beginning in 2014–2015

The funding for trial court benefits cost increases for employee health, retiree health, and retirement will be provided in arrears. For example, the ongoing funding for benefits increases that occur in 2014–2015 will be provided in 2015–2016. This means that the cost incurred by courts for these increases in 2014–2015 will need to be funded from a court’s allocation of the \$86 million in trial court funding provided through the Budget Act of 2014 until the ongoing full-year funding is provided in 2015–2016.

The 2015 Governor’s Budget proposal in January will identify a funding estimate based on confirmed and unconfirmed rates for trial court benefits increases. The 2015 May Revision to the Governor’s Budget proposal will identify the final amount of funding for trial court benefits cost increases for the budget year 2015–2016. If the final benefits costs for some courts are still unknown at the time of the May Revision, and later there are changes when costs are finalized, the adjustments will be incorporated during the following year’s benefits cost change process submission to the DOF. Below is a process for obtaining future augmentations for trial court benefits cost increases:

Governor’s Budget

- Estimated benefits costs submitted to the DOF in the third week of September
- Confirmed and unconfirmed estimated benefits costs are obtained from trial courts in August by Judicial Council staff

May Revision to the Governor’s Budget

- Final confirmed benefits costs (to the extent possible) submitted to the DOF in mid-February
- Final benefits costs obtained from the trial courts through January by Judicial Council staff

Retiring pension obligation bonds

Discussions are occurring between the DOF and Judicial Council staff regarding how retiring POBs will be handled. The current discussion is that the DOF will no longer reduce the statewide benefits funding by the amount of a court's POB base costs for a retired bond. When a county-issued POB retires, resulting in a court's no longer having to contribute towards the obligation, the DOF will now reduce the benefits funding only by the amount of ongoing funding received by the court since 2010–2011, when the benefits cost change process started. The DOF will not consider any adjustment to their prior decision made in 2011–2012 to reduce benefits funding by \$20.525 million due to the retirement of a POB for the Superior Court of Los Angeles County, even though the court was never funded for any POB base costs from the State General Fund. This resulted in a \$7.2 million one-time reduction to the Superior Court of Los Angeles County and spread the remaining \$13.325 million reduction of the total \$20.525 million on a pro-rata basis to all 58 courts.

Employee retirement subsidy adjustments

Retirement cost adjustments will be considered by the DOF for courts that negotiated a change in the employer subsidies of employee retirement contributions during 2013–2014. As mentioned under Methodology and Process above, the DOF reduced the statewide benefits augmentation in the Budget Act of 2014 to account for what it calculated as the savings courts could have realized if they did not subsidize the employee retirement contribution. Some courts indicated that they had made changes during 2013–2014, reducing or eliminating the amount of the subsidy they provided to their employees. This consideration is an opportunity to make adjustments to this funding reduction.

Attachments

This report contains no attachments.