



ADMINISTRATIVE OFFICE OF THE COURTS
MARYLAND JUDICIAL CENTER
580 TAYLOR AVENUE
ANNAPOLIS, MARYLAND 21401

Pamela Harris, State Court Administrator
410-260-1295

September 1, 2014

Faye D. Matthews
Deputy State Court Administrator
410-260-1257

Honorable Edward J. Kasemeyer, Chair
Senate Budget & Taxation Committee
3 West, Miller Senate Building
Annapolis, Maryland 21401-1991

Honorable Brian E. Frosh, Chair
Senate Judicial Proceedings Committee
2 East, Miller Senate Office Building
Annapolis, Maryland 21401-1991

Mark Bittner
Assistant Administrator
Judicial Information Systems
410-260-1001

Louis G. Gieszl
Assistant Administrator
Programs
410-260-3547

Honorable Norman H. Conway, Chair
House Appropriations Committee
Lowe House Office Building, Room 131
Annapolis, Maryland 21401-1991

Honorable Joseph F. Vallario, Jr., Chair
House Judiciary Committee
Lowe House Office Bldg., Room 121
Annapolis, Maryland 21401-1991

Melinda K. Jensen, CPA
Assistant Administrator
Operations
410-260-1240

Julie R. Linkins, Esq.
Assistant Administrator
Education
410-260-3549

Re: Circuit Court Real Property Records Improvement Fund

Dear Chairpersons:

Kelley O'Connor
Assistant Administrator
Government Relations
410-260-1560

In accordance with Chapter 556, Acts of 1995, as amended by Chapter 10, Acts of 1996, and Section 2-1246 of the State Government Article, this annual report covering Fiscal Year 2014 is submitted respectfully to account for the condition of the Circuit Court Real Property Records Improvement Fund (the Fund).

Kathleen E. Wherthey, Esq.
Assistant Administrator
Internal Affairs
410-260-3453

Twenty-three years ago, the General Assembly enacted legislation creating the Circuit Court Real Property Records Improvement Fund in response to the deteriorating conditions and the state of operations in the land record departments of the Clerk of Court offices throughout the State. Through the assessment of a surcharge, the legislation established a non-lapsing fund. As a result of the Budget Reconciliation and Financing Act of 2003, the surcharge fee for recordable instruments was \$20.

The Fund, when created in 1991, had an original sunset provision that was lifted in 1995 and was thereafter extended on three occasions and was eventually removed in 2007. During the 1995 Session of the General Assembly, a Fund Oversight Committee was created to serve as an advisory body to the State Court Administrator for the management of Fund expenditures. The five member committee consists of representatives from the Maryland Land Title Association, the Maryland State Bar Association, the Maryland State Archives, the Conference of Circuit Court Clerks and the Administrative Office of the Courts.

In 2005, the General Assembly mandated that all General Fund expenditures related to land records operations, support and salaries of over 256 employees would no longer come from the Circuit Court Real Property Records General Fund, but would be appropriated from the Fund. Thereafter, in November 2007, during the Special Session,

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the General Assembly passed the Budget and Finance Reconciliation Act (HB 1/SB 1, Ch. 2) which repealed the sunset provision of the Real Property Records Improvement Fund and expanded the scope of the Fund to include all the Judiciary's major information technology development projects for Fiscal Years 2009 and 2010. In 2010, the General Assembly in the Budget Reconciliation and Financing Act, removed the sunset provision for the support of the Judiciary's major information technology projects and made permanent the expenditures for all IT projects would be paid thru the Fund. In addition, all interest on the Fund's balance was diverted to the General Fund.

In 2011, the General Assembly through the Budget Reconciliation and Financing Act increased the Fund surcharge to \$40 effective July 1, 2011, in an attempt to address a structural deficit and to sustain the Fund through Fiscal Year 2015 in anticipation of a real estate market recovery. Unfortunately, the market recovery anticipated has yet to materialize. In addition, the General Assembly authorized the transfer of \$10 million from the Fund to the General Fund in Fiscal Year 2012 and restored the sunset provision that expires July 1, 2015. (HB 72, Chapter 397).

This year the Fund Oversight Committee and the State Court Administrator agreed to move forward with the eRecording initiative for the recordation of the land records. In compliance with MD Rule 16-307, Judiciary Information Systems (JIS) has conducted research on eRecording products and services, worked with land records staff, title industry representatives and County finance offices to determine initial requirements for an eRecording system. That information was used to conduct a procurement that is in the final stages of evaluation.

