

D R A F T
FOR APPROVAL

Amendments to the Uniform Common Interest Ownership Act

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Amendments to the Uniform Common Interest Ownership Act

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1 **AMENDMENTS TO THE UNIFORM COMMON INTEREST OWNERSHIP ACT**

2 **[ARTICLE] 1**

3 **GENERAL PROVISIONS**

4 **[PART] 1**

5 **SECTION 1-103. DEFINITIONS.** In this [act]:

6 (1) “Affiliate of a declarant” means any person who controls, is controlled by, or is under
7 common control with a declarant. For purposes of this definition:

8 (A) a person controls a declarant if the person:

9 (i) is a general partner, officer, director, or employer of the declarant;

10 (ii) directly or indirectly or acting in concert with one or more other
11 persons, or through one or more subsidiaries, owns, controls, holds with power to vote, or holds
12 proxies representing, more than 20 percent of the voting interest in the declarant;

13 (iii) controls in any manner the election of a majority of the directors of
14 the declarant; or

15 (iv) has contributed more than 20 percent of the capital of the declarant.

16 (B) a person is controlled by a declarant if the declarant:

17 (i) is a general partner, officer, director, or employer of the person;

18 (ii) directly or indirectly or acting in concert with one or more other
19 persons, or through one or more subsidiaries, owns, controls, holds with power to vote, or holds
20 proxies representing, more than 20 percent of the voting interest in the person;

21 (iii) controls in any manner the election of a majority of the directors of
22 the person; or

23 (iv) has contributed more than 20 percent of the capital of the person; and

(C) control does not exist if the powers described in this paragraph are held solely as security for an obligation and are not exercised.

(2) “Allocated interests” means the following interests allocated to each unit:

(A) in a condominium, the undivided interest in the common elements, the common expense liability, and votes in the association;

(B) in a cooperative, the common expense liability, the ownership interest, and votes in the association; and

(C) in a planned community, the common expense liability and votes in the association.

(3) “Assessment” means the sum attributable to each unit and due to the association pursuant to Section 3-115.

(4) “Association” or “unit owners association” means the unit owners association organized under Section 3-101.

(5) “Bylaws” means the instruments, however denominated, that contain the procedures for conduct of the affairs of the association regardless of the form in which the association is organized, including any amendments to the instruments.

(6) “Common elements” means:

(A) in the case of:

(i) a condominium or cooperative, all portions of the common interest community other than the units; and

(ii) a planned community, any real estate within a planned community which is owned or leased by the association, other than a unit; and

(B) in all common interest communities, any other interests in real estate for the

benefit of unit owners which are subject to the declaration.

(7) “Common expense liability” means the liability for common expenses allocated to each unit pursuant to Section 2-107.

(8) “Common expenses” means expenditures made by, or financial liabilities of, the association, together with any allocations to reserves.

(9) “Common interest community” means real estate described in a declaration with respect to which a person, by virtue of the person’s ownership of a unit, is obligated to pay for a share of real estate taxes, insurance premiums, maintenance, or improvement of, or services or other expenses related to, common elements, other units, or other real estate described in the declaration. The term does not include an arrangement described in Section 1-209 or 1–210. For purposes of this paragraph, ownership of a unit does not include holding a leasehold interest of less than [20] years in a unit, including renewal options.

(10) “Condominium” means a common interest community in which portions of the real estate are designated for separate ownership and the remainder of the real estate is designated for common ownership solely by the owners of those portions. A common interest community is not a condominium unless the undivided interests in the common elements are vested in the unit owners.

(11) “Conversion building” means a building that at any time before creation of the common interest community was occupied wholly or partially by persons other than purchasers and persons that occupy with the consent of purchasers.

(12) “Cooperative” means a common interest community in which the real estate is owned by an association, each of whose members is entitled by virtue of the member’s ownership interest in the association to exclusive possession of a unit.

(13) “Dealer” means a person in the business of selling units for the person’s own account.

(14) “Declarant” means any person or group of persons acting in concert that:

(A) as part of a common promotional plan, offers to dispose of the interest of the person or group of persons in a unit not previously disposed of; [or]

(B) reserves or succeeds to any special declarant right [; or]

(C) applies for registration of a common interest community under [Article] 5].

(15) “Declaration” means the instrument, however denominated, that creates a common interest community, including any amendments to the instrument.

(16) “Development rights” means any right or combination of rights reserved by a declarant in the declaration to:

(A) add real estate to a common interest community;

(B) create units, common elements, or limited common elements within a common interest community;

(C) subdivide units or convert units into common elements; or

(D) withdraw real estate from a common interest community.

(17) “Dispose” or “disposition” means a voluntary transfer to a purchaser of any legal or equitable interest in a unit, but the term does not include the transfer or release of a security interest.

(17A) “Electronic” means relating to technology having electrical, digital, magnetic, wireless, optical, electromagnetic, or similar capabilities.

Reporter’s Note (1/29/2021)

This proposed new definition is taken from the Uniform Electronic Wills Act (the E-Wills Act) § 2(1) (2019) and the Revised Uniform Law on Notarial Acts

(RULONA) § 2(2) (2018), which use identical language. Existing UCIOA uses “electronic” in a number of provisions without definition. Adding a definition coordinates with proposed revisions to Section 3-108, *Meetings*, and Section 3-110, *Voting; Proxies; Ballots*, which facilitate electronic meetings and electronic voting, including use of the term “electronic ballot,” which is not presently defined.

(18) “Executive board” means the body, regardless of name, designated in the declaration or bylaws to act on behalf of the association.

(19) “Identifying number” means a symbol or address that identifies only one unit in a common interest community.

(20) “Leasehold common interest community” means a common interest community in which all or a portion of the real estate is subject to a lease the expiration or termination of which will terminate the common interest community or reduce its size.

(21) “Limited common element” means a portion of the common elements allocated by the declaration or by operation of Section 2-102(2) or (4) for the exclusive use of one or more but fewer than all of the units.

(22) “Master association” ~~means an organization described in Section 2-120, whether or not it is also an association described in Section 3-101.~~ means:

(A) a unit owners association that serves more than one common interest community; or

(B) an organization holding a power delegated under Section 2-120(a).

Reporter’s Note (5/25/2021)

1. The proposed new definition of “Master Association” moves some of the language from existing Section 2-120(a) (below) and is designed to achieve consistency of usage throughout Section 2-120. The proposed definition also seeks to draw a sharper definitional line between the unit owners association and a master association.

2. Existing Section 2-120(a) defines a master association as the recipient

1 of “powers described in Section 3-102 . . . or other powers.” The proposed new
2 definition deletes the “other powers” prong because it is not necessary. Section 3-
3 102 defines “powers” to include all possible powers. See 3-102(a)(15)-(17) (“any
4 other powers conferred by the declaration or bylaws . . . all other powers that may
5 be exercised in this state by organizations of the same type as the association . . .
6 any other powers necessary and proper for the governance and operation of the
7 association”).
8

9 3. Existing Section 2-120(a) requires a master association to be “a profit or
10 nonprofit corporation [or unincorporated association].” Yet the act allows a unit
11 owners association to be any type of organization authorized by state law. Section
12 3-101 provides: “The association must be organized as a profit or nonprofit
13 corporation, trust, limited liability company, partnership, [unincorporated
14 association,] or any other form of organization authorized by the law of this
15 state.” There does not appear to be a reason to impose greater limits to a master
16 association’s choice of entity. The proposed new definition removes the limitation
17 simply by referring to “an organization.”
18

19 (23) “Offering” means any advertisement, inducement, solicitation, or attempt to
20 encourage any person to acquire any interest in a unit, other than as security for an obligation.
21 An advertisement in a newspaper or other periodical of general circulation, or in any broadcast
22 medium to the general public, of a common interest community not located in this state, is not an
23 offering if the advertisement states that an offering may be made only in compliance with the law
24 of the jurisdiction in which the common interest community is located.

25 (24) “Person” means an individual, corporation, business trust, estate, trust, partnership,
26 limited liability company, association, joint venture, public corporation, government or
27 governmental subdivision, agency, or instrumentality, or any other legal or commercial entity.
28 [In the case of a land trust, the term means the beneficiary of the trust rather than the trust or the
29 trustee.]

30 (25) “Planned community” means a common interest community that is not a
31 condominium or a cooperative. A condominium or cooperative may be part of a planned
32 community.

1 (26) “Proprietary lease” means an agreement with the association pursuant to which a
2 member is entitled to exclusive possession of a unit in a cooperative.

3 (27) “Purchaser” means a person, other than a declarant or a dealer, that by means of a
4 voluntary transfer acquires a legal or equitable interest in a unit other than:

5 (A) a leasehold interest, including renewal options, of less than 20 years; or

6 (B) as security for an obligation.

7 (28) “Real estate” means any leasehold or other estate or interest in, over, or under land,
8 including structures, fixtures, and other improvements and interests that by custom, usage, or law
9 pass with a conveyance of land though not described in the contract of sale or instrument of
10 conveyance. The term includes parcels with or without upper or lower boundaries and spaces
11 that may be filled with air or water.

12 (29) “Record”, used as a noun, means information that is inscribed on a tangible medium
13 or that is stored in an electronic or other medium and is retrievable in perceivable form.

14 (30) “Residential purposes” means use for dwelling or recreational purposes, or both.

15 (31) “Rule” means a policy, guideline, restriction, procedure, or regulation of an
16 association, however denominated, which is not set forth in the declaration or bylaws ~~and which~~
17 ~~governs the conduct of persons or the use or appearance of property.~~

18 **Reporter’s Note (5/25/2021)**
19

20 The phrase “which governs the conduct of persons or the use or appearance of
21 property” is deleted from the definition of “rule” to clarify the scope of the
22 association’s power to enact rules. A rule governing conduct, use, or appearance
23 must comply with other provisions of the act, including Section 3-120, *Rules*.
24

25 (32) “Security interest” means an interest in real estate or personal property, created by
26 contract or conveyance, which secures payment or performance of an obligation. The term
27 includes a lien created by a mortgage, deed of trust, trust deed, security deed, contract for deed,

1 land sales contract, lease intended as security, assignment of lease or rents intended as security,
2 pledge of an ownership interest in an association, and any other consensual lien or title retention
3 contract intended as security for an obligation.

4 (33) “Special declarant rights” means rights reserved for the benefit of a declarant to:

5 (A) complete improvements the declarant is not obligated to make that are
6 indicated on plats and plans filed with the declaration or, ~~in a cooperative, to complete~~
7 ~~improvements~~ described in the public offering statement ~~pursuant to Section 4-103(a)(2);~~

8 (B) under Section 2-110, exercise any development right;

9 (C) under Section 2-115, maintain sales offices, management offices, signs
10 advertising the common interest community, and models;

11 (D) under Section 2-116, use easements through the common elements for the
12 purpose of making improvements within the common interest community or within real estate
13 which may be added to the common interest community;

14 (E) under Section 2-120, make the common interest community subject to a
15 master association;

16 (F) under Section 2-121, merge or consolidate a common interest community with
17 another common interest community of the same form of ownership;

18 (G) under Section 3-103(d), appoint or remove any officer of the association or
19 any master association or any executive board member during any period of declarant control;

20 (H) under Section 3-120(c), control any construction, design review, or aesthetic
21 standards committee or process;

22 (I) under Section 3-108, attend meetings of the unit owners and, except during an
23 executive session, the executive board; and

(J) under Section 3-118, have access to the records of the association to the same extent as a unit owner.

Reporter's Note (5/25/2021)

The revision to the definition of “special declarant rights” has two changes. First, paragraph (A) is revised to limit the special declarant right to the completion of improvements that the declarant is not obligated to make. The declarant has an obligation under the act to make most of the improvements shown on plats and plans and the public offering statement. Improvements that the declarant are obligated to make (See Section 4-119) are no longer covered by this special declarant right. The declarant has a statutory easement under Section 2-116, *Easement and Use Rights*, which is sufficient for obligatory improvements and should exist whether or not the declarant has reserved this special declarant right. Second, cross references are added to most of the descriptions of special declarant rights to make it clear that the right is limited and defined by the relevant section, and is not a freestanding right that may have other characteristics.

