

**The Florida Senate**  
**BILL ANALYSIS AND FISCAL IMPACT STATEMENT**

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

Prepared By: The Professional Staff of the Committee on Community Affairs

BILL: CS/SB 580

INTRODUCER: Regulated Industries Committee and Senator Hays

SUBJECT: Homeowners' Associations

DATE: April 5, 2013

REVISED: \_\_\_\_\_

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Oxamendi	Imhof	RI	<b>Fav/CS</b>
2.	Oxamendi	Yeatman	CA	<b>Pre-meeting</b>
3.	_____	_____	RC	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____
6.	_____	_____	_____	_____

**Please see Section VIII. for Additional Information:**

- |                              |                                     |   |
|------------------------------|-------------------------------------|---|
| A. COMMITTEE SUBSTITUTE..... | <input checked="" type="checkbox"/> | Statement of Substantial Changes        |
| B. AMENDMENTS.....           | <input type="checkbox"/>            | Technical amendments were recommended   |
|                              | <input type="checkbox"/>            | Amendments were recommended             |
|                              | <input type="checkbox"/>            | Significant amendments were recommended |

**I. Summary:**

CS/SB 580 revises requirements for the governance of homeowners' associations. The bill provides additional grounds for disciplining licensed community association managers, including failing to report specified information to the Department of Business and Professional Regulation (department), and failing to comply with ch. 720, F.S., relating to homeowners' associations. Regarding the homeowner's access to official records of the association, the bill:

- Requires that the official records must be maintained for seven years and maintained within 45 miles of the community or within the same county;
- Permits associations to maintain the records electronically;
- Permits members to photograph records using a camera or other electronic device at no charge;
- Permits the association to charge copying costs and personnel costs required to retrieve and copy records that exceed one half hour, but the cost may not exceed \$20 per hour;
- Decreases the cost of copies provided on the association's photocopier from 50 cents per page to 25 cents per page; and
- Permits associations to use an outside duplicating service to make copies of official records, and to charge the actual cost of copying as supported by an invoice.

The bill requires community association managers, or the association if there is no manager, to annually report information about the association to the department. It requires the department to establish an Internet-based registration system and to submit an annual report to the Governor and, the President of the Senate, and the Speaker of the House of Representatives. This reporting requirement would expire on July 1, 2016, unless reenacted by the Legislature.

The bill revises requirements for elections in homeowners' associations by providing that the association does not have to allow nominations at the meeting where the election is to be held if it permits members to nominate themselves in advance of the balloting. It also provides that an election is not required unless more candidates are nominated than board vacancies exist.

Regarding the officers and directors of homeowners' associations, the bill requires:

- Newly elected directors to certify that they have read, and will uphold, the governing documents;
- Requires contracts with interested directors to be disclosed and approved by a two-thirds vote of the board, and permits the contract to be cancelled by a vote of the members of the association;
- Requires the removal of officers and directors who solicit or accept things of value from anyone providing or offering to provide services to the association, with exceptions;
- Requires the removal of officers or directors charged with theft or embezzlement of association funds; and
- Requires associations to maintain insurance or fidelity bonding.

Regarding developer control of homeowners' associations, the bill provides:

- Additional events that trigger control of the association by the non-developer members, including when the developer has ceased constructing or selling of parcels for two years, has failed to complete the amenities and infrastructure, has filed chapter 7 bankruptcy, has lost title through foreclosure, or when a receiver has been appointed;
- Entitles homeowners to elect at least one member to the board once 15 percent of the parcels are conveyed to non-developer members, and two members once 50 percent of the parcels are conveyed to non-developer members; and
- Prohibits assessment increases and special assessments in developer-controlled associations, unless the budget specifically describes and justifies the reason or reasons for the increase or special assessment.

The bill provides an effective date of July 1, 2013.

This bill substantially amends the following sections of the Florida Statutes: 468.436, 720.303, 720.3033, 720.306, 720.307, and 720.308.

## **II. Present Situation:**

### **Homeowners' Associations**

Florida law provides statutory recognition to corporations that operate residential communities in

this state and procedures for operating homeowners' associations, and protects the rights of association members without unduly impairing the ability of such associations to perform their functions.<sup>1</sup>

A "homeowners' association" is defined as a:

Florida corporation responsible for the operation of a community or a mobile home subdivision in which the voting membership is made up of parcel owners or their agents, or a combination thereof, in which membership is a mandatory condition of parcel ownership, and which is authorized to impose assessments that, if unpaid, may become a lien on the parcel.<sup>2</sup>

Homeowners' associations are also governed by ch. 607, F.S., relating to for-profit corporations, or by ch. 617, F.S., relating to not-for-profit corporations.<sup>3</sup>

Section 720.301(4), F.S., defines the terms "declaration of covenants," or "declaration," to mean:

a recorded written instrument in the nature of covenants running with the land which subjects the land comprising the community to the jurisdiction and control of an association or associations in which the owners of the parcels, or their association representatives, must be members.

