



ISSUE BRIEF

State Takeover of Trial Court Operations

January 2003

Responsibility for funding and managing trial courts began shifting from the counties to the state in 1989 with enactment of a phased transfer of certain court functions¹, as well as a pilot project that transferred responsibility for all court administration functions in the 8th judicial district to the state. Responsibility for additional court functions were shifted to the state throughout the 1990's² and on July 1, 2000, the state assumed funding responsibility for the trial courts in the 5th, 7th, and 9th judicial districts.

The 2001 Omnibus Tax Act set forth the following schedule for completing the state takeover of trial court operations in the remaining six judicial districts:

- July 1, 2003 for District 2 and 4;
- July 1, 2004 for Districts 1 and 3; and
- July 1, 2005 for Districts 6 and 10.

Appendix I is a list of the counties in each judicial district.

The goal of the state assumption of trial courts is to provide a more consistent, equitable level of judicial services throughout the state in a more cost-efficient manner. County's budgets benefit from the takeovers by being relieved of expenditures for judicial services in exchange for the loss of general-purpose state aid payments that tend to grow more slowly than do court costs.

Use of Homestead and Agricultural Credit Aid (HACA) to Offset Court Costs

Homestead and Agricultural Credit Aid (HACA) is a general-purpose county aid with little direct relationship to a county's need or property wealth. The state has frequently used reductions in HACA to offset the increased state costs of taking over services funded by counties. Consistent with past practices, the trial court takeovers enacted in 2001 again called for reductions in county HACA payments equal to the amounts

¹ Judicial district budgets for district administration employees, law clerks, trial court information systems, court reporters, and other expenses

² Court interpreter costs, guardian ad litem costs, rule 20 and mental commitment examination costs, and in forma pauperis costs.

counties were spending on the court functions being taken over, less court imposed fine revenue that would be transferred from the counties to the state.

Takeover Plans Enacted in 2001

Given the extended schedule for completing the state takeover of trial courts in the remaining six districts, a variety of provisions were put in place to help ensure that court operations were adequately funded prior to being taken over, and to ensure that counties were treated fairly regardless of the takeover date. A baseline of 2001 expenditures is the crux of this takeover plan. Specifically:

- The state court administrator was to certify, by July 15, 2001, each affected county's 2001 adopted budget for the functions to be taken over by the state. However, frequent changes have been made to those budget baselines since July 2001 in an effort to ensure that costs are consistently measured across counties.
- Each county was required to increase its spending on courts for 2002 and 2003 by a minimum of 6 percent annually above the 2001 baseline, and by 8 percent each year thereafter, until the courts were taken over by the state.
- Counties were authorized to special levy for court costs up to the minimum required spending levels, less fine revenue³.
- The HACA reduction amount for each county is equal to 2003 court spending plus 3 percent for indirect costs not captured by the courts base budget, less the county's share of fine revenue in the year prior to the year of takeover.
- In 2004 and 2005 (FY 2006 and FY 2007) temporary aid payments will be made to those counties not yet taken over to offset the required 8 percent spending increases beyond 2003. In the year of takeover, those amounts will be rolled into the state court appropriation.

State General Fund Impact

While the state takeover of trial courts results in large spending increases for the state, the net impact on the state budget is significantly more moderate due to county fine revenue being shifted to the state and the reductions in county HACA payments. As shown in Table 1, the base for court appropriations will \$40.9 million higher in FY 2004 and a total of \$82.2 million higher in FY 2006 and thereafter, when the takeovers have been completed. The increases reflect the addition of state funding responsibility for trial courts in two additional judicial districts in each year from FY 2004 to FY 2006.

³ Statutes were amended by 2002 Omnibus Tax Act to clarify original intent that special levy limits be net of fine revenue.