(34) “Time share” ~~means a right to occupy a unit or any of several units during [five] or more separated time periods over a period of at least [five] years, including renewal options, whether or not coupled with an estate or interest in a common interest community or a specified portion thereof.~~ [has the meaning in [cite to definition of “time share” in appropriate state statute]] [means any ownership right in, or the right to use, a unit for less than a full year during any year, and, on a recurring basis for more than one year, even if the years are not consecutive].

Legislative Note: *A state that defines “time share” or a similar term such as “timeshare plan” or “time-share interest” in another statute should cross-reference the definition in the first bracketed option. A state that does not define the term should use the second bracketed option.*

Reporter's Note (5/25/2021)

1. Forty-one states have enacted statutes that regulate time shares, sometimes as a freestanding act and sometimes as part of their brokerage act, deceptive trade practices act, or other act. Most states have designated a state agency that is responsible for time-share regulation. It is preferable that this Act and the state’s time-share statute define “time share” the same way. This definition of “time share” may incorporate the time-share statute’s definition by cross reference. Of the states that have adopted UCIOA, Nevada has the most time-shares. Its version of UCIOA exactly reproduces verbatim the definition contained in the Nevada time-share statute. Nev. Rev. Stat. Ann. §§ 116.091,

1 119A.140.

2
3 2. For states that do not have a suitable statutory definition, the revision to
4 the definition of “time share” modernizes the definition by tracking closely the
5 key elements of the current definitions of “time share” in the California, Hawaii,
6 Florida, and Nevada statutes, all states with large numbers of time-share
7 developments. The proposed definition also is compatible with the Bankruptcy
8 Code’s long and complicated definition of “timeshare plan.” 11 U.S.C. §
9 101(53D).

10
11 (35) “Unit” means a physical portion of the common interest community designated for
12 separate ownership or occupancy, the boundaries of which are described pursuant to Section
13 2-105(a)(5). If a unit in a cooperative is owned by a unit owner or is sold, conveyed, voluntarily
14 or involuntarily encumbered, or otherwise transferred by a unit owner, the interest in that unit
15 which is owned, sold, conveyed, encumbered, or otherwise transferred is the right to possession
16 of that unit under a proprietary lease, coupled with the allocated interests of that unit, and the
17 association’s interest in that unit is not thereby affected.

18 (36) “Unit owner” means a declarant or other person that owns a unit, or a lessee of a unit
19 in a leasehold common interest community whose lease expires simultaneously with any lease
20 the expiration or termination of which will remove the unit from the common interest
21 community, but does not include a person having an interest in a unit solely as security for an
22 obligation. In a condominium or planned community, the declarant is the owner of any unit
23 created by the declaration. In a cooperative, the declarant is treated as the owner of any unit to
24 which allocated interests have been allocated until that unit has been conveyed to another person.

25 **Comment**

26 * * *

27 26. Definition (35), “Unit,” describes a tangible, physical part of the project rather than a
28 right in, or claim to, a tangible physical part of the property. Therefore, for example, a ~~“time-~~
29 ~~share” arrangement in which a unit is sold to 12 different persons, each of whom has the right to~~
30 ~~occupy the unit for one month~~ the sale of a unit to 5 persons as tenants in common does not

1 create ~~12~~ 5 new units – there are, rather, ~~12~~ 5 owners of the unit. (Under the section on voting
2 (Section ~~2-110~~ 3-110), a majority of the ~~time-share owners of a unit~~ tenants in common are
3 entitled to cast the vote assigned to that unit.)
4

5 * * *
6

7 27. Definition (36), “Unit owner,” contemplates that a seller under a land installment
8 contract would remain the unit owner until the contract is fulfilled. As between the seller and the
9 buyer, various rights and responsibilities must be assigned to the buyer by the contract itself, but
10 the association would continue to look to the seller (for payment of any arrears in common
11 expense assessments, for example,) as long as the seller holds title.
12

13 The definition makes it clear that a declarant, so long as he owns units in a common
14 interest community, is the unit owner of any unit created by the declaration, and is therefore
15 subject to all of the obligations imposed on other unit owners, including the obligation to pay
16 common expense assessments. This provision is designed to resolve ambiguities on this point
17 which have arisen under several existing state statutes.
18

19 In the special case of a cooperative, the declarant is treated as the owner of a unit or
20 “potential unit” to which allocated interests have been allocated, until that unit is conveyed to
21 another.
22

23 The definition includes purchasers of time shares only if they directly hold an estate or
24 long-term leasehold in the unit. Then they own the unit as real property and are treated the same
25 as other multiple owners of a single unit under the [act]. Time-share unit owners may exist in a
26 condominium, a planned community, or in a cooperative.
27

28 **Example 1:** A fee simple owner of a condominium unit records a time-share
29 declaration for her unit and conveys fee simple time-share estates to 12 different persons,
30 each receiving the right to occupy the unit for one month each year. The deeds of
31 conveyance are recorded. The 12 owners have time shares “coupled with an estate” as
32 defined in Section 1-103(34) and they are “unit owners” under Section 1-103(36).
33 Collectively the 12 owners hold the single allocation of votes allocated to their unit.
34 Section 2-107(a). A majority in interest of the 12 owners determines how to cast their
35 unit’s vote unless the declaration for the condominium community or the time-share
36 declaration expressly provides otherwise. Section 3-110(b)(2).
37

38 **Example 2:** A cooperative has 10 members, each holding the right to possess one
39 unit under a proprietary lease. The member of the association who owns Unit 6 records a
40 time-share declaration for her unit. The member agrees to sell time-share leaseholds to 6
41 different persons, each of whom will receive the right to occupy the unit for two months
42 each year. The sales close, with the member turning in her proprietary lease to the
43 association. The association then cancels this proprietary lease and issues 6 new
44 proprietary leases to the time-share purchasers. The 6 purchasers have time shares
45 coupled with a leasehold as defined in Section 1-103(34) and they are “unit owners”
46 under Section 1-103(36).

1 When a unit is devoted to time shares that are classified as personal property (e.g., a license, a
2 membership, or contract rights), then the time-share owners are not unit owners. In this
3 situation, someone else necessarily holds title to the unit. It may be the developer, a trustee, a
4 corporation, an association, or another entity. That person is the unit owner, holding title for the
5 benefit of the time-share owners, and its obligations and rights, including voting rights, are the
6 same as an entity who owns a regular unit for the benefit of shareholders, members, or other
7 individuals.

8
9 **SECTION 1-104. NO VARIATION BY AGREEMENT.** Except as expressly
10 provided in this [act], the effect of its provisions may not be varied by agreement, and rights
11 conferred by it may not be waived. Except as otherwise provided in Section 1-207, a declarant
12 may not act under a power of attorney, or use any other device, to evade the limitations or
13 prohibitions of this [act] or the declaration.

14 **Proposed New Comment**
15

16 The second sentence of this section invalidates any device of a declarant that has the
17 intent or effect of evading the limitations or prohibitions of this Act.

18 **Example:** A declarant establishes a common interest community, retaining title to the
19 road system providing access to the community from a nearby highway and to all of the
20 units. The road system is not part of the common elements described in the declaration,
21 and persons other than unit owners are allowed to use the road system. Instead, the
22 declarant grants right-of-way easements to use the roads to the association and the unit
23 owners. The easement instrument obligates the declarant or its assignee to repair and
24 maintain the roads and obligates the unit owners to pay substantial fees to use the roads
25 that far exceed the declarant's reasonable and projected repair and maintenance costs.
26 This device is invalid because the road easements are in fact common elements, even
27 though not described as such in the declaration. See Section 1-103(6), *Definition of*
28 *common elements*, and Comment 6 (access easement that benefits common interest
29 community "is and should be a common element"). In addition, the obligation to pay for
30 use of the roads is in substance a maintenance contract that the association may terminate
31 unilaterally after the period of declarant control ends.

32 **SECTION 1-117. MANDATORY AND DEFAULT RULES.**

33 (a) Except as provided in subsection (b), a declaration or bylaws may not vary the
34 provisions of this [act] that give a right to, or impose an obligation or liability on, a unit owner,
35 declarant, association, or executive board.

1 (b) The declaration or bylaws may vary the following provisions:

2 (1) Section 1-105(a), concerning the classification of a cooperative unit as real
3 estate or personal property.

4 (2) Section 1-107(b) and (c), concerning the reallocation of allocated interests and
5 the allocation of proceeds after a taking in eminent domain.

6 (3) [Article] 1, [Part] 2, and [Article] 5, concerning elections with respect to
7 applicability of this [act].

8 (4) Section 2-102, concerning boundary lines between units and common
9 elements.

10 (5) Section 2-108(b), concerning the reallocation of limited common elements.

11 (6) Section 2-109(e), concerning the horizontal boundaries of units.

12 (7) Section 2-111, concerning alterations of units and common elements made by
13 unit owners.

14 (8) Section 2-112(a) and (b), concerning the relocation of boundaries of units.

15 (9) Section 2-113(a), concerning the subdivision of units.

16 (10) Section 2-115, concerning signs maintained by a declarant.

17 (11) Section 2-116(a) and (c), concerning easements through, and rights to use,
18 common elements.

19 (12) Section 2-117(a), concerning the percentage of votes required to amend the
20 declaration.

21 (13) Section 2-118, concerning the percentage of votes required to terminate a
22 common interest community.

23 (14) Section 2-119, concerning lender approval of actions of unit owners and the

1 association.

2 (15) Section 2-120(a), concerning an executive board's delegation of powers by
3 the executive board to a master association.

4 (16) Section 2-122, concerning a declarant's addition of real estate to a planned
5 community.

6 (17) Section 3-102(a)(14), concerning an association's assignment of future
7 income.

8 (18) Section 3-103(a), concerning the extent to which the executive board acts on
9 behalf of the association.

10 (19) Section 3-107(a), concerning responsibility for maintenance, repair, and
11 replacement of units and common elements.

12 (20) Section 3-108(a)(2), concerning the percentage of unit owners who may
13 request a special meeting.

14 (21) Section 3-109, concerning quorum requirements for meetings and rules for
15 conducting meetings.

16 (22) Section 3-110, concerning voting by proxies, voting by ballots, voting
17 without a meeting, and voting by lessees.

18 (23) Section 3-112 (a), (b), and (g), concerning the percentage of votes required to
19 convey or encumber common elements.

20 (24) Section 3-113(k), concerning a nonresidential common interest community's
21 waiver or variance of insurance requirements.

22 (25) Section 3-114, concerning the payment of surplus funds of the association.

23 (26) Section 3-115, concerning changes in assessments of common expenses.

(27) Section 3-116(a), concerning the treatment of fees, costs, charges, and other sums as assessments for lien purposes.

Reporter's Note (6/23/2021)

1. Statutory provisions that draw the line between mandatory and default rules can be drafted in one of two ways. Some acts start from the premise that most rules ought to be “changeable” default rules and provide a list of mandatory (non-changeable) rules. Examples are UCC Article 9, § 9-602, *Waiver and Variance of Rights and Duties*; Uniform Trust Code § 105, *Default and Mandatory Rules*. Other acts, often those thought to be more directed to consumer protection, start from the opposite premise: most rules are mandatory, and a limited number are changeable default rules. New Section 1-117 follows the second way, which is consistent with UCIOA existing Section 1-104, *No Variation by Agreement*.

2. Subsection (a) states the general rule that provisions of this act are not subject to override in the governing instruments (the declaration and bylaws) when they confer rights or impose obligations and liabilities on unit owners, declarants, and other persons. Subsection (b) provides a list of default provisions of the act that are changeable by the governing instruments.

