



# Senate

General Assembly

**File No. 8**

February Session, 2006

Senate Bill No. 158

*Senate, March 8, 2006*

The Committee on Judiciary reported through SEN. MCDONALD of the 27th Dist., Chairperson of the Committee on the part of the Senate, that the bill ought to pass.

***AN ACT CONCERNING LAW SCHOOL SCHOLARSHIPS FUNDED BY THE INTEREST EARNED ON LAWYERS' CLIENTS' FUNDS ACCOUNTS PROGRAM.***

Be it enacted by the Senate and House of Representatives in General Assembly convened:

1 Section 1. Section 51-81c of the 2006 supplement to the general  
2 statutes is repealed and the following is substituted in lieu thereof  
3 (*Effective October 1, 2006*):

4 (a) A program for the use of interest earned on lawyers' clients'  
5 funds accounts is hereby established. The organization administering  
6 the program shall use such interest to provide funding for (1) the  
7 delivery of legal services to the poor by nonprofit corporations whose  
8 principal purpose is providing legal services to the poor, and (2) law  
9 school scholarships [based on financial need] awarded in accordance  
10 with subsection (b) of this section. Each lawyer and law firm having a  
11 clients' funds account shall participate in the program. On and after  
12 July 1, 2005, each entity, other than a borrower, having an account  
13 established to receive loan proceeds from a mortgage lender, as

14 defined in this subsection, shall participate in the program. Under the  
15 program, funds in accounts established to receive such loan proceeds,  
16 regardless of the amount or period held, and clients' funds that are less  
17 than ten thousand dollars in amount or expected to be held for a  
18 period of not more than sixty business days, shall be deposited by  
19 participating lawyers, law firms and entities in interest-bearing  
20 accounts specifically established pursuant to the program. Funds  
21 deposited in such accounts shall be subject to withdrawal upon request  
22 by the depositor and without delay. The interest earned on such  
23 accounts shall be paid to an organization qualified under Section  
24 501(c)(3) of the Internal Revenue Code of 1986, or any subsequent  
25 corresponding internal revenue code of the United States, as from time  
26 to time amended, which shall be designated to administer the program  
27 by the judges of the Superior Court pursuant to subsection [(b)] (c) of  
28 this section. Nothing in this section shall prevent (A) a lawyer or law  
29 firm from depositing a client's funds, regardless of the amount of such  
30 funds or the period for which such funds are expected to be held, in a  
31 separate interest-bearing account established on behalf of and for the  
32 benefit of the client, or (B) an entity from depositing a person's loan  
33 proceeds, regardless of the amount of such proceeds or the period for  
34 which such proceeds are expected to be held, in a separate interest-  
35 bearing account established on behalf of and for the benefit of the  
36 person. The organization administering the program shall mail to each  
37 lawyer, law firm and entity participating in the program a detailed  
38 annual report of all funds disbursed under the program including the  
39 amount disbursed to each recipient of funds. Any recipient of funds  
40 under the program which, using program funds, represents a party in  
41 an action filed after July 1, 1992, against the state or any officer or  
42 agency thereof and is awarded attorney's fees in such action by the  
43 court, shall reimburse the program for the amount of attorney's fees  
44 received in proportion to the percentage of program funds used for the  
45 litigation. No recipient of funds under the program may use such  
46 funds to pay the occupational tax imposed pursuant to section 51-81b  
47 on behalf of any attorney. As used in this section, "mortgage lender"  
48 means any person engaged in the business of making first mortgage

49 loans or secondary mortgage loans, including, but not limited to, a  
50 bank, out-of-state bank, Connecticut credit union, federal credit union,  
51 out-of-state credit union, first mortgage lender required to be licensed  
52 under sections 36a-485 to 36a-498a, inclusive, or secondary mortgage  
53 lender required to be licensed under sections 36a-510 to 36a-524,  
54 inclusive.

55 (b) Law school scholarships funded pursuant to this section shall be  
56 awarded based on financial need to individuals who were domiciled in  
57 this state upon graduation from high school. As used in this  
58 subsection, "domicile" shall have the same meaning as provided in  
59 section 10a-28.