Section 720.301(8), F.S., defines the term "member" to mean "a member of an association, and may include, but is not limited to, a parcel owner or an association representing parcel owners or a combination thereof."

Section 720.301(10), F.S., defines the term "parcel owner" to mean the record owner of legal title to a parcel.

Section 720.301(11), F.S., defines the term "voting interest" to mean "the voting rights distributed to the members of the homeowners' association, pursuant to the governing documents."

Homeowners' associations are administered by a board of directors whose members are elected.<sup>4</sup> The powers and duties of homeowners' associations include the powers and duties provided in ch. 720, F.S., and in the governing documents of the association, which include recorded declaration of covenants, bylaws, articles of incorporation, and duly adopted amendments to these documents.<sup>5</sup> The officers and members of a homeowners' association have a fiduciary relationship to the members who are served by the association.<sup>6</sup>

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<sup>1</sup> See s. 720.302(1), F.S.

<sup>2</sup> Section 720.301(9), F.S.

<sup>3</sup> Section 720.302(5), F.S.

<sup>4</sup> See ss. 720.303 and 720.307, F.S.

<sup>5</sup> See ss. 720.301 and 720.303, F.S.

<sup>6</sup> Section 720.303(1), F.S.

### **State Regulation of Homeowners' Associations**

Unlike condominium and cooperative associations,<sup>7</sup> which are regulated by the Division of Florida Condominiums, Timeshares, and Mobile Homes (division) within the Department of Business and Professional Regulation (department), homeowners' associations are not regulated by a state agency.

Section 720.302(2), F.S., expresses the legislative intent regarding the regulation of homeowners' associations:

The Legislature recognizes that it is not in the best interest of homeowners' associations or the individual association members thereof to create or impose a bureau or other agency of state government to regulate the affairs of homeowners' associations. However, in accordance with s. 720.311, the Legislature finds that homeowners' associations and their individual members will benefit from an expedited alternative process for resolution of election and recall disputes and presuit mediation of other disputes involving covenant enforcement and authorizes the department to hear, administer, and determine these disputes as more fully set forth in this chapter. Further, the Legislature recognizes that certain contract rights have been created for the benefit of homeowners' associations and members thereof before the effective date of this act and that ss. 720.301-720.407 are not intended to impair such contract rights, including, but not limited to, the rights of the developer to complete the community as initially contemplated.

The number of homeowners' associations or persons living in homeowners' associations in Florida is unknown. Although homeowners' associations are required to file articles of incorporation with the Division of Corporations (division) in the Department of State, the division cannot identify corporations that are homeowners' associations under ch. 720, F.S.<sup>8</sup>

### **Division of Florida Condominiums, Timeshares, and Mobile Homes**

The division is afforded complete jurisdiction to investigate complaints and enforce compliance with ch. 718, F.S., and ch. 719, F.S., with respect to condominium and cooperative associations that are still under developer control.<sup>9</sup> The division also has the authority to investigate complaints against developers involving improper turnover or failure to turnover, pursuant to s. 718.301, F.S. After control of the condominium is transferred from the developer to the unit owners, the division's jurisdiction is limited to investigating complaints related to financial issues, elections, and unit owner access to association records pursuant to s. 718.111(12), F.S.<sup>10</sup>

As part of the division's authority to investigate complaints, s. 718.501(1), F.S., for condominium and s. 719.501(1)(c), F.S., for cooperatives, authorize the division to subpoena witnesses, take sworn statements from witnesses, issue cease and desist orders, and impose civil penalties (fines) against developers and associations.

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<sup>7</sup> See chs. 718 and 719, F.S., respectively.

<sup>8</sup> Homeowners' Association Task Force, *Final Report of the Homeowners' Association Task Force*, February 2004, page 5. A copy of the report is available on the internet at <http://www.ccfj.net/DBPRTFfinalreport.pdf> (last visited March 28, 2013).

<sup>9</sup> Section 718.501(1), F.S., and s. 719.501(1), F.S., respectively.

