

Department of Legislative Services  
 Maryland General Assembly  
 2017 Session

FISCAL AND POLICY NOTE  
 Third Reader - Revised

Senate Bill 856

(Senator Guzzone, *et al.*)

Judicial Proceedings

Appropriations

Maryland Legal Services Corporation Funding - Abandoned Property Funds

This bill increases, from \$1.5 million to \$2.0 million, the amount the Comptroller is required to distribute from abandoned property funds to the Maryland Legal Services Corporation (MLSC) Fund.

The bill takes effect July 1, 2017.

Fiscal Summary

**State Effect:** General fund revenues decrease by \$500,000 annually beginning in FY 2018, reflecting the distribution of additional abandoned property funds to the MLSC Fund. Special fund revenues to the MLSC Fund increase by \$500,000 annually beginning in FY 2018; special fund expenditures increase correspondingly. In addition, the bill may improve operational efficiency for the Judiciary to the extent it decreases the number of *pro se* litigants.

| (in dollars)   | FY 2018     | FY 2019     | FY 2020     | FY 2021     | FY 2022     |
|----------------|-------------|-------------|-------------|-------------|-------------|
| GF Revenue     | (\$500,000) | (\$500,000) | (\$500,000) | (\$500,000) | (\$500,000) |
| SF Revenue     | \$500,000   | \$500,000   | \$500,000   | \$500,000   | \$500,000   |
| SF Expenditure | \$500,000   | \$500,000   | \$500,000   | \$500,000   | \$500,000   |
| Net Effect     | (\$500,000) | (\$500,000) | (\$500,000) | (\$500,000) | (\$500,000) |

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate increase; (-) = indeterminate decrease

**Local Effect:** The bill may increase operational efficiency in the circuit courts to the extent it decreases the number of *pro se* litigants.

**Small Business Effect:** Minimal.

## Analysis

**Current Law/Background:** MLSC was established by the Maryland General Assembly in 1982. It receives and distributes funds to nonprofit grantees that provide legal assistance to eligible clients in civil cases.

The Governor is required to appropriate at least \$1.5 million annually to support the activities of MLSC. This money comes from the State Unclaimed Property Fund. Additionally, lawyers are required to place small or short-term client trust funds into an Interest on Lawyer Trust Account (IOLTA), the interest on which is paid into the MLSC Fund.

In addition to these funds, a surcharge on filing fees in circuit court civil cases and District Court civil and summary ejectment cases is also deposited into the MLSC Fund. Prior to July 1, 2010, the maximum surcharge on civil cases in the circuit courts was \$25. In the District Court, the maximum surcharges were \$5 for summary ejectment cases and \$10 for all other civil cases.

The funds collected from the IOLTA, the surcharge, and the abandoned property funds are deposited by the Administrative Office of the Courts into the MLSC Fund, which MLSC then distributes in the form of grants to various organizations that perform the legal assistance services. As a result of the economic recession and the subsequent decline in interest rates, revenues from IOLTA earnings began to decline in fiscal 2009.

Due to declining IOLTA revenue, as well as an increasing demand for legal services, the General Assembly passed Chapter 486 of 2010, which increased the maximum surcharge on civil cases filed in circuit courts from \$25 to \$55. In the District Court, the maximum authorized surcharge also increased from \$5 to \$8 for summary ejectment cases and from \$10 to \$18 for all other civil cases. The higher maximum surcharge increased filing fee revenue between fiscal 2010 and 2011, which allowed MLSC to increase grant funding levels to pre-2010 levels while relying less heavily on its reserve fund. Pursuant to Chapter 486, the increased surcharges were set to terminate June 30, 2013. Chapters 71 and 72 of 2013 extended the termination date to June 30, 2018.

The Judiciary advises that the expiration of the surcharge increases, coupled with the fact that the number of case filings eligible under this surcharge have been declining as well, will lead to an estimated 45% drop in filing fee revenue for MLSC and an estimated 35% overall drop in total MLSC Fund revenue.

The expiration of the surcharge increases and the continuing decline in IOLTA revenues are projected to have a major effect on the level of grant expenditures. Should the termination of Chapter 486 of 2010 as amended by Chapters 71 and 72 of 2013 become

effective, MLSC will not be able to maintain its current funding level. Since MLSC's creation, it has made grants of more than \$250.0 million. In fiscal 2016, grants of \$18.4 million were awarded to 36 legal services providers. From those funds, more than 236,532 individuals and families received legal assistance in matters such as foreclosure, eviction, domestic violence, child custody, employment, and other issues. These grants also support legal services to the homeless and immigrant communities.

**State/Local Fiscal Effect:** Special fund revenues for the MLSC Fund increase by \$500,000 annually beginning in fiscal 2018, reflecting the increased revenue distribution from abandoned property funds. Special fund expenditures increase correspondingly as MLSC uses the fund to award grants to legal services providers. Because net proceeds from abandoned property are distributed to the general fund (after administrative costs and required distributions are made), general fund revenues decrease by \$500,000 annually beginning in fiscal 2018.

Because grant funding to legal service providers decreases if the higher surcharges terminate June 30, 2018, the number of *pro se* litigants (individuals who are self-represented) is likely to increase. The Judiciary advises that *pro se* litigants require significantly more time from the District Court and the circuit courts. Accordingly, the bill may improve operational efficiency for the Judiciary to the extent it decreases the number of *pro se* litigants.

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### Additional Information

**Prior Introductions:** None.

**Cross File:** HB 1291 (Delegate B. Barnes, *et al.*) - Appropriations.

**Information Source(s):** Judiciary (Administrative Office of Courts); Comptroller's Office; Department of Budget and Management; Maryland Legal Services Corporation; Department of Legislative Services

**Fiscal Note History:** First Reader - March 3, 2017  
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