3. New Section 1-117 overlaps with existing Section 1-104, *No Variation by Agreement*, which provides: “Except as expressly provided in this [act], the effect of its provisions may not be varied by agreement, and rights conferred by it may not be waived. Except as otherwise provided in Section 1-207, a declarant may not act under a power of attorney, or use any other device, to evade the limitations or prohibitions of this [act] or the declaration.” The list of sections in new Section 1-117(b) is based on existing Section 1-104, Comment 4, which lists 33 sections that “permit variation.” New Section 1-117(b) lists 27 sections and is shorter for two reasons. First, subsection (b) only deals with rules that may be changed in the governing instruments (declaration and bylaws) rather than “by agreement.” ULC acts with “mandatory rules” almost always list what may be changed by governing instruments, rather than what may be changed “by agreement.” This means that the following 3 sections listed in the Comment (text of Comment quoted below) are not carried over to subsection (b):

Section 4-101 (Applicability; Waiver). All of Article 4 is modifiable or waivable by agreement in a common interest community restricted to non-residential use.

Section 4-115 (Warranties). Implied warranties of quality may be excluded or modified by agreement.

Section 4-116 (Statute of Limitation on Warranties). The six-year limitation may be modified by agreement of the parties.

1 Three sections listed in the Comment (text of Comment quoted below) are not carried
2 over to subsection (b) because they do not actually allow the declaration or bylaws to
3 change the effect of provisions of the act:

4 Section 1-103 (Definitions). All definitions used in the declaration and bylaws
5 may be varied in the declaration, but not in interpretation of the Act.

6 Section 2-105 (Contents of Declaration). A declarant may add any information he
7 desires to the required content of the declaration.

8 Section 3-106 (Bylaws). Subject to the provisions of the declaration, the bylaws
9 may contain any matter in addition to that required by the Act.

10 [PART] 2

11 APPLICABILITY

12 SECTION 1-201. GENERAL APPLICABILITY TO ~~NEW~~ COMMON

13 INTEREST COMMUNITIES. Except as otherwise provided in this [part and in article 5], this
14 [act] applies to all common interest communities ~~created within this state after [the effective date~~
15 ~~of this act] [act]]. The provisions of [insert reference to all present statutes expressly applicable~~
16 ~~to planned communities, condominiums, cooperatives, or horizontal property regimes] do not~~
17 ~~apply to common interest communities created after [the effective date of this act]. Amendments~~
18 ~~to this [act] apply to all common interest communities created after [the effective date of this act]~~
19 ~~or made~~ subject to this [act] ~~by amendment of the declaration of the common interest~~
20 ~~community~~, regardless of when the amendment ~~to this [act]~~ becomes effective.

21 Reporter's Note (5/25/2021)

22
23 The revision to this section is a major change in policy, making the act generally
24 applicable to all common interest communities in the State, including those
25 created before the effective date of the act. In the first sentence, the phrase
26 “created in this state” is deleted to achieve consistency in usage in the act and
27 because it is redundant. Section 1-208, *Applicability to Out-of-state Common*
28 *Interest Communities*, fully addresses all issues concerning common interest
29 communities located outside the enacting state.
30

1 **SECTION 1-204. ~~APPLICABILITY TO PRE-EXISTING COMMON INTEREST~~**
2 **~~COMMUNITIES. [RESERVED].~~**

3 ~~(a) Except for a cooperative or planned community described Section 1-205 or a~~
4 ~~nonresidential common interest community described in Section 1-207, the following sections~~
5 ~~apply to a common interest community created in this state before [the effective date of this act]:~~

6 ~~(1) Section 1-105;~~

7 ~~(2) Section 1-106;~~

8 ~~(3) Section 1-107;~~

9 ~~(4) Section 1-206;~~

10 ~~(5) Section 2-102;~~

11 ~~(6) Section 2-103;~~

12 ~~(7) Section 2-104;~~

13 ~~(8) Section 2-117 (h) and (i);~~

14 ~~(9) Section 2-121;~~

15 ~~(10) Section 2-124;~~

16 ~~(11) Section 3-102(a)(1) through (6) and (11) through (16);~~

17 ~~(12) Section 3-103;~~

18 ~~(13) Section 3-111;~~

19 ~~(14) Section 3-116;~~

20 ~~(15) Section 3-118;~~

21 ~~(16) Section 3-124;~~

22 ~~(17) Section 4-109;~~

23 ~~(18) Section 4-117; and~~

~~(19) Section 1-103 to the extent necessary to construe those sections.~~

~~(b) The sections described in subsection (a) apply only to events and circumstances occurring after the effective date of this [act] and do not invalidate existing provisions of the [declaration, bylaws, or plats or plans] of those common interest communities.~~

Reporter's Note (5/25/2021)

This section is deleted from this Article because it applies to preexisting common interest communities, and the revision to Section 1-201 makes the act generally applicable to preexisting common interest communities. With minor edits the text of this Section 1-204 is moved to new Section 5-104 in new Article 5, *Transition*.

~~SECTION 1-205. APPLICABILITY TO SMALL PREEXISTING COOPERATIVES AND PLANNED COMMUNITIES. [RESERVED].~~

~~If a cooperative or planned community created within this state before [the effective date of this act] contains no more than 12 units and is not subject to any development right, it is subject only to Sections 1-105, 1-106, and 1-107 unless the declaration is amended in conformity with applicable law and with the procedures and requirements of the declaration to take advantage of Section 1-206, in which case, all the sections enumerated in Section 1-204(a) apply to that cooperative or planned community.~~

Reporter's Note (5/25/2021)

This section is deleted from this Article because it applies to preexisting common interest communities, and the revision to Section 1-201 makes the act generally applicable to preexisting common interest communities. Its content is not needed in new Article 5, *Transition*. Article 1, Part 2, has two sections with rules for small cooperatives and planned communities, which apply to both preexisting and new communities: Section 1-202, *Exception for Small Cooperatives*, and Section 1-203, *Exception for Small and Limited Expense Liability Planned Communities*. These amendments are not making changes to Section 1-202 or Section 1-203.

SECTION 1-206. AMENDMENTS TO GOVERNING INSTRUMENTS.

1 (a) The declaration, or bylaws, or plats and plans of any common interest community
2 created before [the effective date of this act] of a cooperative described in Section 1-202 or a
3 planned community described in Section 1-203 may be amended to:

4 (1) state that all the sections enumerated in Section 5-104(a) apply to that
5 cooperative or planned community; or

6 (2) achieve any other result permitted by this [act], regardless of what applicable
7 law provided before this [act] was adopted.

8 (b) Except as otherwise provided in Section 2-117(i) and (j), an amendment under this
9 section to the declaration, or bylaws, or plats and plans authorized by this section of a common
10 interest community created before the effective date of this [act] must be adopted in conformity
11 with any procedures and requirements for amending the instruments specified by those
12 instruments or, if there are none, in conformity with the amendment procedures of this [act]. If
13 an amendment grants to a person a right, power, or privilege permitted by this [act], any
14 correlative obligation, liability, or restriction in this [act] also applies to the person.

15 **Reporter's Note (5/25/2021)**

16
17 Section 1-206 is amended to provide elections for all small cooperatives and
18 planned communities, whether created before or after the effective date of this act,
19 to achieve any act permitted by this act or to elect to be subject to the 19 sections
20 of the act listed in existing Section 1-204, which these amendments move to
21 Section 5-104 in the new transition article. In addition to the two elections in this
22 section, the small cooperatives and planned communities may elect under
23 Sections 1-202 and 1-203, respectively, to be subject to the entire act.
24

25 **[ARTICLE] 2**

26 **CREATION, ALTERATION, AND**

27 **TERMINATION OF COMMON INTEREST COMMUNITIES**

28 * * *

1 **SECTION 2-105. CONTENTS OF DECLARATION.**

2 (a) The declaration must contain:

3 * * *

4 (8) a description of any development right and any other special declarant rights
5 reserved by the declarant, ~~together with a legally sufficient description of the real estate to which~~
6 ~~each of those rights applies, and~~ a time limit within which each of those rights must be exercised,
7 and a legally sufficient description of the real estate to which each development right applies;

8 **Reporter's Note (5/25/2021)**

9
10 Existing paragraph (8) requires a legal description of a parcel to which each
11 special declarant right is appurtenant, including the intangible rights to control
12 architectural review committees and to appoint and remove officers and board
13 members. Under revised Section 3-104(b) below, special declarant rights are
14 automatically appurtenant to all real estate owned by the declarant in the common
15 interest community. Accordingly, the revision to this paragraph deletes the
16 requirement that the declaration describe parcels of real estate to which special
17 declarant rights are connected, except for a development right (which allows the
18 declarant to add or withdraw real estate from the community or create or alter
19 units).

20 * * *

21
22 **SECTION 2-108. LIMITED COMMON ELEMENTS.**

23 (a) Except for the limited common elements described in Section 2-102(2) and (4), the
24 declaration must specify to which unit or units each limited common element is allocated. An
25 allocation may not be altered without the consent of the unit owners whose units are affected.

26 (b) Except as the declaration otherwise provides, a limited common element may be
27 reallocated by an amendment to the declaration executed by the unit owners between or among
28 whose units the reallocation is made. ~~The persons executing the amendment shall provide a copy~~
29 ~~thereof to the association, which shall record it. The amendment must be recorded in the names~~
30 ~~of the parties and the common interest community.~~

1 (c) A common element not previously allocated as a limited common element may be so
2 allocated only ~~pursuant to provisions in the declaration made in accordance with Section 2-~~
3 ~~105(a)(7). The allocations must be made by amendment~~ by an amendment to the declaration. A
4 unit owner may request the executive board to amend the declaration to allocate all or part of a
5 common element as a limited common element for the exclusive use of the owner's unit. The
6 board may prescribe in the amendment a condition or obligation, including an obligation to
7 maintain the new limited common element or to pay a fee or charge to the association. If the
8 board approves the proposed amendment, the board shall give notice to the unit owners of its
9 action and include a statement that unit owners may object in a record to the proposed
10 amendment not later than 30 days after delivery of the notice. The amendment becomes effective
11 if the board does not receive a timely objection. If a timely objection is received, the amendment
12 becomes effective only if the unit owners vote under Section 3-110, whether or not a quorum is
13 present, to approve the amendment by a vote of at least 67 percent of the votes cast, including at
14 least 67 percent of the votes cast and allocated to units not owned by the declarant. If the
15 amendment becomes effective, the association and the owner of the benefitted unit shall execute
16 the amendment.

17 (d) The association shall record an amendment to the declaration made under this section
18 in the manner provided in Section 2-117. If an amendment changes any information shown in a
19 plat or plan concerning a common element or limited common element other than a common
20 wall between units, the association shall prepare and record a revised plat or plan.