<sup>10</sup> Section 718.501(1), F.S. See Peter M. Dunbar, *The Condominium Concept: A Practical Guide for Officers, Owners, Realtors, Attorneys, and Directors of Florida Condominiums*, 12 ed. (2010-2011) s. 14.2.

In regards to homeowners' associations, the division's authority is limited to arbitration of recall election disputes.<sup>11</sup>

### **Community Association Management**

Community association managers are regulated and licensed pursuant to part VIII of ch. 468, F.S. To be licensed, a community association manager must satisfactorily complete an examination for licensure.

Section 468.431(2), F.S., defines "community association management" to mean:

any of the following practices requiring substantial specialized knowledge, judgment, and managerial skill when done for remuneration and when the association or associations served contain more than 10 units or have an annual budget or budgets in excess of \$100,000: controlling or disbursing funds of a community association, preparing budgets or other financial documents for a community association, assisting in the noticing or conduct of community association meetings, and coordinating maintenance for the residential development and other day-to-day services involved with the operation of a community association.

A license is not required for persons who perform clerical or ministerial functions under the direct supervision and control of a licensed manager or who only perform the maintenance of a community association and do not assist in any of the management services.<sup>12</sup>

### **Inspection and Copying of Homeowners' Association Records**

Section 720.303(4), F.S., requires homeowners' associations to maintain the official records of the association. Section 720.303(5), F.S., requires that a homeowners' association permit members to inspect and copy its official records within 10 days of a written request for access. The official records must be maintained within the state and must be open to inspection and available for photocopying by members or their authorized agents at reasonable times and places within 10 business days after receipt of a written request for access.

If the association has a photocopy machine available where the records are maintained, it must provide parcel owners with copies on request during the inspection if the entire request is limited to no more than 25 pages. The association may impose fees to cover the cost of providing copies of the official records, including, without limitation, the cost of copying. The association may also charge any reasonable costs involving personnel fees and charges at an hourly rate to cover the association's or vendors administrative costs.

Any failure by the association to comply with a request in a timely fashion creates a rebuttable presumption that the association willfully failed to do so, and entitles the requesting party to actual damages, or a minimum fine of \$50 per calendar day, for up to 10 calendar days, commencing on the eleventh business day.

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<sup>11</sup> See s. 720.303(10)(d), F.S.

<sup>12</sup> Section 468.431(2), F.S.

### **Reserves for Capital Expenditures and Deferred Maintenance**

Reserve accounts are separate portion of the association's budget in which funds are set aside for capital expenditures and deferred maintenance. Reserves are used to fund expenses that do not occur on a regular basis, such as repaving roads.<sup>13</sup> Associations are required to have reserve accounts if they were initially established by the developer or if the membership has affirmatively elected to provide for reserves by a majority of the total voting interests of the association at a duly called meeting of the membership or by the written consent.<sup>14</sup> Associations may terminate and remove from the budget reserve accounts upon the approval of a majority of the total voting interests of the association.<sup>15</sup> Current law does not specify that the budget must designate the components for which the reserve accounts may be used.

### **Post-Election Certification of Directors**

Chapter 720, F.S. does not provide for the post-election certification of directors of the homeowners' association as is required for members of a condominium association's board.

Section 718.112(2)(d)4.b., F.S., outlines a post-election certification requirement for newly elected condominium board members. Within 90 days after being elected or appointed, a new board member must certify that he or she:

- Has read the declaration of condominium for all condominiums operated by the association and the association's articles of incorporation, bylaws, and current written policies;
- Will work to uphold such documents and policies to the best of his or her ability; and
- Will faithfully discharge his or her fiduciary responsibility to the association's members.

As an alternative to a written certification, the newly elected or appointed director may submit a certificate of satisfactory completion of the educational curriculum within one year before the election or 90 days after the election or appointment.<sup>16</sup> The curriculum must be administered by a condominium education provider approved by the division.<sup>17</sup> A certification is valid and does not have to be resubmitted as long as the director continuously serves on the board.

A board member is suspended from service on the board until he or she files the written certification or submits a certificate of completion of the educational curriculum.<sup>18</sup> If a suspension occurs, the board may temporarily fill the vacancy during the period of suspension. The secretary of the association must keep the written certification or educational certificate for inspection by the members for five years after a director's election or appointment.<sup>19</sup> The validity

<sup>13</sup> See Peter M. Dunbar and Charles F.S. Dudley, *The Law of Florida Homeowners' Associations*, 9<sup>th</sup> ed. (2012-2013) s. 5.3.

