

Department of Legislative Services
Maryland General Assembly
2024 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 452

(Senator Carter)

Judicial Proceedings

Judiciary

Courts - Prohibited Liability Agreements - Recreational Facilities

This bill establishes that, except for a health club services agreement for services to be rendered for an adult, any provision in a contract or agreement relating to the use of a “recreational facility” that purports to limit the recreational facility’s liability or release the recreational facility from, or indemnify or hold harmless the recreational facility against, liability for injury caused by or resulting from the negligence or other wrongful act of the recreational facility (or its agents or on-duty employees) is against public policy and is void and unenforceable.

Fiscal Summary

State Effect: Depending on judicial interpretation of the bill and overall use by State entities of the applicable provisions in contracts or agreements, the bill may increase special fund expenditures and general fund expenditures, as discussed below. Revenues are not affected.

Local Effect: Depending on judicial interpretation of the bill, local expenditures may increase due to increased liability exposure, as discussed below. Revenues are not affected.

Small Business Effect: Meaningful.

Analysis

Bill Summary: A “recreational facility” is a commercial recreational facility, a commercial athletic facility, or an amusement attraction. Gymnasiums and swimming pools are specifically included as recreational facilities under the bill. However, the following are specifically excluded from the definition of a “recreational facility”: (1) a “lodging establishment” that does not own, maintain, or operate a recreational facility that

is available for use by the general public and (2) a unit of State or local government that leases land or facilities to a recreational facility. The bill's provisions may not be interpreted to affect, extend, or limit the liability of a governmental entity for a tort or other claim subject to the Maryland Tort Claims Act (MTCA – Title 12, Subtitle 1 of the State Government Article) or the Local Government Tort Claims Act (LGTCA – Title 5, Subtitle 3 of the Courts and Judicial Proceedings Article).

Current Law: At common law, a contract can be unenforceable if it has an illegal purpose, is contrary to public policy, or is unconscionable, among other reasons. Statute contains multiple provisions that specifically establish certain types of provisions or agreements to be void and against public policy. For example, under § 8-105 of the Real Property Article, if the effect of any provision of a lease is to indemnify the landlord, hold the landlord harmless, or preclude or exonerate the landlord from any liability to the tenant, or to any other person, for any injury, loss, damage, or liability arising from any omission, fault, negligence, or other misconduct of the landlord on or about the leased premises or any appurtenances used in connection with them that are not within the exclusive control of the tenant, the provision is considered to be against public policy and void. Similar provisions exist regarding rental agreements between mobile park owners and mobile home residents.

Health Club Services Agreements and Lodging Establishments

Pursuant to § 14-12B-01 of the Commercial Law Article, a “health club services agreement” means an agreement under which (1) the buyer of a health club service purchases, or becomes obligated to purchase, health club services to be rendered over a period longer than three months; (2) the seller of a health club services agreement collects more than three months’ payment in advance; and (3) the service to be rendered under the agreement is for personal, family, or household use. “Health club services” includes health spa, figure salon, weight reduction center, self-defense school, or other physical culture service enterprises offering facilities for the preservation, maintenance, encouragement, or development of physical fitness or physical well-being. “Health club services” does not include agreements for services rendered by (1) any nonprofit public or private school, college, or university; (2) the State, or any of its political subdivisions; or (3) any nonprofit religious, ethnic, community, or service organization.

Section 15-201 of the Business Regulation Article defines a “lodging establishment” as an inn, hotel, motel, or other establishment that has at least four rooms available for a fee to transient guests for lodging or sleeping purposes.

Maryland Tort Claims Act

In general, the State is immune from tort liability for the acts of its employees and cannot be sued in tort without its consent. Under MTCA, the State statutorily waives its own

common law (sovereign) immunity on a limited basis. MTCA applies to tortious acts or omissions, including State constitutional torts, by State personnel performed in the course of their official duties, so long as the acts or omissions are made without malice or gross negligence. Under MTCA, the State essentially “waives sovereign or governmental immunity and substitutes the liability of the State for the liability of the state employee committing the tort.” *Lee v. Cline*, 384 Md. 245, 262 (2004).

MTCA covers a multitude of personnel, including some local officials and nonprofit organizations. In actions involving malice or gross negligence or actions outside of the scope of the public duties of the State employee, the State employee is not shielded by the State’s color of authority or sovereign immunity and may be held personally liable.

In general, MTCA limits State liability to \$400,000 to a single claimant for injuries arising from a single incident. Higher liability limits apply to claims involving law enforcement officers that arise on or after July 1, 2022, and claims involving sexual abuse.