60 [(b)] (c) The judges of the Superior Court shall adopt rules to  
61 implement the program for the use of interest earned on lawyers'  
62 clients' funds accounts, provided nothing in this section shall grant to  
63 the judges of the Superior Court or any other judicial authority any  
64 legislative, regulatory or rule-making authority over banks, insurance  
65 companies or other financial institutions.

66 [(c)] (d) The program shall not require the banking corporations or  
67 financial institutions receiving such funds, holding such accounts and  
68 paying interest on such accounts to the depositors of the account to  
69 perform any additional administrative functions or assume any  
70 additional responsibilities or obligations in connection with the  
71 program or the accounts so maintained.

72 [(d)] (e) An advisory panel shall be established to perform the  
73 functions described in subsection [(e)] (f) of this section consisting of  
74 five members to be selected as follows: Three members shall be  
75 appointed by the Governor, one of whom shall be an executive  
76 director of a nonprofit corporation which provides legal services to the  
77 poor in this state; and two members shall be appointed by the  
78 cochairpersons of the joint standing committee of the General  
79 Assembly having cognizance of matters relating to the judiciary. Each  
80 member of the panel shall serve for a term which is coterminous with  
81 the term of the member's appointing authority. A vacancy shall be

82 filled by the original appointing authority for the balance of the  
83 unexpired term.

84 [(e)] (f) The advisory panel shall: (1) Consult with and make  
85 recommendations to the tax-exempt organization administering the  
86 program regarding the implementation and administration of the  
87 program, including the methods of allocation and the allocation of  
88 funds to be disbursed under the program; (2) review and evaluate, and  
89 monitor the impact of the program; and (3) report on the program to  
90 the joint standing committee of the General Assembly having  
91 cognizance of matters relating to the judiciary and to the Chief Court  
92 Administrator, as may from time to time be requested.

This act shall take effect as follows and shall amend the following sections:		
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Section 1	October 1, 2006	51-81c
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**JUD**      *Joint Favorable*

The following fiscal impact statement and bill analysis are prepared for the benefit of members of the General Assembly, solely for the purpose of information, summarization, and explanation, and do not represent the intent of the General Assembly or either House thereof for any purpose:

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**OFA Fiscal Note**

**State Impact:** None

**Municipal Impact:** None

**Explanation**

The bill limits eligibility for scholarships funded by the Interest on Lawyers' Trust Accounts (IOLTA) program to any person who was domiciled in this state upon graduation from high school. The IOLTA program is authorized by statute to subsidize legal aid to the poor in Connecticut and to fund law school scholarships based on financial need. It is administered by the Connecticut Bar Foundation and supported by interest income from lawyers' trust accounts and certain accounts established to receive loan proceeds from mortgage lenders. No state or municipal funds are involved in the IOLTA program. The bill's change is not expected to reduce the overall amount of scholarships awarded, which is about \$200,000 annually.

**The Out Years**

**State Impact:** None

**Municipal Impact:** None

**OLR Bill Analysis**

SB 158

***AN ACT CONCERNING LAW SCHOOL SCHOLARSHIPS FUNDED BY THE INTEREST EARNED ON LAWYERS' CLIENTS' FUNDS ACCOUNTS PROGRAM.*****SUMMARY:**

By law, the Interest on Lawyers' Trust Accounts (IOLTA) program may use its funds to provide legal services to the poor and to fund law school scholarships based on financial need. This bill requires that the scholarships be limited to people who were domiciled in Connecticut when they graduated from high school. The bill defines a person's "domicile" as his true, fixed, and permanent home and place of habitation. It is the place where he intends to remain, and to which he expects to return when he leaves without intending to establish a new domicile elsewhere.

EFFECTIVE DATE: October 1, 2006

**BACKGROUND*****IOLTA Program***

IOLTA is funded by the interest from (1) pooled lawyers' clients' fund accounts and (2) accounts established by entities, other than borrowers, to receive loan proceeds from a mortgage lender. The law authorizes the Superior Court judges to choose an administrator for the program. They have selected the Connecticut Bar Foundation.

**COMMITTEE ACTION**

Judiciary Committee

Joint Favorable Report

Yea 34 Nay 0