Current Fund Conditions

As can be seen from Chart 1 below, the Judiciary has maintained a conservative position with respect to our projected revenue estimates due to the variability in the real estate markets and the lack of sufficient data to establish a reliable trend. In Fiscal Year 2013, the Fund's revenue experienced a significant increase of \$6,370,473 (19.9 percent) which represents the first increase unaided by a surcharge increase since Fiscal Year 2006. However, while this increase was encouraging, it appears that it was a one-time event due to unique market conditions. Collections for Fiscal Year 2014 were only \$30.5m which represents a significant \$7.9 million dollar decrease from Fiscal Year 2013. Given this anomaly, the Judiciary excluded Fiscal Year 2013 revenues and used a four year average of revenues for Fiscal Years 2010, 2011, 2012 and 2014 revenues to forecast future revenues. Under this scenario, the Judiciary anticipates that the surcharge increase will not sunset in Fiscal Year 2016. Revenues are anticipated to be \$31,755,000 per year from Fiscal Year 2015 to Fiscal Year 2018.

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Chart 1 – Circuit Court Real Property Fund Projection - Sunset Extended or Eliminated

	FY 2014 Actual	FY 2015 Estimated	FY 2016 Estimated	FY 2017 Estimated	FY 2018 Estimated
Revenues:					
Surcharge/Fees	30,497,592	31,755,000	31,755,000	31,755,000	31,755,000
Interest*	0	0	0	0	0
Total	30,497,592	31,755,000	31,755,000	31,755,000	31,755,000
Operations:					
ELROI Operations/Maintenance**	1,961,197	2,147,428	2,150,000	2,150,000	2,150,000
Archives - mdlandrec	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Circuit Court Offices**	12,639,144	13,269,144	13,599,144	13,829,144	14,059,144
Major IT Projects**	9,003,360	18,977,844	20,802,239	15,919,914	11,461,010
Total	28,603,701	39,394,416	41,551,383	36,899,058	32,670,154
Projected Structural Surplus/(Shortfall)	1,893,891	(7,639,416)	(9,796,383)	(5,144,058)	(915,154)
Less prior year encumbrances	3,167,355	865,460			
Total Fund Balance (Accrual Basis)**	44,426,050	35,921,174	26,124,791	20,980,733	20,065,579

Chart 2 – Circuit Court Real Property Fund Projection - Sunset Applied

As can be seen below in Chart 2, if the surcharge sunsets in Fiscal Year 2016, the revenues for FY2016 – FY2018 would be reduced in half, thus quickly introducing a shortfall of -\$25,673,883 in Fiscal Year 2016 and decimating Fund balances in Fiscal Year 2017.

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	FY 2014 Actual	FY 2015 Estimated	FY 2016*** Estimated	FY 2017*** Estimated	FY 2018*** Estimated
Revenues:					
Surcharge/Fees	30,497,592	31,755,000	15,877,500	15,877,500	15,877,500
Interest*	0	0	0	0	0
Total	30,497,592	31,755,000	15,877,500	15,877,500	15,877,500
Operations:					
ELROI Operations/Maintenance**	1,961,197	2,147,428	2,150,000	2,150,000	2,150,000
Archives - mdlandrec	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Circuit Court Offices**	12,639,144	13,269,144	13,599,144	13,829,144	14,059,144
Major IT Projects**	9,003,360	18,977,844	20,802,239	15,919,914	11,461,010
Total	28,603,701	39,394,416	41,551,383	36,899,058	32,670,154
Projected Structural Surplus/(Shortfall)	1,893,891	(7,639,416)	(25,673,883)	(21,021,558)	(16,792,654)
Less prior year encumbrances	3,167,355	865,460			
Total Fund Balance (Accrual Basis)**	44,426,050	35,921,174	10,247,291	(10,774,267)	(27,566,921)

*Per 2010 BRFA, interest is reverted to the General Fund

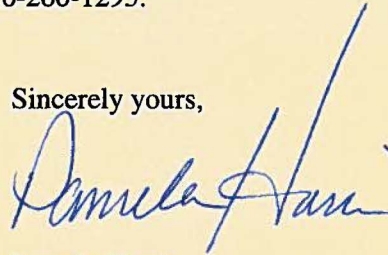
**Amount reflects FY2014 encumbrances

***Assumes the surcharge increase sunsets in FY2016

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Consequently, we intend to seek the elimination of the sunset on this Fund and earnestly seek your support. If the committees require further information, please direct all inquiries and questions to my attention at 410-260-1295.

Sincerely yours,

A handwritten signature in blue ink that reads "Pamela Harris". The signature is fluid and cursive, with a long, sweeping line extending upwards from the end of the name.

Pamela Harris
State Court Administrator

cc: Honorable Mary Ellen Barbera, Chief Judge
Conference of Circuit Court Judges
Conference of Circuit Court Clerks
Faye D. Matthews, Deputy State Court Administrator
Land Records Oversight Committee
Jordan More, Legislative Analyst
Kelley O'Connor, Assistant Administrator-Government Relations