<sup>14</sup> Section 720.303(6)(d), F.S.

<sup>15</sup> Section 720.303(6)(b), F.S.

<sup>16</sup> *Id.* The department's Internet site provides a listing of approved educational providers. See Division of Florida Condominiums, Timeshares, and Mobile Homes, *Approved Education Providers*, available at <http://www.myfloridalicense.com/dbpr/lsc/condominiums/ApprovedEducationProviders.html> (Last visited March 28, 2013).

<sup>17</sup> Section 718.112(2)(d)3.b., F.S.

<sup>18</sup> *Id.*

<sup>19</sup> *Id.*

of any action by the condominium board is not affected by the association's failure to have the certification on file.<sup>20</sup>

### **Director Conflicts of Interest**

Section 617.0832, F.S., provides for the process for the disclosure and approval of conflicts of interest related to contracts between the board of a not-for-profit corporation and a member or members of the board. Section 617.0832(1), F.S., provides that such a contract is not void or voidable, if:

- The relationship is disclosed to the board or committee that approves, or ratifies the contract or transaction by a vote or consent that does not count the interested director or directors;
- The fact of such relationship or interest is disclosed or known to the members of the board or committee entitled to vote on such contract or transaction, if any, and they authorize, approve, or ratify it by vote or written consent; or
- The contract or transaction is fair and reasonable as to the corporation at the time it is authorized by the board, a committee, or the members.

Sections 617.0832(2) and (3), F.S., require an affirmative vote of a majority of the directors on the board of directors, or on the committee, who have no relationship or interest in the transaction or contract. The contract or transaction may not be approved or ratified by a single director.

A quorum is present for the purpose of taking action if a majority of the directors who have no relationship or interest in the transaction vote to authorize, approve, or ratify the transaction.

The presence of, or a vote cast by, a director having a relationship or interest in the transaction does not invalidate the approval or ratification if the transaction is otherwise authorized, approved, or ratified as provided in s. 617.0832(1), F.S.

### **Elections**

Section 720.306(9), F.S., provides the process for elections to the board. Section 720.306(9)(a), F.S., requires that elections of directors must be conducted according to the procedures set forth in the governing documents of the association. It provides that all members are eligible to serve on the board. A member may nominate himself or herself as a candidate for the board at a meeting where the election is to be held or, if the election process allows voting by absentee ballot, in advance of the balloting.

Representatives for homeowners' associations have advised that many associations require, in their governing documents, that nominations for a seat on the board must be made before the meeting at which the election will be conducted. This gives the association the ability to produce ballots for the election. However, s. 720.306(9)(a), F.S., requires that that associations must still allow nominations from the floor, even if the election process allows nominations in advance of the balloting.

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<sup>20</sup> *Id.*

**Transition of Association Control**

Section 720.307, F.S., provides the situations in which the parcel owners other than the developer are entitled to elect at least a majority of the members of the board of directors:

- Three months after 90 percent of the parcels that will be operated ultimately by the association have been conveyed to purchasers; or
- When such other percentage of the parcels has been conveyed to members, or such other date or event has occurred, as is set forth in the governing documents in order to comply with the requirements of any governmentally chartered entity with regard to the mortgage financing of parcels.

Builders, contractors, or others who purchase a parcel for the purpose of constructing improvements on the parcel for resale are not considered members other than the developer.<sup>21</sup>

In contrast, s. 718.301(1), F.S., provides the following circumstances that require transition of control of the condominium association from the developer to the non-developer unit owners:

- Three years after 50 percent of the units that will be operated ultimately by the association have been conveyed to purchasers;
- Three months after 90 percent of the units that will be operated ultimately by the association have been conveyed to purchasers;
- When all the units that will be operated ultimately by the association have been completed, some of them have been conveyed to purchasers, and none of the others are being offered for sale by the developer in the ordinary course of business;
- When some of the units have been conveyed to purchasers and none of the others are being constructed or offered for sale by the developer in the ordinary course of business;
- When the developer files a petition seeking protection in bankruptcy;
- When a receiver for the developer is appointed by a circuit court and is not discharged within 30 days after such appointment, unless the court determines within 30 days after appointment of the receiver that transfer of control would be detrimental to the association or its members; or
- Seven years after recordation of the declaration of condominium with some conditions.

