



Funding for Trial Courts In the Current Year

The 1996-97 *Budget Act* includes \$1.6 billion for support of superior and municipal courts (referred to as the state's "trial courts") in 1996-97 and assumes enactment of the Governor's proposal to consolidate and restructure the Trial Court Funding Program. The changes necessary to implement the Governor's proposal were included in AB 2553 (Isenberg), which failed passage in the Legislature.

As a result of the failure of AB 2553, the Legislature will be under pressure—especially from trial courts and counties—to enact legislation early in the new legislative session to make technical adjustments to the budget act appropriation for the Trial Court Funding Program. We discuss the current situation in this issue of *California Update*.

Proposal for Restructuring Trial Court Funding

Assembly Bill 2553 would have consolidated the costs of operations of the trial courts at the state level, thereby redefining the finan-

cial responsibility of the state and the counties in funding the operations of the trial courts. Specifically, the county contribution for trial court funding would have been capped and the state would be responsible for funding all future cost increases for trial courts.

Assembly Bill 2553 also provided that fine and forfeiture collections, currently submitted by local governments to the state's General Fund to offset the state's costs of the program, would instead be remitted to the Trial Court Trust Fund for the same purpose. These revenues, estimated to be about \$292 million in 1996-97, were appropriated from the trust fund in the budget act.

In addition, AB 2553 would have increased certain court filing fees. It is estimated that the increased fees would have generated about \$90 million in new revenues for support of the program. These additional revenues were also appropriated in the budget act.

What Are the Consequences Of AB 2553's Failure?

The failure of AB 2553 has resulted in less state money being available for support of the trial courts in the current year.

No Spending Authority for Fine and Forfeiture Revenues. Given the failure of AB 2553, fine and forfeiture revenues have continued to flow into the state's General Fund. However, the budget act appropriated these revenues from the trust fund. Thus, there is currently no expenditure authority for this money from the General Fund. As a consequence, the appropriation for support of the trial courts is short by \$292 million.

This situation can be corrected by enacting legislation that appropriates \$292 million from the General Fund to the Trial Court Funding Program and reducing the budget act appropriation from the trust fund by the same amount. Such an appropriation measure would provide the program with the level of resources initially anticipated by the Legislature when it enacted the *1996-97 Budget Act*.

Loss of Additional Court Fee Revenues. The failure to enact AB 2553 means that the additional \$90 million in new fee revenues will not materialize. Even if another measure is enacted to establish the new fees, the amount of revenue generated by the fees in 1996-97 will likely be substantially less because of the delayed implementation. As a consequence, the trial courts will have to reduce their budgets by up to \$90 million, or the counties will have to make up the difference.

What Will Happen if the Fine Moneys Are Not Appropriated?

The failure to appropriate the \$292 million in fine and forfeiture revenues essentially leaves a hole in the budgets of the trial courts. This shortfall represents about 20 percent of the total statewide budget for the Trial Court Funding Program.

A recent Judicial Council survey of the trial courts suggests that the decrease in state funding will have disparate effects on the courts depending on, among other things, a county's fiscal health and the historical dependence of individual courts on state funding. Many courts anticipate that their counties cannot advance money for court operations after January 1997. The Judicial Council advises that if no additional funding is obtained for the trial courts this year, many courts will have to make significant cuts in their operations. To the extent this occurs, public access to the trial courts may be reduced in many counties as court staff may be furloughed or laid off and hours of operation reduced.

Many courts are also likely to respond to the shortfall in funds by shifting existing resources to the highest priority services, such as criminal and juvenile case processing and the handling of emergency orders. Courts may be unable to provide, or at best provide with substantial delay, other services such as civil, small claims, and family court matters.

In order to assist the trial courts, the Judicial Council has changed the current-year distribution of state funds. First, the Judicial Council has already distributed virtually all state funds up front in anticipation that the

Legislature will appropriate the \$292 million from the General Fund when the new session begins. Second, in order to assist those counties that have historically been most dependent on state funding, the Judicial Council advanced \$1.8 million from the \$4.6 million reserved for automation projects in 1996-97. These funds were distributed to

the 19 counties for which state funds as a percentage of total funding is the highest. These funds advanced from the automation project account will be repaid from the Trial Court Trust Fund by August 31, 1997. The Judicial Council anticipates this advance will result in minor delays in court automation projects.

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Economic and Revenue Developments

California's economy continues to grow at a steady pace in the second half of 1996. Wage and salary employment increases have averaged over 30,000 jobs over the past three months, with every major industry sector except mining experiencing increases. The unemployment rate declined to 6.9 percent in October, the first time it has been below 7 percent since 1990.

General Fund revenues were up \$157 million in October, bringing cumulative receipts for the first four months of this fiscal year to \$575 million above the 1996-97 Budget Act estimate. Of the year-to-date gain, \$109 million is temporary accounting-related gain in trial court revenues, which we assume will be offset in the months ahead (see discussion above). After adjusting for this factor, the underlying increase in cash receipts is \$466 million.

About \$164 million of the \$466 million increase is due to unusually large estate tax payments. A large portion of these payments will be accrued back to 1995-96, thereby increasing the revenue totals for that year. The remaining increase—somewhat more than \$300 million—represents the underlying year-to-date gain in 1996-97 revenue totals.

The positive trends appear to be continuing into November. For example, based on partial month data, it appears that personal income tax withholding payments will exceed the estimate by a significant margin.

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Recent Reports

Juvenile Crime: Outlook for California (May 1995). This report summarizes what we know about juvenile crime in California and discusses related policy implications.

Child Abuse and Neglect in California (January 1996). This report presents a variety of information on child abuse and neglect in California and the child welfare services program designed to address these problems.

Cal Facts—California's Economy and Budget in Perspective (January 1996). This booklet is a graphically oriented reference document answering frequently asked questions concerning the state.

Analysis of the 1996-97 Budget Bill (February 1996). This report presents the results of our detailed examination of the Governor's Budget for 1996-97.

The 1996-97 Budget: Perspectives & Issues (February 1996). This report provides perspectives on the state's fiscal condition and the budget proposed by the Governor for 1996-97 and identifies some of the major issues facing the Legislature.

State Spending Plan for 1996-97 (October 1996). This report provides an overview of the state's 1996-97 budget plan included in the *1996-97 Budget Act* and related legislation, and details the major features of the budget plan.

California's Fiscal Outlook (November 1996). This report provides our projections of the state's General Fund condition for 1996-97 through 1998-99, including our independent assessment of the economy, demographics, revenues, and expenditures.

Recent Policy Briefs and Issue Papers

Accommodating the State's Inmate Population Growth (December 28, 1995).

An Overview of the 1996-97 Governor's Budget (January 18, 1996).

State Information Technology: An Update (January 23, 1996).

Reversing the Property Tax Shifts (April 2, 1996).

Federal Welfare Reform (H.R. 3734): Fiscal Effect on California (August 21, 1996).

Property Taxes: Why Some Local Governments Get More Than Others (August 27, 1996).

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