21 **Reporter's Note (5/25/2021)**
22

23 The revision to subsection (c) makes it easier to reallocate a common element as a
24 limited common element. The existing provision requires an amendment to the
25 declaration under Section 2-117, *Amendment of Declaration*," which requires an
26 affirmative 67% vote of all unit owners and allows the declaration to require a

1 higher percentage or unanimity. Often a unit owner's request for reallocation
2 results in a minor change and is not important to other unit owners. The revision
3 allows action by the executive board, with a procedure for notice to the unit
4 owners, who may object and require a vote on the matter.
5

6 **SECTION 2-112. RELOCATION OF UNIT BOUNDARIES.**

7 (a) Subject to the provisions of the declaration and other provisions of law, the
8 boundaries between adjoining units may be relocated by an amendment to the declaration upon
9 application to the association by the owners of those units. If the owners of the adjoining units
10 have specified a reallocation between their units of their allocated interests, the application must
11 state the proposed reallocations. Unless the executive board determines, within 30 days, that the
12 reallocations are unreasonable, the association shall prepare an amendment that identifies the
13 units involved and states the reallocations. ~~The amendment must be executed by those unit~~
14 ~~owners, contain words of conveyance between them, and, on recordation, be indexed in the name~~
15 ~~of the grantor and the grantee, and [in the grantee's index] in the name of the association.~~

16 ~~(b) Subject to the provisions of the declaration and other provisions of law, boundaries~~
17 ~~between units and common elements may be relocated to incorporate common elements within a~~
18 ~~unit by an amendment to the declaration upon application to the association by the owner of the~~
19 ~~unit who proposes to relocate a boundary. Unless the declaration provides otherwise, the~~
20 ~~amendment may be approved only if persons entitled to cast at least [67] percent of the votes in~~
21 ~~the association, including [67] percent of the votes allocated to units not owned by the declarant,~~
22 ~~agree to the action. The amendment may describe any fees or charges payable by the owner of~~
23 ~~the affected unit in connection with the boundary relocation and the fees and charges are assets~~
24 ~~of the association. The amendment must be executed by the unit owner of the unit whose~~
25 ~~boundary is being relocated and by the association, contain words of conveyance between them,~~
26 ~~and on recordation be indexed in the name of the unit owner and the association as grantor or~~

1 ~~grantee, as appropriate.~~

2 **(b) The boundary of a unit may be relocated only by an amendment to the declaration. A**
3 **unit owner may request the executive board to amend the declaration to include all or part of a**
4 **common element within the owner's unit. The board may prescribe in the amendment a fee or**
5 **charge payable by the unit owner to the association in connection with the relocation. The board**
6 **may approve the amendment only if the unit owners vote under Section 3-110, whether or not a**
7 **quorum is present, to approve the amendment by a vote of at least 67 percent of the votes cast,**
8 **including at least 67 percent of the votes cast and allocated to units not owned by the declarant.**

9 **(c) The association and the owners of the units whose boundaries are relocated shall**
10 **execute an amendment made under this section to the declaration. The amendment must contain**
11 **words of conveyance between the parties. The association shall record an amendment made**
12 **under this section in the manner provided in Section 2-117. The association (i) in a condominium**
13 **or planned community shall prepare and record plats or plans necessary to show the altered**
14 **boundaries of affected units, and their dimensions and identifying numbers, and (ii) in a**
15 **cooperative shall prepare and record amendments to the declaration, including any plans**
16 **necessary to show or describe the altered boundaries of affected units, and their dimensions and**
17 **identifying numbers.**

18 **Reporter's Notes (5/25/2021)**
19

20 The revision to subsection (b) retains the substance of existing subsection (b),
21 which allows a unit owner to request that part of a common element be added to
22 the owner's unit. Changes are made to conform the language and procedure in
23 many respects to the new procedure under Section 2-108(c) above for changing a
24 common element to a limited common element. The revision resolves a possible
25 ambiguity as to whether the executive board's approval of the unit owner's
26 application is necessary. This revision also deletes the requirement of a quorum
27 for the unit owners' vote on the basis that often the requested boundary relocation
28 will be minor and not of significant interest to other unit owners. Subsection (b)
29 expressly allows the association to require that the unit owner pay a fee or charge,

1 which might be one-time or periodic. Depending on the nature of the relocation,
2 the association may also decide that it is necessary or advisable to require an
3 increase in the allocated interest of the unit under Section 2-107, which would
4 necessarily entail decreasing the allocated interests of other unit owners.
5

6 **Comment**

7 1. This section changes the effect of most current declarations, under which the
8 boundaries between units may not be altered without unanimous or nearly unanimous consent of
9 the unit owners. As the section makes clear, this result may be varied by the relocation of
10 boundaries is allowed notwithstanding restrictions in the declaration. The declaration, however,
11 may specify different procedures for the association's approval of boundary relocations.
12

13 * * *

14 **Alternative A**

15
16 ~~[SECTION 2-114. EASEMENT FOR ENCROACHMENTS. To the extent that any~~
17 ~~unit or common element encroaches on any other unit or common element, a valid easement for~~
18 ~~the encroachment exists. The easement does not relieve a unit owner of liability in case of his~~
19 ~~willful misconduct nor relieve a declarant or any other person of liability for failure to adhere to~~
20 ~~any plats and plans or, in a cooperative, to any representation in the public offering statement.]~~
21

22 **Alternative B**

23 ~~[SECTION 2-114. MONUMENTS AS BOUNDARIES. The existing physical~~
24 ~~boundaries of a unit or the physical boundaries of a unit reconstructed in substantial accordance~~
25 ~~with the description contained in the original declaration are its legal boundaries, rather than the~~
26 ~~boundaries derived from the description contained in the original declaration, regardless of~~
27 ~~vertical or lateral movement of the building or minor variance between those boundaries and the~~
28 ~~boundaries derived from the description contained in the original declaration. This section does~~
29 ~~not relieve a unit owner of liability in case of his willful misconduct or relieve a declarant or any~~
30 ~~other person of liability for failure to adhere to any plats and plans or, in a cooperative, to any~~
~~representation in the public offering statement.]~~

1 **End of Alternatives**

2 **SECTION 2-114. BUILDING ENCROACHMENT.**

3 **Alternative A**

4 (a) Except as provided in subsection (b), if the construction, reconstruction, or alteration
5 of a building or the vertical or lateral movement of a building results in an encroachment due to a
6 divergence between the existing physical boundaries of a unit and the boundaries described in
7 the declaration under Section 2-105(a)(5), an easement for the encroachment exists between
8 adjacent units and between units and adjacent common areas.

9 **Alternative B**

10 (a) Except as provided in subsection (b), if the construction, reconstruction, or alteration
11 of a building or the vertical or lateral movement of a building results in an encroachment due to a
12 divergence between the existing physical boundaries of a unit and the boundaries described in
13 the declaration under Section 2-105(a)(5), the existing physical boundaries of the unit are its
14 legal boundaries, rather than the boundaries described in the declaration.

15 **End of Alternatives**

16 (b) Subsection (a) does not apply if the encroachment:

17 (1) extends beyond five feet as measured from any point on the common
18 boundary along a line perpendicular to the boundary; or

19 (2) results from willful misconduct of the unit owner that claims a benefit under
20 subsection (a).

21 (c) This section does not relieve a declarant of liability for failure to adhere to plats or
22 plans or a representation in the public offering statement.

23 **Legislative Note:** Two approaches are presented as alternatives because a number of states have
24 previously adopted the “easement solution” of Alternative A or the “adjustment of boundary”

1 solution of Alternative B. A state may choose to continue its existing law on the topic.

2
3 **Reporter's Note (4/2/2021)**
4

5 The revisions to Section 2-114 retain the basic idea from the existing text: Many
6 encroachments are cleared up by the creation of an easement (Alternative A) or
7 by an adjustment of the legal boundary to conform to the space occupied by the
8 encroachment (Alternative B). There are six significant changes of substance:
9

10 1. The original scope covers all encroachments involving units and common
11 areas. The revision limits the scope of this section to *building* encroachments;
12 i.e. encroachments between adjoining units in a building and between the
13 building part of a unit and an adjoining common element. These
14 encroachments stem from the construction of and subsequent changes to
15 buildings and their component parts. The section as revised does not address
16 other encroachments and boundary problems, such as misplaced fences and
17 misplaced monuments, which the original text apparently covers.
18

19 2. The original Alternative B applies only when a unit is constructed in
20 "substantial accordance with the description" in the declaration. The revision
21 replaces it with a five-foot limit and applies the limit to both Alternatives.
22

23 3. The original text preserves or creates liability for an owner's willful
24 misconduct or the failure of a declarant or another person to adhere to plats and
25 plans. The revision limits the liability provision to the declarant's conduct and
26 handles the owner's misconduct differently by preventing the owner from
27 obtaining the benefit of this section.
28

29 4. The original text is possibly unclear as to whether a unit owner who gains
30 space has to pay compensation to an owner who loses space. The revision
31 makes it clearer that there is no payment requirement by narrowing of the
32 scope of the "liability rule".
33

34 5. The original Alternative B is not clear as to whether it matters if the
35 encroachment is due to original construction or a subsequent change or a
36 "reconstruction." The revision applies the same rule to original construction
37 and subsequent changes for both Alternatives.
38

39 6. The original Alternative A applies when any "common element encroaches
40 on any other . . . common element." The revision narrows the scope for both
41 Alternatives, applying only when a unit encroaches on another unit or a
42 common area.
43

44 **SECTION 2-117. AMENDMENT OF DECLARATION.**

45 * * *

1 (c) Every amendment to the declaration must be recorded in every [county] in which any
2 portion of the common interest community is located and is effective only upon recordation. An
3 amendment, ~~except an amendment pursuant to Section 2-112(a)~~, must be indexed [in the
4 grantee's index] in the name of the common interest community and the association and [in the
5 grantor's index] in the name of the parties executing the amendment.

6 * * *

7 **SECTION 2-118. TERMINATION OF COMMON INTEREST COMMUNITY.**

8 (a) Except for a taking of all the units by eminent domain, foreclosure against an entire
9 cooperative of a security interest that has priority over the declaration, or in the circumstances
10 described in Section 2-124, a common interest community may be terminated only by agreement
11 of unit owners of units to which at least 80 percent of the votes in the association are allocated,
12 ~~or any larger percentage the declaration specifies,~~ including at least 80 percent of the votes
13 allocated to units not owned by the declarant, and with any other approvals required by the
14 declaration. The declaration may require a larger percentage of total votes in the association for
15 approval, but termination requires approval by at least 80 percent of the votes allocated to units
16 not owned by the declarant. The declaration may specify a smaller percentage only if all of the
17 units are restricted exclusively to nonresidential uses.

18 (b) An agreement to terminate must be evidenced by the execution of a termination
19 agreement, or ratifications thereof, in the same manner as a deed, by the requisite number of unit
20 owners. The termination agreement must specify a date after which the agreement is void unless
21 it is recorded before that date. A termination agreement and all ratifications thereof must be
22 recorded in every [county] in which a portion of the common interest community is situated and
23 is effective only upon recordation.

1 (c) ~~In the case of a condominium or planned community containing only units having~~
2 ~~horizontal boundaries described in the declaration, a~~ A termination agreement may provide that
3 for the sale of some or all of the common elements and units of the common interest community
4 ~~must be sold~~ following termination. If, pursuant to the agreement, any real estate in the common
5 interest community is to be sold following termination, the termination agreement must set forth
6 the minimum terms of the sale.

7 (d) ~~In the case of a condominium or planned community containing any units not having~~
8 ~~horizontal boundaries described in the declaration, a termination agreement may provide for sale~~
9 ~~of the common elements, but it may not require that the units be sold following termination,~~
10 ~~unless the declaration as originally recorded provided otherwise or all the unit owners consent to~~
11 ~~the sale.~~

12 [(d) Reserved.]

13 (e) The association, on behalf of the unit owners, may contract for the sale of real estate
14 in a common interest community, but the contract is not binding on the unit owners until
15 approved pursuant to subsections (a) and (b). If any real estate is to be sold following
16 termination, title to that real estate, ~~upon termination,~~ not already owned by the association vests
17 on termination in the association as trustee for the holders of all interests in the units. Thereafter,
18 the association has all powers necessary and appropriate to effect the sale. Until the sale has been
19 concluded and the proceeds thereof distributed, the association continues in existence with all
20 powers it had before termination. Proceeds of the sale must be distributed to unit owners and lien
21 holders as their interests may appear, in accordance with subsections (h), (i), ~~and (j),~~ and (m).
22 Unless otherwise specified in the termination agreement, as long as the association holds title to
23 the real estate, each unit owner and the unit owner's successors in interest have an exclusive

1 right to occupancy of the portion of the real estate that formerly constituted the unit. During the
2 period of that occupancy, each unit owner and the unit owner's successors in interest remain
3 liable for all assessments and other obligations imposed on unit owners by this [act] or the
4 declaration.