Local Government Tort Claims Act

In general, LGTCA limits the liability of a local government to \$400,000 per individual claim and \$800,000 per total claims that arise from the same occurrence for damages from tortious acts or omissions (including intentional and constitutional torts). Higher liability limits apply to claims involving law enforcement officers that arise on or after July 1, 2022, and claims involving child sexual abuse.

LGTCA further establishes that the local government is liable for tortious acts or omissions of its employees acting within the scope of employment, so long as the employee did not act with actual malice. Thus, LGTCA prevents local governments from asserting a common law claim of governmental immunity from liability for such acts or omissions of its employees.

State and Local Fiscal Effect: Depending on judicial interpretation of the bill and the use by State and local entities of the provisions deemed void and unenforceable under the bill, State expenditures and local expenditures may increase due to increased liability exposure.

Application of the Bill – In General

While the bill includes a “commercial recreational facility” and a “commercial athletic facility” in the definition of a “recreational facility,” it does not define “commercial.” Nor is that term specifically defined elsewhere in the Courts and Judicial Proceedings Article. While the bill establishes an exemption for a “unit of State or local government that leases land or facilities to a recreational facility,” it does not explicitly and completely exempt State and local governments and their land and facilities. The bill further states that its

provisions “may not be interpreted to affect, extend, or limit the liability of a governmental entity for a tort or other claim subject to [MTCA or LGTCA].” However, it is unclear whether this provision functions to completely exempt State or local governments (because they are covered under MTCA or LGTCA) or establishes that claims against State and local governments that proceed under the bill are subject to MTCA and LGTCA (because State and local governments are not completely exempted under the bill, and the use of indemnification and hold harmless provisions is independent of MTCA and LGTCA, which address the liability of and procedures for an action in tort against the State or a local government or its employees). Thus, it is unclear whether the bill applies to indemnification and hold harmless provisions in contracts and agreements in nonleasing situations involving State or local government recreational facilities or land when a monetary transaction is involved (*e.g.*, admissions, entry, or use charges).

With respect to previous legislation, the State Treasurer’s Office (STO) previously advised that while the bill’s application to State and local governments is not entirely clear, it surmises that based on the provisions referring to MTCA and LGTCA, the bill does not apply to State and local governments. STO further advises that the bill’s reference to an “amusement attraction” could include a State-owned facility. However, STO does not have information on the number of State-owned properties that are amusement attractions.

The Agricultural Fair Board within the Department of Agriculture (MDA) advises that the bill has no fiscal or operational impact on the board. MDA further advises that the bill has minimal impact on the Maryland Horse Industry Board.

The Department of Natural Resources (DNR) previously advised that, as written, it is unclear whether this bill’s definition of “recreational facility” covers any of DNR’s property or facilities. However, DNR further noted that based on the total language of the bill, the department could continue to use indemnification and liability waiver language in its lease and use agreements for its properties and facilities because the exemption clauses in the bill appear intended to ensure that they would not be rendered void by the other provisions of this bill.

Potential Expenditures – State Agencies

Information is not readily available on the full extent of the inclusion of the types of provisions rendered void and unenforceable by the bill in contract or agreements pertaining to State-owned recreational facilities. To the extent that State entities use such provisions and are exposed to increased liability under the bill, special fund expenditures increase for the State Insurance Trust Fund (SITF). General fund expenditures may increase if State agencies experience higher SITF assessments under the bill.

STO previously advised that it is not aware of the use of such provisions by State agencies. As noted above, DNR agreements to lease and/or authorize the use of some of its properties and facilities for recreational purposes contain indemnification and liability waiver provisions. To the extent that DNR uses provisions in agreements that would be rendered void and unenforceable under the bill, the bill may lead to increased liability exposure for the department.

Potential Expenditures – Local Governments

Based on previously obtained information, local governments use indemnification and hold harmless provisions in contracts and agreements pertaining to their recreational facilities, including nonleasing situations. For the reasons stated above, depending on judicial interpretation, local expenditures may increase if the bill increases liability exposure for local governments.

Small Business Effect: The bill has a meaningful impact on small business recreational facilities whose contracts contain these provisions and who face increased liability, insurance costs, and/or litigation under the bill.

Additional Information

Recent Prior Introductions: Similar legislation has been introduced within the last three years. See HB 207 and SB 291 of 2023.

Designated Cross File: HB 162 (Delegates Cardin and Moon) - Judiciary.

Information Source(s): Maryland Association of Counties; Office of the Attorney General (Consumer Protection Division); Judiciary (Administrative Office of the Courts); Department of Agriculture; State Treasurer’s Office; Department of Natural Resources; Department of Legislative Services

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