**III. Effect of Proposed Changes:****Community Association Managers**

The bill amends s. 468.436(2)(b), F.S., to authorize the division to discipline community association managers for failure to report to the division as required in s. 720.303(13), F.S., as provided in the bill.

The bill also authorizes the division to discipline community association manager any provision of ch. 720, F.S., during the course of performing community association management under a contract with an association. This provision limited to community association managers who

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<sup>21</sup> Section 720.307(1), F.S.



provide services to homeowners' associations under ch. 720, F.S. It would not apply to violation conduct related to condominium associations under ch. 718, F.S., and cooperative associations under ch. 719, F.S.

### **Official Records**

The bill amends s. 720.303(5), F.S., to require homeowners' associations to maintain official records seven years. It requires that the records must be maintained within 45 miles of the community or within the same county. It also permits associations the option of making records available electronically via the Internet or by allowing the records to be viewed on a computer screen and printed upon request.

The bill amends s. 720.303(5), F.S., to require homeowners' associations to permit members or their authorized representatives to photograph records using portable devices, tablets, portable scanners, and other devices capable of taking photographs. The member cannot be charged for taking the photograph.

The bill deletes the provision in s. 720.303(5)(c), F.S., that permits the association to impose fees to cover the cost of providing copies of the official records, including, without limitation, the cost of copying. It permits the association to charge copying costs and personnel costs required to retrieve and copy records that exceed one half hour may not exceed \$20 per hour. It also decreases the cost of copies provided on the association's photocopier from 50 cents per page to 25 cents per page.

The bill deletes the provision that permits the association to charge any reasonable costs involving personnel fees and charges at an hourly rate to cover the association's or vendors administrative costs. The bill deletes the provision that permits the association to charge for the actual cost using community association management personnel to make copies of official records. Instead, it permits the association to use an outside duplicating service to make copies of official records, and to charge the actual cost of copying as supported by an invoice.

### **Reserves for Capital Expenditures and Deferred Maintenance**

The bill amends s. 720.303(6), F.S., to require that a homeowners' association's budget must designate the components for which the reserve accounts may be used. This provision does not require that the association establish or maintain a reserve account.

### **Reporting Requirement**

The bill creates s. 720.303(13), F.S., to require community association managers, or the association if there is no manager, to report the following information to the division annually:

- The legal name of the association.
- The Federal Employee Identification Number of the association.
- The mailing and physical addresses of the association.
- The number of parcels.
- The total amount of revenues and expenses from the annual budget of the association.

For associations in which the developer retains control, the following additional information is required:

- The legal name of the developer.
- The mailing address of the developer.
- The number of parcels the developer owns as of the date of reporting.

The bill requires the department to establish and implement an Internet-based registration system by December 1, 2013 for associations to use for reporting the required information.

The bill requires the department to submit a report, on or before December 1, 2013, to the Governor, the President of the Senate, and the Speaker of the House of Representatives providing the homeowner association data reported as required by the bill.

The bill authorizes the department to adopt rules pursuant to ss. 120.536(1) and 120.54, F.S., to implement this reporting requirement.

The reporting requirement in s. 720.303(13), F.S., would expire on July 1, 2016, unless reenacted by the Legislature.

#### **Post-Election Certification of Directors**

The bill creates s. 720.3033(1), F.S., to require the post-election certification of homeowners' association directors. These provisions are similar to the post-election certification requirement for members of a condominium association board in s. 718.112(2)(d)4.b., F.S.

The bill requires that newly elected directors must certify in writing, within 90 days, that they have read the association's governing documents and policies, that they will work to uphold the documents and policies, and that they will faithfully discharge their fiduciary responsibility to the associations' members. A director who fails to comply with the certification requirement is suspended from the board until he or she complies. The association must maintain a copy of the certification for 5 years after the director's election.

#### **Contracts with Members of the Board**

The bill creates s. 720.3033(2), F.S., to provide that contracts between homeowners' associations and directors, or entities in which a director has a financial interest, must:

- Comply with conflict of interest procedures outlined in s. 617.0832, F.S.;
- Comply with disclosure requirements outlined in s. 617.0832, F.S.;
- Be approved by a two-thirds vote of the directors present; and
- Be disclosed at the next regular or special meeting of the members.