Table 1
General Fund Baseline for Court Takeovers by Fiscal Year
Districts 1, 2, 3, 4, 6, and 10
(\$000's)

	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>
<u>New State Court Appropriations</u>				
Trial court operations	39,240	56,556	76,067	76,067
Equity pay adjustment	1,700	1,700	1,700	1,700
Roll-in of temporary aid		1,253	4,405	4,405
<i>Subtotal: Court Appropriations</i>	<i>40,940</i>	<i>59,509</i>	<i>82,172</i>	<i>82,172</i>
<u>County Aid Changes</u>				
Temporary HACA payments		2,768	3,152	
HACA reductions	(22,107)	(36,414)	(48,311)	(51,506)
<u>Revenues</u>				
Transfer of county fine revenue	9,680	17,559	26,176	27,747
Net General Fund Cost	9,153	8,304	10,836	2,919

Net general fund cost increases for FY 2004 to FY 2006 stem largely from a series of one-time costs each time a new pair of district courts is taken over. The one-time costs reflect a traditional cost-sharing compromise between the state and the affected counties to overcome timing differences between the county and state fiscal years. In general, because the state assumes responsibility for each pair of courts at the beginning of a state fiscal year (July 1), but the middle of the county fiscal year, county HACA is reduced by only 75 percent of the costs being taken (less fine revenue) over in the first year with the full offset in subsequent years. By FY 2007, after the one-time costs have been absorbed, the net ongoing change in baseline general fund costs will be \$2.9 million, not including any inflation in the cost of continuing current levels of court service from year to year.

Revisions to Court Takeover Cost Baselines

The baseline appropriation amounts presented in Table 1 are arrived at through a combination of appropriation amounts specified in statute and current estimates of HACA reductions, fine revenues, and temporary aid. However, the appropriation amounts specified in statute were based on the best estimates of court spending and fine revenue available during the 2001 session. Since better information is now available, baseline appropriations could be changed to reflect current estimates. These changes, as well as adjustments to the statutory language pertaining to temporary aid payments, would result in modest general fund savings relative to 2001 end-of-session estimates.

Table 2
Court Takeover Cost Comparisons:
2001 Session –v- Current Baseline –v- New Model Estimates
 (\$000's)

	2001 End-of-Session		Current Baseline		Revised Model Estimates	
	FY04-05	FY06-07	FY04-05	FY06-07	FY04-05	FY06-07
<u>Court Appropriations</u>						
Trial court operations	95,796	162,648	95,796	152,134	94,450	149,608
Equity pay adjustment	3,400	3,400	3,400	3,400	3,400	3,400
Roll-in of temp. aid	0	6,132	1,253	8,810	1,253	8,810
<i>Subtotal: Court Appropriations</i>	<i>99,196</i>	<i>172,180</i>	<i>100,449</i>	<i>164,344</i>	<i>99,103</i>	<i>161,818</i>
<u>County Aid Changes</u>						
Temp. HACA pymts.	3,000	3,442	2,768	3,152	2,142	1,576
HACA reductions	(56,978)	(100,950)	(58,521)	(99,817)	(60,768)	(104,167)
<u>Revenues</u>						
Fine revenue	30,334	58,401	27,239	53,923	24,255	44,967
Net General Fund Cost	14,884	16,721	17,457	13,755	16,222	14,260

For example, as shown in Table 2, if appropriation amounts specified in statute are changed to reflect the revised model estimates and statutory language corrections describe below, net general fund costs would decline by \$1.2 million for FY 2004-05, from \$17.5 to \$16.2 million, and increase by \$505,000 for FY 2006-07, from \$13.8 to \$14.3 million.

Changes to 2001 Budget Baselines: Since July of 2001, the 2001 base budgets have been revised for 26 of 32 counties. Because this baseline is the starting point for 2003 spending amounts, which are then used to estimate and compute HACA reductions, the baseline revisions result in changes to estimates of the final court costs being transferred to the state. On net, the changes reduced 2001 base budgets by \$2.7 million, from \$67.2 million to \$64.6 million. As shown in Table 2, these reductions contribute to the revised model estimates of needed appropriations for trial court operations. The frequent changes also make it difficult for the Department of Revenue and others to calculate and monitor compliance with levy limits, HACA reduction amounts, and temporary aid payments.

Fine Revenue: As illustrated by Table 2, estimated fine revenues are lower now than assumed at the end-of-session 2001. While end-of-session estimates assumed fine revenues would grow 6 percent annually—based in part on the fact that fine revenue had been growing 9 percent for counties in districts 5, 7, and 9 prior to takeover—actual fine revenues declined from \$4.2 to \$3.9 million between 2000 and 2001. Because fine

revenue is subtracted from court costs to arrive at HACA reduction amounts, the decline in fine revenue contributes to the larger HACA reductions shown in Table 2.