5 (f) ~~In a condominium or planned community, if the real estate constituting the common~~
6 ~~interest community is not to be sold following termination, title to the common elements and, in~~
7 ~~a common interest community containing only units having horizontal boundaries described in~~
8 ~~the declaration, title to all the real estate in the common interest community, vests in the unit~~
9 ~~owners upon termination as tenants in common in proportion to their respective interests as~~
10 ~~provided in subsection (j), and liens on the units shift accordingly. While the tenancy in common~~
11 ~~exists, each unit owner and the unit owner's successors in interest have an exclusive right to~~
12 ~~occupancy of the portion of the real estate that formerly constituted the unit. Termination does~~
13 not change title to a unit or common element not to be sold following termination unless the
14 termination agreement otherwise provides.

15 (g) Following termination of the common interest community, the proceeds of sale of real
16 estate, together with the assets of the association, are held by the association as trustee for unit
17 owners and holders of liens on the units as their interests may appear.

18 (h) Following termination of a condominium or planned community, creditors of the
19 association holding liens on the units; which were [recorded] [docketed] [insert other procedures
20 required under state law to perfect a lien on real estate as a result of a judgment] before
21 termination; may enforce those liens in the same manner as any lien holder. All other creditors of
22 the association are to be treated as if they had perfected liens on the units immediately before
23 termination.

1 (i) In a cooperative, the declaration may provide that all creditors of the association have
2 priority over any interests of unit owners and creditors of unit owners. In that event, following
3 termination, creditors of the association holding liens on the cooperative which were [recorded]
4 [docketed] [insert other procedures required under state law to perfect a lien on real estate as a
5 result of a judgment] before termination may enforce their liens in the same manner as any lien
6 holder, and any other creditor of the association is to be treated as if the creditor had perfected a
7 lien against the cooperative immediately before termination. Unless the declaration provides that
8 all creditors of the association have that priority:

9 (1) the lien of each creditor of the association which was perfected against the
10 association before termination becomes, upon termination, a lien against each unit owner's
11 interest in the unit as of the date the lien was perfected;

12 (2) any other creditor of the association is to be treated upon termination as if the
13 creditor had perfected a lien against each unit owner's interest immediately before termination;

14 (3) the amount of the lien of an association's creditor described in paragraphs (1)
15 and (2) against each of the unit owners' interest must be proportionate to the ratio which each
16 unit's common expense liability bears to the common expense liability of all of the units;

17 (4) the lien of each creditor of each unit owner which was perfected before
18 termination continues as a lien against that unit owner's unit as of the date the lien was perfected;

19 (5) the assets of the association must be distributed to all unit owners and all lien
20 holders as their interests may appear in the order described above; and

21 (6) creditors of the association are not entitled to payment from any unit owner in
22 excess of the amount of the creditor's lien against that unit owner's interest.

23 (j) The respective interests of unit owners referred to in subsections (e), (f), (g), (h), and

(i), and (m) are as follows:

(1) Except as otherwise provided in paragraph (2), the respective interests of unit owners are the fair market values of their units, allocated interests, and any limited common elements immediately before the termination, as determined by one or more independent appraisers selected by the association. ~~The decision of appraisal made by the independent appraisers must be distributed to the unit owners and becomes final unless:~~

(A) disapproved within not later than 30 days after distribution by unit owners of units to which at least 25 percent of the votes in the association are allocated; or

(B) a unit owner objects in a record to the determination of value of the owner's unit not later than 30 days after distribution.

A unit owner that objects may select an appraiser to represent the owner and make an appraisal of the owner's unit. If the association's appraisal and the unit owner's appraisal differ as to the fair market value of the owner's interest, a panel consisting of an appraiser selected by the association, the unit owner's appraiser, and a third appraiser mutually selected by the first two appraisers shall determine, by majority vote, the value of the unit owner's interest. The determination of value by the panel is final. The proportion of any unit owner's interest to that of all unit owners is determined by dividing the fair market value of that unit owner's unit and its allocated interests by the total fair market values of all the units and their allocated interests.

(2) If any unit or any limited common element is destroyed to the extent that an appraisal of the fair market value thereof before destruction cannot be made, the interests of all unit owners are:

(A) in a condominium, their respective common element interests immediately before the termination;

1 (B) in a cooperative, their respective ownership interests immediately
2 before the termination; and

3 (C) in a planned community, their respective common expense liabilities
4 immediately before the termination.

5 (k) In a condominium or planned community, except as otherwise provided in subsection
6 ~~(H)(I)~~, foreclosure or enforcement of a lien or encumbrance against the entire common interest
7 community does not terminate, of itself, the common interest community, and foreclosure or
8 enforcement of a lien or encumbrance against a portion of the common interest community, other
9 than withdrawable real estate, does not withdraw that portion from the common interest
10 community. Foreclosure or enforcement of a lien or encumbrance against withdrawable real
11 estate, or against common elements that have been subjected to a security interest by the
12 association under Section 3-112, does not withdraw, of itself, that real estate from the common
13 interest community, but the person taking title thereto may require from the association, upon
14 request, an amendment excluding the real estate from the common interest community.

15 (l) In a condominium or planned community, if a lien or encumbrance against a portion
16 of the real estate comprising the common interest community has priority over the declaration
17 and the lien or encumbrance has not been partially released, the parties foreclosing the lien or
18 encumbrance, upon foreclosure, may record an instrument excluding the real estate subject to
19 that lien or encumbrance from the common interest community.

20 (m) A termination agreement complying with this section may provide for a termination
21 of fewer than all of the units in a common interest community subject to the following:

22 (1) In addition to the approval required by subsection (a), the termination
23 agreement must be approved by at least 80 percent of the votes allocated to the units being

1 terminated.

2 (2) The termination agreement must reallocate under Section 2-107 the allocated
3 interests for the units that remain in the common interest community after termination.

4 (3) The aggregate values of the units and common elements being terminated
5 must be determined under subsection (j). The termination agreement must specify the allocation
6 of the proceeds of sale for the units and common elements being terminated and sold.

7 (4) Security interests and liens on remaining units and remaining common
8 elements continue, and security interests and liens on units being terminated no longer extend to
9 any remaining common elements.

10 (5) The unit owners association continues as the association for the remaining
11 units.

12 (6) The association shall record an amendment to the declaration or an amended
13 and restated declaration with the termination agreement under subsection (b).

14 **Reporter's Note (5/25/2021)**

15
16 The revisions to Section 2-118 make the following changes of substance:

17
18 1. The revision to subsection (a) retains the requirement that 80% of the unit
19 owners agree to termination of the common interest community, but adds the
20 requirement of agreement by 80% of the unit owners other than the declarant.
21 This prevents a declarant who has sold relatively few units from accomplishing
22 a termination over the objection of most or all of the unit purchasers.

23
24 2. Subsection (c) deals with a sale of units and common elements following
25 termination. There are three substantive changes to this subsection. First, the
26 scope is expanded to include cooperatives. Second, the existing language
27 authorizes a sale of "all of the common elements and units"; the revision
28 allows for the sale of some but not all common elements and units. Third, the
29 scope of this subsection is expanded by removing the limitation of the rule to
30 communities with "only units having horizontal boundaries" and consolidating
31 its content with original subsection (d) infra. This consolidation is a major
32 change in policy. In a community with some or all "non-stacked units,"
33 subsection (d) required unanimous consent of unit owners for sale after

1 termination. Revised subsection (c) simplifies by allowing the sale of units
2 after termination, regardless of whether units have horizontal boundaries, with
3 an 89% vote.
4

5 3. Existing subsection (f) handles title to real estate not being sold pursuant to
6 the termination agreement. The existing subsection shifts title to all common
7 elements to the unit owners in tenancy in common (note in the condominium
8 the unit owners already hold title in this form), shifts title to the units to a
9 tenancy in common in communities having only horizontal-boundary units,
10 with no shifting for communities having other units. The revision to subsection
11 (f) simplifies by ending shifting by statutory rule. Instead, new subsection (f)
12 defers to the termination agreement. Title to real estate that is not to be sold
13 remains in place, but the unit owners may provide for a different outcome,
14 including a conversion of some or all of their real estate to tenancy in common,
15 in their termination agreement.
16

17 4. Subsection (j)(1) requires the association to obtain an appraisal of all of the
18 units in order to allocate the sales proceeds after termination. The revision to
19 paragraph (1) provides protection for unit owners who believe that the
20 association's appraisal understates the fair market value of their unit. A unit
21 owner who objects to the association's appraisal may obtain a separate
22 appraisal, and in the absence of agreement on value a panel of three appraisers
23 (the association's appraiser, the unit owner's appraiser, and a third appraiser
24 selected by the first two) determine the value of the owner's unit. This new
25 procedure is based on a provision in the Illinois Condominium Act, 765 ILCS
26 605/15.
27

28 5. New subsection (m) adds rules to govern partial terminations. The source for
29 the new subsection is the partial-termination provisions in the Florida
30 condominium statute. For discussion, see Proposed New Comment infra.
31

32 **Proposed New Comment**

33

34 10. The 2021 amendments to this section authorize a partial termination of the common
35 interest community. A partial termination may serve the best interests of a community in a
36 number of different circumstances. A natural disaster or other casualty may destroy one building
37 while leaving other buildings intact. A partial termination of the destroyed building and its
38 adjacent real estate may be preferable to reconstruction. A developer may declare multiple
39 phases, construct buildings for only the first one, and when a subsequent unbuilt phase becomes
40 infeasible, a partial termination may remove the unbuilt developer-owned units. Changes in the
41 neighborhood may make one part of a community unsuitable for continued residential use; for
42 example, the government may replace a two-lane road adjoining the community with a high-
43 speed six-lane highway. In most states, partial terminations of common interest communities
44 take place from time to time without the aid of a statutory mechanism. Florida added a partial-
45 termination provision to its condominium act in 2011. Fla. Stat. § 718.117. New subsection (m)
46 sets forth procedures and furnishes guidance for partial termination. It authorizes partial

1 termination with a vote of 80 percent of the unit owners, including 80 percent of the owners of
2 units being terminated. Partial termination is the same concept as the withdrawal of real estate
3 from the common interest community when the withdrawn real estate includes declared units.
4 Partial termination under this act may be accomplished only pursuant to this section or pursuant
5 to the development right of a declarant to withdraw real estate. See Section 2-110(d). A mere
6 amendment to the declaration to reduce the size of the community by withdrawing units is not
7 effective. See Section 2-117(d).

8 9 **Comment**

10 * * *

11 8. Subsection (f) contemplates the possibility that a planned community or condominium
12 might be terminated but the real estate not sold.

13
14 Subsections (b) and (g), the parallel provisions to Section 2-117(b) and (d) of MRECA,
15 ~~contemplate the same possibility in the case of cooperatives. Termination without sale is not~~
16 ~~likely to be the usual case, but might occur if the unit owners plan conversion to another form of~~
17 ~~a new common interest community, for example, conversion from a cooperative to a~~
18 ~~condominium. In the case of a cooperative, title to the real estate upon termination would remain~~
19 ~~in the name of the association as trustee for the unit owners; see subsection (g). In a~~
20 ~~condominium or planned community, title to the common elements following termination vests~~
21 ~~in the unit owners as tenants in common if that real estate is not to be sold; see subsection (f),~~
22 ~~but until a sale occurs vests in the association if the real estate is to be sold; see subsection (e). In~~
23 ~~the case of a condominium or planned community which contains only units with horizontal~~
24 ~~boundaries, these title rules also apply to all the units. (See subsection (f).) In the remaining case,~~
25 ~~i.e., the case where there are some units with horizontal boundaries and some without horizontal~~
26 ~~boundaries, the Act provides, in subsection (f), that unit owners become tenants in common of~~
27 ~~the common elements, but~~ The unit owners continue to hold individual titles to their units.
28 Therefore, in a condominium or planned community with units located in both a high-rise in a
29 high-rise building, and in single-story structures, the unit owners in the high-rise building will
30 hold individual title to their unit upon termination, and either the declaration or the termination
31 agreement should address the needs for easements of support and access for the high-rise high-
32 rise units over the real estate which all the unit owners will own as tenants in common.
33 Undoubtedly, the unit owners will immediately reconstitute themselves as some form of
34 common interest community.