If any member makes a motion at the next regular or special meeting of the members, the contract may be canceled by a majority vote of the members present.<sup>22</sup> If the contract is canceled,

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<sup>22</sup> Section 720.306(1)(a), F.S., provides that a quorum at a meeting of the members is 30 percent of the total voting interests, unless a lower number is provided in the bylaws. Decisions that require a vote of the members must be made by the concurrence of at least a majority of the voting interests present, in person or by proxy, at a meeting at which a quorum has been attained, unless otherwise provided in ch. 720, F.S., or in the articles of incorporation or bylaws.

the association is only liable for the reasonable value of goods and service previously provided and is not liable for any fee or damages connected to the cancellation.

#### **Prohibited Solicitations by Board Members**

The bill creates s. 720.3033(3), F.S., to provide that officers, directors and managers may not solicit or accept anything of value from any person providing or offering to provide goods or services to the association. The bill requires that the board immediately remove from office any officer or director upon a finding by the board that the officer or director has violated this subsection.

The bill provides an exception from the prohibition for accepting food to be consumed at a business meeting with a value of less than \$25 per individual or services or items in connection to trade fairs or education programs.

#### **Removal of Board Members for Crimes**

The bill creates s. 720.3033(4), F.S., to provide that the board immediately remove from office any officer or director who is charged with felony theft or embezzlement involving association funds. If the charges are resolved without a finding of guilt or without acceptance of a plea of guilt or nolo contendere, the director or officer shall be reinstated for any remainder of his or her term of office. It is not clear whether a director must be removed from office if the criminal case is resolved without an adjudication of guilt.

#### **Insurance or Fiduciary Bond Requirement**

The bill creates s. 720.3033(5), F.S., to require homeowners' associations to maintain insurance or fidelity bonding for anyone who controls or disburses association funds, which includes persons authorized to sign check on behalf of the association, and the president, secretary, and treasurer of the association. The association would bear the cost of the bond or insurance.

#### **Elections**

The bill amends s. 720.306(9)(a), F.S., to provide that the association does not have to allow nomination at the meeting where the election is to be held if it permits members to nominate themselves in advance of the balloting.

The bill also provides that an election is not required unless more candidates are nominated than board vacancies exist.

#### **Transition of Association Control**

The bill amends s. 720.307(1), F.S., to provide the following additional events which would entitle the non-developer parcel owners to elect the majority of the members of the board:

- Two years after the developer has ceased construction or ceased to offer parcels for sale in the ordinary course of business;
- When the developer has abandoned or deserted his or her responsibility to maintain and complete the advertised amenities or infrastructure. There is a rebuttable presumption that the developer has abandoned and deserted the property, if the developer has not engaged in construction or sale of properties or has unpaid assessments or guaranteed amounts under s. 720.308, F.S., for a period of more than two years;

- When the developer files a petition seeking protection in bankruptcy under chapter 7 of the United States Bankruptcy Code;
- When the developer loses title to the property either through a foreclosure action or the transfer of a deed in lieu of foreclosure; and
- When a receiver for the developer is appointed by a circuit court and is not discharged within 30 days after such appointment, unless the court determines within 30 days after appointment of the receiver that transfer of control would be detrimental to the association or its members.

The bill also amends s. 720.307(2), F.S., to provide that non-developer parcel owners are entitled to elect at least one member of the board of directors once 15 percent of the parcels in all phases of the community have been conveyed to members.

The bill also amends s. 720.307(3), F.S., to provide that non-developer parcel owners are entitled to elect at least two members of the board of directors once 50 percent of the parcels in all phases of the community have been conveyed to members.

#### **Assessments**

The bill amend s. 720.308, F.S., to provide that assessments levied pursuant to the annual budget may not be increased, or special assessments levied, without the approval of the majority of non-developer voting interests. This limitation applies while the developer is in control of the association and entitled to elect the majority of the members of the board. The bill would permit the assessments to be increased, or a special assessment to be levied, if the budget specifically describes and justifies the reason or reasons for the increase or special assessment.<sup>23</sup>

#### **Effective Date**

The bill would take effect on July 1, 2013.

#### **IV. Constitutional Issues:**

##### **A. Municipality/County Mandates Restrictions:**

None.

##### **B. Public Records/Open Meetings Issues:**

None.

##### **C. Trust Funds Restrictions:**

None.

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<sup>23</sup> Section 720.315, F.S., provides that, before turnover, the board of directors controlled by the developer may not levy a special assessment unless a majority of the parcel owners other than the developer have approved the special assessment by a majority vote at a duly called special meeting of the membership at which a quorum is present.

