

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: SB 257

SHORT TITLE: JURISDICTIONAL AMOUNT INCREASE

SPONSOR(S): SENATOR GULLEY

FISCAL IMPACT:	Expenditures:	Increase (X)	Decrease (
)	Revenues:	Increase ()	Decrease
(X)			

FUNDS AFFECTED:	General Fund (X)	Highway Fund ()
	Local Fund ()	Other Fund ()

BILL SUMMARY: "TO INCREASE THE AMOUNT THAT MAY BE IN CONTROVERSY IN DISTRICT AND SUPERIOR CIVIL COURTS AND TO MAKE CORRESPONDING CHANGES TO THE RULES OF CIVIL PROCEDURE AND NONBINDING ARBITRATION." Amends G.S. 7A-243, G.S. 1A-1, Rule 8(a), and G.S. 7A-37.1 to increase jurisdictional limit of district court in civil cases from \$10,000 to \$25,000. The bill amends G.S. 7A-37.1, to provide for court-ordered, nonbinding arbitration in civil actions where the claims do not exceed \$25,000 (presently \$15,000).

EFFECTIVE DATE: October 1, 1995; applies to claims filed on or after that date.

PRINCIPAL DEPARTMENT(S)/PROGRAM(S) AFFECTED: Judicial Branch

Two alternatives are provided for the possible fiscal impact on the Judicial Branch. The fiscal impact of this bill on arbitration proceedings and on revenue derived from court costs is the same for both alternatives. The difference is in costs for court time in district court.

In Alternative 1 it is assumed that additional funding for the equivalent of two full-time positions would be needed for additional court time to fulfill the requirements of the proposed legislation.

FISCAL IMPACT: Alternative 1

Expenditures:	<u>FY 95/96(*)</u>	<u>FY 96/97</u>	<u>FY 97/98</u>	<u>FY 98/00</u>	<u>FY</u>
<u>99/00</u>					
Arbitrator fees	\$ 33,661	\$ 47,125	\$ 49,481	\$ 51,955	\$
54,553 and expenses					
Additional court Time					
non-recurring	\$ 16,312	\$0	\$0	\$0	\$0
recurring	\$121,758	\$210,348	\$216,658	\$223,158	
	\$229,853				
Total	\$138,070	\$210,348	\$216,658	\$223,158	
	\$229,853				
 Revenues:	<u>FY 95/96(*)</u>	<u>FY 96/97</u>	<u>FY 97/98</u>	<u>FY 98/00</u>	<u>FY</u>
<u>99/00</u>					
Decrease in Revenue From		\$43,459	\$60,842	\$63,884	
Court Costs		\$67,078	\$70,432		
 TOTAL COSTS:	\$215,190	\$318,315	\$330,023	\$342,191	
	\$354,838				

(*) Costs effective January 1, 1996.

In Alternative 2 it is assumed that any additional workload and costs for court time resulting from the proposed legislation would be absorbed with current statewide Judicial Branch personnel resources. Arbitration costs and revenue decreases are the same as those in Alternative 1.

FISCAL IMPACT: Alternative 2

Expenditures:	<u>FY 95/96(*)</u>	<u>FY 96/97</u>	<u>FY 97/98</u>	<u>FY 98/00</u>	<u>FY</u>
<u>99/00</u>					
Arbitrator fees	\$33,661	\$47,125	\$49,481	\$51,955	
\$54,553 and expenses					
 Revenues:	<u>FY 95/96(*)</u>	<u>FY 96/97</u>	<u>FY 97/98</u>	<u>FY 98/00</u>	<u>FY</u>
<u>99/00</u>					

Decrease in Revenue From		\$43,459	\$60,842	\$63,884
		\$67,078	\$70,432	
Court Costs				
TOTAL COSTS:	\$77,120	\$107,967	\$113,365	\$119,033
	\$124,985			

(*) Costs effective January 1, 1996.

ASSUMPTIONS AND METHODOLOGY:

1. Additional Arbitration Costs

Arbitration caseloads would increase by the number of civil cases involving claims of more than \$15,000, up to \$25,000. Fiscal estimates are based on cases now filed in superior court, presently the "proper" court for the cases that the proposed bill would affect.

Superior Court Civil Case Filings in 1993/94

(a) Districts that now have arbitration programs:	7,617
(b) Districts that do not have arbitration programs:	11,699
(c) Total State superior court civil filings:	19,316

However, some additional arbitration cases could arise from cases now being disposed in district court. District and superior court have concurrent civil jurisdiction; a civil case filed in the improper division is subject to transfer to the "proper" division, but a judgment rendered in the improper division is neither void nor voidable on that basis. No data is available on the extent to which civil cases are disposed in the improper division. This fiscal note assumes that few district court civil cases exceed \$15,000.

Estimated number of affected cases: The increase from \$15,000 to \$25,000 seems likely to capture a substantial number of additional contract and collection cases. A total of 5,070 contract and collection cases were filed in 1993/94. If one-third of these cases involved claims between \$15,000 and \$25,000, there would be an additional 1,673 cases eligible for arbitration statewide.

In addition, arbitration cases would arise from negligence cases, which account for 50% of total superior court civil cases (9,739 of 19,316 filings in 1993/94). If only 15% of the negligence cases involve claims in the \$15,000 to \$25,000 range, the increase in cases eligible for arbitration would be 1,461 cases statewide.