35
36 9. Subsection (f) does not cover the possibility that a cooperative might be terminated but
37 the real estate not sold. While this is not likely to be the usual case, termination without sale
38 might occur if the cooperative unit owners plan conversion to another form of common interest
39 community, such as a condominium. Since, after termination of a cooperative title to the real
40 estate remains in the association, it could record a new declaration corresponding to the new
41 form of common interest community adopted, convey the units to the former unit holders, and
42 then itself continue as the new common interest community's association.

43 44 **SECTION 2-120. MASTER ASSOCIATIONS.**

1 (a) ~~If the declaration provides that any of the powers described in Section 3-102 are to be~~
2 ~~exercised by or may be delegated to a profit or nonprofit corporation [or unincorporated~~
3 ~~association] that exercises those or other powers on behalf of one or more common interest~~
4 ~~communities or for the benefit of the unit owners of one or more common interest communities,~~
5 ~~all~~ A declaration may:

6 (1) delegate a power described in Section 3-102(a) from the unit owners
7 association to a master association;

8 (2) provide for the exercise of the powers described in Section 3-102(a) by a
9 master association that also serves as the unit owners association for the common interest
10 community; or

11 (3) reserve a special declarant right to make the common interest community
12 subject to a master association.

13 (b) All provisions of this [act] applicable to unit owners associations apply to any such
14 corporation [or unincorporated the master association], except as modified by this section.

15 (c) A unit owners association may delegate a power described in Section 3-102(a) to a
16 master association without amending the declaration. The executive board of the unit owners
17 association shall give notice to the unit owners of a proposed delegation and include a statement
18 that unit owners may object in a record to the delegation not later than 30 days after delivery of
19 the notice. The delegation becomes effective if the board does not receive timely objections from
20 unit owners of units to which at least 10 percent of the votes in the association are allocated. If
21 the board receives timely objections, the delegation becomes effective only if the unit owners
22 vote under Section 3-110 to approve the delegation by a majority vote. The delegation is not
23 effective until the board of the master association accepts the delegation.

1 (d) Revocation of a delegation set forth in the declaration may be made only by an
2 amendment to the declaration.

3 (e) At a meeting of the unit owners for which the subject of delegation of powers from
4 the executive board to a master association is listed in the notice of the meeting, the unit owners
5 by a majority of the votes cast at the meeting may revoke the delegation. The effect of revocation
6 on the rights and obligations of parties under a contract between a unit owners association and a
7 master association is determined by law of this state other than this [act].

8 ~~(b)~~ (f) Unless it is acting in the capacity of an a unit owners association ~~described in~~
9 ~~Section 3-101~~, a master association may exercise the powers set forth in Section 3-102(a)(2) only
10 to the extent expressly permitted in the declarations of common interest communities which are
11 part of the master association or expressly described in the delegations of power from those
12 common interest communities to the master association.

13 ~~(e)~~ (g) ~~If the declaration of any common interest community provides that the executive~~
14 ~~board may delegate certain powers to a master association, the members of the executive board~~
15 ~~have no liability for the acts or omissions of the master association with respect to those powers~~
16 ~~following delegation.~~ After a unit owners association delegates a power to a master association,
17 the unit owners association and its executive board members and its officers have no liability for
18 an act or omission of the master association with respect to the delegated power.

19 ~~(d)~~ (h) The rights and responsibilities of unit owners with respect to the unit ~~owners'~~
20 owners association set forth in Sections 3-103, 3-108, 3-109, 3-110, and 3-112 apply in the
21 conduct of the affairs of a master association only to persons who elect the executive board of a
22 master association, whether or not those persons are otherwise unit owners within the meaning of
23 this [act].

1 ~~(e) (i) Even if a master association is also an association described in Section 3-101, the~~
2 ~~certificate of incorporation or other instrument creating the master association and the~~
3 ~~declaration of each common interest community, the powers of which are assigned by the~~
4 ~~declaration or delegated to the master association, may provide that~~ Not later than 90 days after
5 termination of a period of declarant control of the master association, the executive board of the
6 master association must be elected ~~after the period of declarant control in any~~ in one of the
7 following ways:

8 (1) All unit owners of all common interest communities subject to the master
9 association ~~may~~ elect all members of the master association's executive board.

10 ~~(2) All members of the executive boards of all common interest communities~~
11 ~~subject to the master association may elect all members of the master association's executive~~
12 ~~board.~~

13 ~~(3) (2)~~ All unit owners in, or the executive board of, each common interest
14 community subject to the master association may elect specified one or more members of the
15 master association's executive board if the instruments governing the master association
16 apportion the seats on the board to each common interest community in a manner roughly
17 proportional to the number of units in each common interest community.

18 ~~(4) All members of the executive board of each common interest community~~
19 ~~subject to the master association may elect specified members of the master association's~~
20 ~~executive board.~~

21 (j) A period of declarant control of the master association under subsection (i) terminates
22 no later than the earlier of:

23 (1) the termination under Section 3-103 of all periods of declarant control of all

1 common interest communities subject to the master association under Section 3-103; or
2 (2) [60] days after conveyance to unit owners other than a declarant of [three-
3 fourths] of the units that may be created in all common interest communities subject to the
4 master association.

5 **Reporter's Note (5/25/2021)**

6
7 The revisions to Section 2-120 make the following changes of substance:

8
9 1. The content of subsection (a) is reorganized without major changes.
10 Language in subsection (a) that served as part of the definition of "master
11 association" is moved to Section 1-103(22). The revision clarifies the language
12 used in the existing subsection, which (i) uses the term "delegate" only when a
13 unit owners association transfers a power to a separate master association (ii)
14 uses the term "exercise" when a master association serving multiple common
15 interest communities is also the unit owners association. See the definition of
16 "master association" that describes both types of master associations. Section
17 1-103(22). Revised subsection (a) also recognizes the special declarant right to
18 make the common interest community subject to a master association.

19
20 2. The existing section requires that all delegations to a master association be
21 set forth in the declaration. New subsection (c) adds flexibility by allowing the
22 executive board of the common interest community to delegate powers to a
23 master association, subject to review by the unit owners. A decision to delegate
24 powers to a master association often has a substantial impact on unit owners. If
25 after notice more than 10% of the unit owners object to a board delegation, the
26 delegation is effective only if approved by the unit owners at a meeting or by
27 ballot without a meeting under Section 3-110.

28
29 3. Subsection (d) allows revocation of a delegation to a master association by
30 deferring to the normal procedures for amending the declaration for
31 delegations contained in the declaration. See Section 2-117, *Amendment of*
32 *Declaration*.

33
34 4. New subsection (e) has a special rule for revocation by the unit owners of a
35 board-approved delegation of powers to a master association. By a majority
36 vote at any meeting in which the subject of revocation is listed in the meeting
37 notice, the unit owners may revoke a delegation by majority vote. As the last
38 sentence of subsection (e) indicates, the statutory right to revoke does not
39 override any contract rights a master association may have under an existing
40 contract. For example, other law determines whether the association is
41 obligated to pay damages if revocation terminates a contract before its
42 scheduled expiration date.

1 5. New subsection (i) (a revision of subsection (e) in the existing Section) deals
2 with the election of the executive board of the master association. The existing
3 subsection authorizes four “ways” to elect the executive board, apparently
4 allowing other methods of election. New subsection (i) is a mandatory rule,
5 which requires an election of the master association board by alternative (1) or
6 (2). The objective is to ensure that all unit owners through their individual sub-
7 associations have the ability to elect a fair number of the members of the
8 master association’s executive board. New subsection (i) preserves the existing
9 flexibility in this provision by allowing an “at-large” election of the master
10 board (paragraph 1) or the designation of particular seats on the board to each
11 common interest community (paragraph 2), as explained in existing Comment
12 7 to this section. The “four ways” of the old subsection are collapsed into two
13 ways. For “at-large” voting under paragraph (1), only unit owners – not the
14 executive boards of the sub-associations – vote for members of the master
15 association board. If “seats” are allocated to the communities under paragraph
16 (2), the governing documents for each individual common interest community
17 will determine whether the owners or their board cast the master-association
18 votes allocated to their community. Between alternatives (1) and (2), “at large”
19 voting by all unit owners under (1) is the default rule; seats or districts under
20 (2) are allowed only if the governing instruments for the master association
21 apportion the board seats and do so fairly, i.e., “in a manner roughly
22 proportional to the number of units in each common interest community.”
23 Subsection (j) defines “period of declarant control of the master association”
24 for purposes of subsection (i), drawing on Section 3-103
25

26 **Example:** A master association serves two condominium communities, which
27 each has their own sub-association. Community A has 20 units and a 5-member
28 board. Community B has 40 units and a 3-member board. Under paragraph (1),
29 the master association may have a 6-member board with at-large seats, allocating
30 20 master-association votes to Community A and 40 master-association votes to
31 Community B. Alternatively, under paragraph (2) each community may have its
32 own seats on the master association board, with Community A having 2 seats and
33 Community B having 4 seats. Under existing subsection (e), the size of the sub-
34 association boards determines how many votes each sub-association holds under
35 existing paragraphs (“ways”) (2) and (4). New subsection (i)(2) makes size of the
36 sub-association boards irrelevant – in this example, it does not matter that smaller
37 Community A has a bigger board than Community B. Under paragraph (2), either
38 association may provide for the election of its members by unit owners or by
39 executive boards.
40

41 **SECTION 2-121. MERGER OR CONSOLIDATION OF COMMON INTEREST** 42 **COMMUNITIES.**

43 (a) Any two or more common interest communities ~~of the same form of ownership, by~~

1 ~~agreement of the unit owners as provided in subsection (b)~~, may be merged or consolidated into
2 a single common interest community under subsection (b) by agreement of the unit owners or by
3 the exercise of a special declarant right. In the event of a merger or consolidation, unless the
4 agreement otherwise provides, the resultant common interest community is the legal successor,
5 for all purposes, of all of the pre-existing common interest communities, and the operations and
6 activities of all associations of the pre-existing common interest communities are merged or
7 consolidated into a single association that holds all powers, rights, obligations, assets, and
8 liabilities of all pre-existing associations.

9 (b) An agreement of two or more common interest communities to merge or consolidate
10 pursuant to subsection (a) must be evidenced by an agreement prepared, executed, recorded, and
11 certified by the president of the association of each of the pre-existing common interest
12 communities following approval by owners of units to which are allocated the percentage of
13 votes in each common interest community required to terminate that common interest
14 community. If a special declarant right is exercised in a common interest community, approval
15 by the unit owners is not required and the declarant may execute the agreement on behalf of the
16 common interest community. The agreement must be recorded in every [county] in which a
17 portion of the common interest community is located and is not effective until recorded.

18 (c) Every merger or consolidation agreement must provide for the reallocation of the
19 allocated interests in the new association among the units of the resultant common interest
20 community either (i) by stating the reallocations or the formulas upon which they are based or
21 (ii) by stating the percentage of overall allocated interests of the new common interest
22 community which are allocated to all of the units comprising each of the pre-existing common
23 interest communities, and providing that the portion of the percentages allocated to each unit

1 formerly comprising a part of the pre-existing common interest community must be equal to the
2 percentages of allocated interests allocated to that unit by the declaration of the pre-existing
3 common interest community.