**D. Other Constitutional Issues:**

The bill would impose several requirements on the governance and administration of homeowners' associations. The bill may affect existing homeowners' associations governing documents. The governing documents of homeowners' associations are generally considered to be contracts.<sup>24</sup> To the extent that the provisions of this bill may be applied retroactively, provisions of the bill may prompt concerns regarding the unconstitutional impairment of contract.

Article I, Section 10 of the United States Constitution prohibits state legislatures from enacting laws impairing the obligation of contracts. As early as 1880, the federal courts recognized that the contract clause does not override the police power of the states to establish regulations to promote the health, safety, and morals of the community.<sup>25</sup> The severity of the impairment is a key issue when evaluating whether a state law impairs a contract.<sup>26</sup> In *Exxon Corp. v Eagerton*, 462 U.S. 176 (1983), the Supreme Court suggested it would uphold legislation that imposes a generally applicable rule of conduct designed to advance a broad societal interest that only incidentally disrupts existing contractual relationships.

Article I, s. 10 of the Florida Constitution also prohibits the state from enacting laws impairing the obligation of contracts. While Florida courts have historically strictly applied this restriction, they have exempted laws when they find there is an overriding public necessity for the state to exercise its police powers.<sup>27</sup> This exception extends to laws that are reasonable and necessary to serve and important public purpose,<sup>28</sup> to include protecting the public's health, safety or welfare.<sup>29</sup> For a statute to offend the constitutional prohibition against impairment of contract, the statute must have the effect of changing substantive rights of the parties to an existing contract. Any retroactive application of a statute affecting substantive contractual rights would be constitutionally suspect.<sup>30</sup>

Historically, both the state and federal courts have attempted to find a rational and defensible compromise between individual rights and public welfare when laws are enacted that may impair existing contracts.<sup>31</sup>

**V. Fiscal Impact Statement:****A. Tax/Fee Issues:**

None.

<sup>24</sup> See *Venetian Isles Homeowners' Assoc., Inc., v. Albrecht*, 823 So.2d 813 (Fla. 2<sup>nd</sup> D.C.A. 2002) and *Cudjoe Gardens Property Owners Assoc., Inc. v. Patne*, 779 So.2d 598 (Fla. 3<sup>rd</sup> D.C.A. 2001).

<sup>25</sup> *Stone v. Mississippi*, 101 U.S. 814 (1880).

<sup>26</sup> *General Motors Corp. v. Romein*, 503 U.S. 181 (1992).

<sup>27</sup> *Park Benziger & Co. v. Southern Wine & Spirits, Inc.*, 391 So2d 681 (Fla. 1980).

<sup>28</sup> *Yellow Cab Co. v. Dade County*, 412 So2d 395 (Fla. 3rd DCA 1982), petition den. 424 So2d 764 (Fla. 1982).

<sup>29</sup> *Khoury v. Carvel Homes South, Inc.*, 403 So2d 1043 (Fla. 1st DCA 1981), petition den. 412 So2d 467 (Fla. 1981).

<sup>30</sup> *Tri-Properties, Inc. v. Moonspinner Condominium Association, Inc.*, 447 So.2d 965 (Fla. 1<sup>st</sup> DCA 1984).

<sup>31</sup> *Pomponio v. Claridge of Pompano Condominium, Inc.*, 378 So2d 774 (Fla. 1979).

**B. Private Sector Impact:**

The bill requires homeowners' associations to maintain insurance or fidelity bonding for anyone who controls or disburses association funds, which includes persons authorized to sign checks on behalf of the association, and the president, secretary, and treasurer of the association. The association would bear the cost for the bond or insurance. According to information provided by representatives for homeowners' associations, the cost of the insurance coverage is dependent on the number of persons with access to the association's funds, the amount of the coverage, and the type of coverage desired. The annual insurance premium for an association with five or fewer persons handling funds and with \$10,000 coverage for employee theft and crime, \$10,000 for premises and in-transit coverage,<sup>32</sup> and \$10,000 coverage for forgery and computer and wire fraud would be approximately \$309. The same insurance coverage, but with limits of \$1,000,000, would require an annual insurance premium of approximately \$2,346.

The bill requires homeowners' associations to annually report to the division information about the association. Associations may incur costs related to gathering and reporting the information.

**C. Government Sector Impact:**

The bill requires the department to establish and implement an Internet-based registration system by December 1, 2013 for associations to use for reporting the information that the bill requires that they annually report to the division. It also requires the department to submit a report, on or before December 1, 2013 and then annually thereafter, to the Governor, the President of the Senate, and the Speaker of the House of Representatives providing the homeowner association data reported as required by the bill. The reporting requirement is repealed on July 1, 2016, unless reenacted by the Legislature. The division may incur indeterminate expenses to comply with these requirements; however the department can absorb these costs within existing resources.