In addition, because current law directs that final HACA reductions be equal to 2003 spending less fine revenue for the year prior to the year of takeover, counties taken over later may lose more or less HACA depending on whether fine revenues decline or grow. An alternative might be to specify a specific year of fine revenue to be deducted from 2003 spending for all counties.

Temporary HACA: Current law specifies that the temporary aid to counties taken over after 2003 be based on a full year of growth in minimum court expenditures even though, in the calendar year a county's courts are taken over, the county will be responsible for only six-months of the expenditure growth. As reflected in Table 2, if statutes were changed so that the temporary aid payment in the year of takeover reflected only six-months of spending increase, the projected cost of the temporary aid payments would decline from \$2.8 to \$2.1 million in FY 2004-2005, and from \$3.2 to \$1.6 million in FY 2006-07. This adjustment would require a statutory language change. Other changes in cost estimates for both temporary aid payments and the roll-in of temporary aid into the courts budget are attributable to changes to the certified 2001 baseline court budget baselines for numerous counties, as well as the fact that end-of-session estimates did not recognize an overlap in the timing of temporary aid payments to counties and the roll-in into the court appropriation due to fiscal year timing differences.

In addition, an amendment to statutory language is needed to clarify that, after 2003, counties are required to budget for and expend on courts the 8 percent annual growth only, rather than this amount plus the amount of temporary HACA as currently stated.

Other Issues

Other court takeover related issues include:

- Maintenance of Effort Dispute: Some counties increased court spending by more than the minimum 6 percent in 2002 and want to increase spending by a lower percentage for 2003, even though the cumulative increase since 2001 would still be greater than 6 percent annually. Court staff believe the 6 percent minimum growth requirement should be fully applied to the higher 2002 spending level. The enacted language appears to simply require that the spending in each year be at least equal to or greater than the 2001 base times 6 percent annually (8 percent after 2003).
- Dakota County Adjustment for Mandated Court Costs: The 2001 Omnibus Tax Act also provided for county HACA reductions to offset increased state expenditures resulting from the takeover of certain mandated court services as of July 1, 2001. The HACA reduction for Dakota County, and the related state court appropriation, were computed based on a certified spending amount for Dakota County that erroneously included \$100,000 for psychiatric services for which the

state did not assume funding responsibility. The state court administrator agreed to fund those costs for Dakota County for the remainder of FY 2003 but has informed the county that, beginning July 1, 2003, the county will resume responsibility for those costs. Consequently, the county would like an adjustment to its HACA to get back the \$100,000 it lost in HACA due to the error. The Department of Revenue is not opposed to the adjustment but believes it does not have authority to change aids certified in accordance with statutes absent special legislation. *A balanced solution would be to increase Dakota County HACA by \$50,000 in FY 2004 and \$100,000 thereafter and to permanently reduce state court appropriations by \$100,000 beginning in FY 2004.*

- Adjustments for Employee Compensation Growth: The language enacted in 2001 included language to allow the courts to base county HACA reductions on spending levels above levels indicated by the minimum maintenance of effort levels if county employee salary settlements were above 6 percent. The concern was that, because salary costs are such a major cost driver in court expenditure budgets, counties that agree to employee benefits above the 6 percent growth might then meet those higher budget needs, in part, by cutting back on funding for related court expenditures even though the state would be responsible for those higher costs after takeover. However, county' staff have raised a variety of questions regarding how salary growth is to be measured. Statutory language may need to be clarified to specify how salary and fringe benefit cost growth will be measured.

For more information, contact Matt Massman, Fiscal Analyst, at 651-296-7171 or at matt.massman@house.mn.

APPENDIX I

Counties by Judicial District

District 1

Carver
Dakota
Goodhue
LeSueur
McLeod
Scott
Sibley

District 2

Ramsey

District 3

Dodge
Filmore
Freeborn
Houston
Mower
Olmsted
Rice
Steele
Wabasha
Waseca
Winona

District 4

Hennepin

District 6

Carlton
Cook
Lake
St. Louis

District 10

Anoka
Chisago
Isanti
Kanabec
Pine
Sherburne
Washington
Wright