4 **Reporter's Note (5/25/2021)**
5

6 What it means for a declarant to hold a special declarant right to merge or
7 consolidate common interest communities is not addressed in existing provisions
8 of the act. The revision to Section 2-121 provides a procedure for the exercise of a
9 special declarant right to merge or consolidate common interest communities. An
10 agreement of unit owners is not required when the declarant has a special
11 declarant right. When two communities are merged, the same declarant may have
12 a special declarant right in both communities, but this is not necessary.
13

14 **SECTION 2-125. ADVERSE POSSESSION; PRESCRIPTIVE EASEMENT.**

15 A unit owner or person claiming through a unit owner may not acquire title by adverse
16 possession to, or an easement by prescription in, a common element in derogation of the title of
17 another unit owner or the association.

18 **Reporter's Note (5/25/2021)**
19

20 1. New Section 2-125 protects all the common elements from loss of title
21 by claims of adverse possession or prescriptive easement by a limited immunity.
22 This immunity is limited to real estate defined as "common elements" in the act.
23 This Section precludes only a claim made by a unit owner "or a person claiming
24 through a unit owner" (this phrase protects common elements from claims made
25 by tenants of unit owners or similar persons). When the unit owners own the
26 common elements in tenancy in common, this provision modifies existing law by
27 not allowing a unit owner to acquire adverse possession by proving an "ouster" of
28 the other cotenants. When the association owns the common elements, this
29 provision modifies existing law, which in most states lacks reported law clearly
30 delineating the requirements for a person to acquire adverse possession title to
31 property owned by an association of which the person is a member.
32

33 2. The new section leaves intact the enacting State's substantive law of
34 adverse possession to govern claims made by the association or the unit owners
35 collectively as tenants in common. Claims of this type may be asserted when the
36 common elements are subject to a title defect: a person other than association or
37 the unit owners owns or has a potential claim to a common element. An adverse
38 possession claim of this type protects the unit owners' interest in the common
39 elements, rather than jeopardizing the unit owners' expectations of ownership and

1 use of the common elements.

2
3 3. The language in this section is based on Minn. Stat. § 508.02, which
4 provides: “No title to registered land in derogation of that of the registered owner
5 shall be acquired by prescription or by adverse possession, but the common law
6 doctrine of practical location of boundaries applies to registered land whenever
7 registered.” Like the Minnesota statute, this section refers to both “adverse
8 possession” and “prescription.” A Minnesota court has interpreted the statutory
9 reference to “prescription” to preclude the creation of a prescriptive easement
10 against registered land. *Moore v. Henricksen*, 165 N.W.2d 209 (Minn. 1968).
11 Accordingly, this provision is drafted to immunize the common elements from
12 claims of prescriptive easements made by unit owners.
13

14 4. The last phrase in this section, “in derogation of the title of the other
15 unit owners or the association,” limits the scope of immunity to claims that impair
16 the community’s title to and use of the common elements. The state’s normal
17 rules of adverse possession determine when the unit owners may use the doctrine
18 of adverse possession to obtain or perfect title to a common element.
19

20 **Example 1:** A condominium community has a recreational field (a common
21 element) situated between a building with units and the northern boundary of the
22 community’s real estate. A unit owner on the ground floor extends her patio by eight feet
23 into the recreational field. The state has a ten-year statute of limitations for the recovery
24 of possession of real property. Even if the unit owner maintains her extended patio in
25 place for more than 10 years and satisfies all the other elements of adverse possession
26 (actual possession that is open, notorious, continuous, and exclusive), this section
27 prevents her from acquiring title by adverse possession to the area occupied by the patio
28 encroachment. Her acquisition would be “in derogation of the title of the other unit
29 owners,” who (along with her) own the area as tenants in common.
30

31 **Example 2:** A condominium community has a recreational field (a common
32 element) situated between a building with units and the northern boundary of the
33 community’s real estate. Due to a surveying error, the description of the northern
34 boundary contained in the original declaration pursuant to section 2-105(a)(3) lies 10 feet
35 too far to the north. The entire recreational field, including the 10-foot strip, is a common
36 element. The neighbor who owns the adjacent parcel to the north has paramount title to
37 the 10-foot strip. The state has a ten-year statute of limitations for the recovery of
38 possession of real property. More than ten years after installation of the recreational field,
39 the neighbor brings a cause of action against the association to recover possession of the
40 10-foot strip. The answer to the litigation filed by the association raises the affirmative
41 defense that the unit owners (and the association as their agent) have acquired title to the
42 strip by adverse possession. This section does not apply because their claim is not “in
43 derogation of the title of the other unit owners or the association.” It is in derogation of
44 the neighbor’s title. Thus, the state’s normal rules of adverse possession will determine
45 whether the neighbor or the unit owners prevail.
46

1 [ARTICLE] 3

2 MANAGEMENT OF THE COMMON INTEREST COMMUNITY

3 * * *

4 SECTION 3-102. POWERS AND DUTIES OF UNIT OWNERS ASSOCIATION.

5 (a) Except as otherwise provided in subsection (b) and other provisions of this [act], the
6 association;

7 (1) shall adopt and may amend bylaws and may adopt and amend rules;

8 (2) shall adopt and may amend budgets under Section 3-123, may collect
9 assessments for common expenses from unit owners, and may invest funds of the association;

10 (3) may hire and discharge managing agents and other employees, agents, and
11 independent contractors;

12 (4) may institute, defend, or intervene in litigation or in arbitration, mediation, or
13 administrative proceedings in its own name on behalf of itself or two or more unit owners on
14 matters affecting the common interest community, subject to Section 3-124;

15 (5) may make contracts and incur liabilities;

16 (6) may regulate the use, maintenance, repair, replacement, and modification of
17 common elements;

18 (7) may cause additional improvements to be made as a part of the common
19 elements;

20 (8) may acquire, hold, encumber, and convey in its own name any right, title, or
21 interest to real estate or personal property, but:

22 (A) common elements in a condominium or planned community may be
23 conveyed or subjected to a security interest only pursuant to Section 3-112; and

1 (B) part of a cooperative may be conveyed, or all or part of a cooperative
2 may be subjected to a security interest, only pursuant to Section 3-112;

3 (9) may grant easements, leases, and licenses, ~~and concessions~~ through or over the
4 common elements, but a grant to a unit owner that benefits the owner's unit is allowed only by
5 reallocation of the common element to a limited common element pursuant to Section 2-108;

6 (10) may impose and receive any payments, fees, or charges for:

7 (A) the use, rental, or operation of the common elements, other than
8 limited common elements described in Section 2-102(2) and (4); and

9 (B) services provided to unit owners;

10 (11) may impose charges for late payment of assessments and, after notice and an
11 opportunity to be heard, may impose reasonable fines for violations of the declaration, bylaws,
12 and rules of the association;

13 (12) may impose reasonable charges for the preparation and recordation of
14 amendments to the declaration, resale certificates required by Section 4-109, or statements of
15 unpaid assessments;

16 (13) may provide for the indemnification of its officers and executive board and
17 maintain directors and officers liability insurance;

18 (14) except to the extent limited by the declaration, may assign its right to future
19 income, including the right to receive assessments;

20 (15) may exercise any other powers conferred by the declaration or bylaws;

21 (16) may exercise all other powers that may be exercised in this state by
22 organizations of the same type as the association;

23 (17) may exercise any other powers necessary and proper for the governance and

1 operation of the association;

2 (18) may require that disputes between the association and unit owners or
3 between two or more unit owners regarding the common interest community be submitted to
4 nonbinding alternative dispute resolution as a prerequisite to commencement of a judicial
5 proceeding; and

6 (19) may suspend any right or privilege of a unit owner that fails to pay an
7 assessment, but may not:

8 (A) deny a unit owner or other occupant access to the owner's unit;

9 (B) suspend a unit owner's right to vote;

10 (C) prevent a unit owner from seeking election as a director or officer of
11 the association; or

12 (D) withhold services provided to a unit or a unit owner by the association
13 if the effect of withholding the service would be to endanger the health, safety, or property of
14 any person.

15 * * *

16 **Reporter's Note (5/25/2021)**

17
18 The revision to Section 3-102(a)(9) addresses a potential abuse of the
19 association's power to "grant easements, leases, licenses, and concessions through
20 or over the common elements." Most of these grants are for temporary and limited
21 purposes and do not significantly interfere with unit owners' rights to use and
22 enjoy the common elements. The executive board, however, might decide to make
23 a long-term grant to a unit owner that has the practical effect of increasing the size
24 or value of the owner's unit; for example, allowing an owner to extend a deck into
25 a common-element lawn. The revision to paragraph (9) prohibits such a grant by
26 requiring use of the procedure of Section 2-108 to reallocate the common element
27 as a limited common element. The revision deletes the term "concessions"
28 because the term rarely applies to grant of an interest in real estate.
29

30 **Comment**

1 * * *

2 4. Paragraph (8) refers to the power granted by Section 3-112, upon a vote of the
3 requisite number of unit owners, to sell or encumber common elements in a
4 condominium or planned community or to sell part or encumber all or part of a
5 cooperative without a termination of the common interest community. Paragraph
6 (9) permits the association to grant easements, leases, licenses, and concessions
7 with respect to the common elements without a vote of the unit owners. Paragraph
8 (9) allows the executive board to grant rights to use common elements only for
9 transactions that do not have a significant impact on the unit owners' rights to use
10 and enjoy the common elements. Examples include a license for a non-profit
11 organization to use a lawn or clubhouse for one or several days, a one-year lease
12 of building space to an entity that provides services expected to be of value to
13 residents, and a non-exclusive revocable easement allowing a neighboring
14 community to use a roadway or trail. Most grants under Paragraph (9) are
15 temporary or revocable by the association, do not grant exclusive rights to the
16 holder, and are donative in nature or granted for a small fee paid by the holder.
17 The board may not use Paragraph (9) as an alternative to a conveyance of
18 common elements, which requires a vote of the unit owners under Paragraph (8)
19 and Section 3-112. Examples of transactions not authorized under Paragraph (9)
20 include the grant of a ten-year lease of a significant part of the common elements
21 or a long-term parking easement that allows the holder to install and use parking
22 spaces. The prohibition in Paragraph (9) applies only when the grant to a unit
23 owner "benefits the owner's unit." If the grant benefits the owner for a different
24 reason, the prohibition does not apply. For example, a unit owner who operates a
25 restaurant or who does landscaping may properly obtain a grant that allows the
26 owner to sell food or perform landscaping work on the common elements.

27
28 **SECTION 3-103. EXECUTIVE BOARD MEMBERS AND OFFICERS.**

29 (a) Except as otherwise provided in the declaration, the bylaws, subsection (b), or other
30 provisions of this [act], the executive board acts on behalf of the association. In the performance
31 of their duties, officers and members of the executive board appointed by the declarant shall
32 exercise the degree of care and loyalty to the association required of a trustee. Officers and
33 members of the executive board not appointed by the declarant shall exercise the degree of care
34 and loyalty to the association required of an officer or director of a corporation organized, and
35 are subject to the conflict of interest rules governing directors and officers, under [insert
36 reference to state nonprofit corporation law]. The standards of care and loyalty described in this

1 section apply regardless of the form in which the association is organized.

2 (b) The executive board may not:

3 (1) amend the declaration except as provided in Section 2-117;

4 (2) amend the bylaws;

5 (3) terminate the common interest community;

6 (4) elect members of the executive board but may fill vacancies in its membership
7 for the unexpired portion of any term or, if earlier, until the next regularly scheduled election of
8 executive board members; or

9 (5) determine the qualifications, powers, duties, or terms of office of executive
10 board members.

11 (c) The executive board shall adopt budgets as provided in Section 3-123.

12 (d) Subject to subsection (e), the declaration may provide for a period of declarant control
13 of the association, during which a declarant, or persons designated by the declarant, may appoint
14 and remove the officers and members of the executive board. A declarant may voluntarily
15 surrender the right to appoint and remove officers and members of the executive board before the
16 period ends. In that event, the declarant may require during the remainder of the period that
17 specified actions of the association or executive board, as described in a recorded instrument
18 executed by the declarant, be approved by the declarant before they become effective.