**VI. Technical Deficiencies:**

None.

**VII. Related Issues:**

None.

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<sup>32</sup> In-transit coverage includes coverage for the direct loss of money or securities directly caused by theft, disappearance, damage or destruction while in transit outside the insured's premises and in the care and custody of a messenger or armored vehicle company, e.g., this could cover theft of the association's funds from a delivery truck or messenger at a location other than the community's property. Premises coverage is coverage for the direct loss of money or securities located inside the premises directly caused by a theft, robbery, or burglary, e.g., this could cover the theft of funds from the association's office by a burglar. See <https://www.travelers.com/business-insurance/management-professional-liability/private-non-profit/crime/documents/59690.pdf> (last visited April 5, 2013).

**VIII. Additional Information:****A. Committee Substitute – Statement of Substantial Changes:**  
(Summarizing differences between the Committee Substitute and the prior version of the bill.)**CS by Regulated Industries Committee on April 2, 2013:**

The committee substitute (CS) differs from SB 580 as follows:

- The CS amends s. 468.436(2)(b), F.S., to provide two additional grounds for the discipline of community association managers.
- The CS amends s. 720.303(5), F.S., to require homeowners' associations to maintain official records for seven years, and within 45 miles of the community or within the same county. It also permits associations the option of making records available electronically via the Internet or by allowing the records to be viewed on a computer screen and printed upon request. The CS amends s. 720.303(5)(c), F.S., that permits the association to impose fees to cover the cost of providing copies of the official records, including the cost of copying. It permits the association to charge copying costs and personnel costs required to retrieve and copy records that exceed one half hour, but the cost may not exceed \$20 per hour. It decreases the cost of copies provided on the association's photocopier from 50 cents per page to 25 cents per page. It permits the association to use an outside duplicating service to make copies of official records, and permits the association to charge the actual cost of copying as supported by an invoice.
- The CS amends s. 720.303(5), F.S., to include portable devices, tablets, portable scanners, and other devices capable of taking photographs among the type of devices that homeowners' associations must permit their member to use to make copies of official records. It permits authorized representatives of the member to make the photographic copies.
- The CS amends s. 720.303(6), F.S., to require that a homeowners' association's budget must designate the components for which the reserve accounts may be used.
- The CS creates s. 720.303(13), F.S., to provide an annual reporting requirement for community association managers, associations, and developers in developer-controlled associations. It also requires the department to establish and implement an Internet-based registration system and requires the department to submit an annual report to the Governor and, the President of the Senate, and the Speaker of the House of Representatives. It authorizes the department to adopt rules to implement this reporting requirement. It also provides that reporting requirement in s. 720.303(13), F.S., would expire on July 1, 2016, unless reenacted by the Legislature.
- The CS does not provide in s. 720.3033(1), F.S., that the post-election certification requirement may be satisfied by submission of a certificate of satisfactory completion of the educational curriculum approved by the Division of Florida Condominiums, Timeshares, and Mobile Homes. It also does not provide that failure to have the written certification or education certificate on file does not affect the validity of any board action.
- In s. 720.3033(3), F.S., the CS does not provide that managers must be removed from office if they violate the prohibition in this subsection. Regarding the officer

or director's removal from office, the CS specifies that the board must immediately remove them from office upon a finding by the board that any officer or director has violated the prohibition in this subsection.

- The CS amends s. 720.306(9), F.S., to revise requirements for elections in homeowners' associations by providing that the association does not have to allow nominations at the meeting where the election is to be held if it permits members to nominate themselves in advance of the balloting. It also provides that an election is not required unless more candidates are nominated than board vacancies exist.
- The CS amends s. 720.307(1), F.S., to provide additional events which would entitle the non-developer parcel owners to elect the majority of the members of the board. The CS amends s. 720.307(2), F.S., to provide that non-developer parcel owners are entitled to elect at least one member of the board of directors once 15 percent of the parcels in all phases of the community have been conveyed to members.
- The CS amends s. 720.307(3), F.S., to provide that non-developer parcel owners are entitled to elect at least two members of the board of directors once 50 percent of the parcels in all phases of the community have been conveyed to members.
- The CS amends s. 720.308, F.S., to limit increases in assessments and the levying of special assessments in developer-controlled associations.

B. Amendments:

None.