Together, the contract and collection cases and the negligence cases, suggest a minimum increase of 3,134 cases eligible for arbitration, or 16% of all superior court civil cases (19,316). The Administrative Office of the Courts would expect more than 15% of all negligence cases to involve claims in the \$15,000 to \$25,000 range, but cannot predict the exact number of cases that would be affected by the proposed legislation. **The Administrative Office of the Courts, however, believes that the 16% estimate is conservative, and given the uncertainty surrounding the impact of this bill on**

negligence cases, the Administrative Office of the Courts regards 20% of all superior court civil cases as a more reliable estimate.

This fiscal note assumes that the bill, in practice, will only affect cases in districts where arbitration programs already exist.

DISTRICTS THAT NOW HAVE ARBITRATION PROGRAMS

Superior Court Civil Filings	7,617
20% of these (7,617) cases	1,523

For districts with arbitration programs, 20% of all superior court civil filings (7,617) results in an estimated 1,523 cases in the \$15,000 to \$25,000 range. Based on a study by the Institute of Government on arbitration cases, an estimated 65%, or 990 cases ($1,523 \times 0.65$), would be contested and noticed for arbitration. Of those, an estimated 60%, or 594 (990×0.60), would result in arbitration hearings. Costs for the 594 hearings are estimated at \$75 per case for the arbitrator's fee, or \$44,550, plus a small additional amount, \$331, for arbitrator's expenses, such as mileage. The estimates for the years following FY 95/96 are increased by 5%.

NOTE: Use of the present arbitrator fee of \$75 per case may be low. The April 1994 report by the Administrative Office of the Courts to the General Assembly on arbitration included a survey of arbitrators across the state. Some recommended an increase in the \$75 fee, which has remained the same since the program's inception in 1987. The additional cases under the proposed legislation will involve higher dollar amounts and presumably would be more complex and time-consuming, thus increasing the pressure to raise the \$75 rate.

ADMINISTRATION OF ARBITRATION: The proposed legislation would also affect the administration of arbitration. Under present law, the arbitrator program handles both district court cases (involving \$10,000 or less) and superior court cases (over \$10,000, up to \$15,000). The limit for arbitration in the proposed bill, \$25,000, would correspond to the "amount in controversy" cut-off for the proper jurisdiction of district court in amended G.S. 7A-243, thus making arbitration a district court program.

Despite the increase in district court caseload, the Administrative Office of the Courts does not expect the costs for administration to differ significantly; some aspects of administration would become less complicated by having only one trial court division involved (assuming that not much time

is spent assessing superior court cases for complaints that involve \$25,000 or less, filed in the improper division).

2. Impact on Statewide District Court Workload

Under the proposed legislation, civil cases that are now heard in superior court involving more than \$10,000, up to \$25,000, would be shifted to district court. The increase in arbitration workload would be from cases in a more narrow dollar range, \$15,000 to \$25,000. Thus, compared to the increase for arbitration, district court caseloads would increase by the additional number of cases in the \$10,000 to \$15,000 range.

The Administrative Office of the Courts estimates that 20% of total superior court civil filings would be affected by the proposed legislation.

SUPERIOR COURT CIVIL FILINGS

State Total Superior Court Civil Filings	19,316
20% of these filings	3,863

There were 19,316 total superior court civil filings in 1993-94 (20% of 19,316 equals 3,863 additional cases). These 3,863 additional cases would involve among the largest sums of money in controversy in civil district court cases.

In 1993-94, out of 47,929 total general civil dispositions, 0.6% (305 cases) were disposed by jury trial, and 10.8% (5,185) were disposed by bench trial. For the purposes of this note, it is assumed this pattern would apply to the additional civil cases. The Administrative Office of the Courts does point out, however, that plaintiffs may be more willing to go to trial than accept a low settlement, since the prospect for long delay is less in district court than in superior court. On the other hand, defendants would face trial sooner, and may be more willing to offers a satisfactory settlement.

If the 3,863 additional cases are disposed at the same trial rates as civil cases involving less money, there would be 417 additional bench trials, and 23 additional jury trials. Additional judge time would also be required for cases disposed by motions before the judge (11% of general civil dispositions in 1993-94, which would be 425 of the additional 3,863 cases).

Alternative 1: The estimated annual increase in workload amounts to a statewide need for the full-time equivalent of two district court judges. For FY 95-96, the position cost is \$69,035 per position, based on an effective date for the judge

positions of January 1, 1996, which assumes that there would be about a three month lag after the proposed bill's effective date of October 1, 1995, before additional cases are ready for trial or other judicial action, and substantial additional district court judge workload begins. The Full-Time Equivalent (FTE) position cost for 1996-97 is \$105,174 per position.

Alternative 2: The estimated annual increase in workload would be absorbed statewide by utilizing the Judicial Branch personnel currently available.

3. Impact on Superior Court

Any corresponding superior court workload reduction would translate into additional court and judge time available for other caseloads, but the savings are not quantifiable.

4. Revenue

The proposed legislation would result in a loss of revenue as court costs for support of the General Court of Justice are less in district court (\$40) than in superior court (\$55). Assuming that the fee would be paid in all cases, the difference of \$15 per case for the estimated 3,863 cases comes to a total of \$57,945. The figures on page two reduce the total by one-quarter to reflect the October 1, 1995 effective date, and increase the total by 5% as an estimate of caseload increase for FY 96-97 through FY 99/00.

SOURCES OF DATA: Administrative Office of the Courts

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