19 Regardless of the period provided in the declaration, and except as provided in Section 2-123(g),
20 a period of declarant control terminates no later than the earliest of:

21 (1) [60] days after conveyance of [three-fourths] of the units that may be created
22 to unit owners other than a declarant;

23 (2) two years after all declarants have ceased to offer units for sale in the ordinary

1 course of business;

2 (3) two years after any right to add new units was last exercised; or

3 (4) the day the declarant, after giving notice in a record to unit owners, records an
4 instrument voluntarily surrendering all rights to control activities of the association.

5 (e) Not later than 60 days after conveyance of [one-fourth] of the units that may be
6 created to unit owners other than a declarant, at least one member and not less than 25 percent of
7 the members of the executive board must be elected by unit owners other than the declarant. Not
8 later than 60 days after conveyance of [one-half] of the units that may be created to unit owners
9 other than a declarant, not less than [one-third] of the members of the executive board must be
10 elected by unit owners other than the declarant.

11 (f) Except as otherwise provided in Section ~~2-120(e)~~ 2-120(i), not later than the
12 termination of any period of declarant control, the unit owners shall elect an executive board of
13 at least three members, at least a majority of whom must be unit owners. Unless the declaration
14 provides for the election of officers by the unit owners, the executive board shall elect the
15 officers. The executive board members and officers shall take office upon election or
16 appointment.

17 (g) A declaration may provide for the appointment of specified positions on the executive
18 board by persons other than the declarant during or after the period of declarant control. It also
19 may provide a method for filling vacancies in those positions, other than by election by the unit
20 owners. However, after the period of declarant control, appointed members:

21 (1) may not comprise more than [one third] of the board; and

22 (2) have no greater authority than any other member of the board.

23 **Comment**

1 1. Subsection (a) makes officers and members of the executive board appointed by the
2 declarant liable as trustees of the unit owners with respect to their actions or omissions as
3 members of the board. This provision imposes a very high standard of duty because the board is
4 vested with great power over the property interests of unit owners, and because there is a great
5 potential for conflicts of interest between the unit owners and the declarant. The 1994
6 amendment to subsection (a) added precision by changing the standard of care for declarant-
7 appointed officers and members from “fiduciary” to “trustee.” The law contemplates many forms
8 of fiduciary relationships; among them, the trustee’s duty is the highest.

9
10 Originally subsection (a) specified that officers and members elected by the unit owners
11 have a duty of “ordinary and reasonable care.” The 1994 amendment conforms the Act to
12 expectations of owners, officers, members of executive boards, and courts. The duties owed by
13 an elected officer or board member ought to parallel the standards imposed on persons holding
14 equivalent positions in non-profit corporations in the state where the common interest
15 community is located.

16
17 For both declarant-appointed and elected officers and members, subsection (a) looks to
18 other state law to measure the standard of care and the basis of liability. For declarant-appointed
19 persons, the law of trusts determines the precise content of the fiduciary duties, as well as other
20 duties including conflict-of-interest rules, owed to the unit owners. For elected officers and
21 members, the standards of conduct and the standards of liability are determined by the content of
22 the state nonprofit corporation statute. This applies regardless of the organizational type of the
23 association. Thus, if an association is a limited liability company (LLC), the standards for its
24 officers and board members are not affected by the content to of the state LLC statute.

25
26 A majority of states have adopted a version of the ABA's Model Nonprofit Corporation
27 Act (MNCA) (3d ed. 1987; the ABA is presently working on a 4th edition). MNCA Section 8.30
28 sets forth standards of conduct, and section 8.31 sets forth standards of liability for directors.
29 Executive board members are treated as “directors” whether or not they have the formal title of
30 “director” as a member of the association’s governing board. MNCA Section 8.42 prescribes
31 standards of conduct for officers; they include a duty to act with the care of “an ordinarily
32 prudent person.” States without the model act may apply different rules for director conduct,
33 such as a trust rule or the rules applicable to directors of standard, for-profit corporations, as well
34 as different rules for officers.

35
36 2. Executive board members frequently will obtain the benefits of the business judgment
37 rule under subsection (a). The business judgment rule is a standard of liability, not a standard of
38 conduct. The rule curtails judicial review of board decisions by creating a presumption of sound
39 business judgment. As long as the board decision might serve a rational business purpose, courts
40 do not interfere by substituting their own ideas of what is or is not a correct or reasonable
41 decision. The rule also presumes that the directors act in good faith, on an informed basis, and
42 with the honest belief that their action furthers the best interests of the corporation. The business
43 judgment rule began as common-law rule for evaluating the conduct of directors of for-profit
44 corporations. Now many courts apply the rule in the non-profit context generally and as the
45 basis for evaluating the activities of boards of unit owners associations. See, e.g., Reiner v.
46 Ehrlich, 66 A.3d 1132 (Md. Ct. Spec. App. 2013); Committee for a Better Twin Rivers v. Twin

1 Rivers Homeowners Association, 929 A.2d 1060 (N.J. 2007); 40 West 67th Street v. Pullman,
2 790 N.WE.2d 1174 (N.Y. 2003).
3

4 Subsection (a) does not codify the business judgment rule. Its application to executive
5 boards depends on judicial adoption and on other state statutes. Nor does MNCA Section 8.31
6 codify the business judgment rule, but it has several components, one of which reflects some of
7 the principal elements of the common-law business judgment rule.
8

9 [RENUMBER SUBSEQUENT COMMENTS 3 and 4]
10

11 * * *

12 ~~5. The 1994 amendment to subsection (a) is intended to conform the Act to expectations~~
13 ~~of owners, members of executive boards, and courts. The duty owed by an elected member of an~~
14 ~~executive board ought to parallel the standard imposed on directors of non-profit corporations.~~
15 ~~The original text set out a lesser standard. By making reference to the non-profit corporate~~
16 ~~model, members will also obtain the benefits of the business judgment rule, now commonly~~
17 ~~applied by courts in the non-profit context; see, for example, Levandusky v. One Fifth Avenue~~
18 ~~Apartment Corp., 75 N.Y.2d 530 (1990).~~
19

20 ~~Comment 5 was expanded in 2008, because of the importance of this issue. The Act~~
21 ~~continues to rely on the Business Judgment Rule as the basis for evaluating the actions of the~~
22 ~~Board. “As long as directors of a corporation decide matters rationally, honestly, and without a~~
23 ~~disabling conflict of interest, the decision will not be reviewed by the courts.” Atkins v. Hibernia~~
24 ~~Corp., 182 F3d 320, 324, (5 th cir. 1999) quoted in Block, Barton & Radin, The Business~~
25 ~~Judgment Rule, (5th ed. 1998) in 2002 Supp. Page 6.~~
26

27 ~~The business judgment rule is a tool of judicial review, not a standard of conduct.~~
28 ~~The rule (1) shields directors from liability and protects decisions made by directors~~
29 ~~when —The rule’s elements—a business decision, disinterestedness, and independence,~~
30 ~~due care, good faith and no abuse of discretion—are present and a challenged decision~~
31 ~~does not constitute fraud, illegality, ultra vires conduct or waste, and (2) creates a~~
32 ~~presumption that directors have acted in accordance with each of the elements of the rule.~~
33

34 ~~[Block et al at page 110.] In its 2007 decision, the Supreme Court of New Jersey~~
35 ~~confirmed the continuing vitality of the business judgment rule as the basis for evaluating the~~
36 ~~activities of the executive board of a unit owners association. See Committee for a Better Twin~~
37 ~~Rivers v. Twin Rivers Homeowners Association, 192 N.J. 344; 929 A.2d 1060 (2007); the~~
38 ~~decision is expected to be widely followed.~~
39

40 ~~The change from “fiduciary” to “trustee” as the standard of care for declarant appointed~~
41 ~~directors makes the standard of care more precise. The law contemplates many forms of~~
42 ~~fiduciary relationships; among them, the trustee’s duty is the highest.~~
43

44 * * *

1 **SECTION 3-104. ~~TRANSFER OF SPECIAL DECLARANT RIGHTS.~~**

2 ~~(a) A special declarant right (Section 1-103(29)) created or reserved under this [act] may~~
3 ~~be transferred only by an instrument evidencing the transfer recorded in every [county] in which~~
4 ~~any portion of the common interest community is located. The instrument is not effective unless~~
5 ~~executed by the transferee.~~

6 ~~(b) Upon transfer of any special declarant right, the liability of a transferor declarant is as~~
7 ~~follows:~~

8 ~~(1) A transferor is not relieved of any obligation or liability arising before the~~
9 ~~transfer and remains liable for warranty obligations imposed upon him by this [act]. Lack of~~
10 ~~privity does not deprive any unit owner of standing to maintain an action to enforce any~~
11 ~~obligation of the transferor.~~

12 ~~(2) If a successor to any special declarant right is an affiliate of a declarant~~
13 ~~(Section 1-103(1)), the transferor is jointly and severally liable with the successor for any~~
14 ~~obligations or liabilities of the successor relating to the common interest community.~~

15 ~~(3) If a transferor retains any special declarant rights, but transfers other special~~
16 ~~declarant rights to a successor who is not an affiliate of the declarant, the transferor is liable for~~
17 ~~any obligations or liabilities imposed on a declarant by this [act] or by the declaration relating to~~
18 ~~the retained special declarant rights and arising after the transfer.~~

19 ~~(4) A transferor has no liability for any act or omission or any breach of a~~
20 ~~contractual or warranty obligation arising from the exercise of a special declarant right by a~~
21 ~~successor declarant who is not an affiliate of the transferor.~~

22 ~~(c) Unless otherwise provided in a mortgage instrument, deed of trust, or other agreement~~
23 ~~creating a security interest, in case of foreclosure of a security interest, sale by a trustee under an~~

1 ~~agreement creating a security interest, tax sale, judicial sale, or sale under Bankruptcy Code or~~
2 ~~receivership proceedings, of any units owned by a declarant or real estate in a common interest~~
3 ~~community subject to development rights, a person acquiring title to all the property being~~
4 ~~foreclosed or sold, but only upon his request, succeeds to all special declarant rights related to~~
5 ~~that property held by that declarant, or only to any rights reserved in the declaration pursuant to~~
6 ~~Section 2-115 and held by that declarant to maintain models, sales offices, and signs. The~~
7 ~~judgment or instrument conveying title must provide for transfer of only the special declarant~~
8 ~~rights requested.~~

9 ~~(d) Upon foreclosure of a security interest, sale by a trustee under an agreement creating a~~
10 ~~security interest, tax sale, judicial sale, or sale under Bankruptcy Code or receivership~~
11 ~~proceedings, of all interests in a common interest community owned by a declarant:~~

12 ~~(1) the declarant ceases to have any special declarant rights, an~~
13 ~~(2) the period of declarant control (Section 3-103(d)) terminates unless the~~
14 ~~judgment or instrument conveying title provides for transfer of all special declarant rights held~~
15 ~~by that declarant to a successor declarant.~~

16 ~~(e) The liabilities and obligations of a person who succeeds to special declarant rights are~~
17 ~~as follows:~~

18 ~~(1) A successor to any special declarant right who is an affiliate of a declarant is~~
19 ~~subject to all obligations and liabilities imposed on the transferor by this [act] or by the~~
20 ~~declaration.~~

21 ~~(2) A successor to any special declarant right, other than a successor described in~~
22 ~~paragraph (3) or (4) or a successor who is an affiliate of a declarant, is subject to the obligations~~
23 ~~and liabilities imposed by this [act] or the declaration:~~

1 (i) ~~on a declarant which relate to the successor's exercise or nonexercise of~~
2 ~~special declarant rights; or~~

3 (ii) ~~on his transferor, other than:~~

4 (A) ~~misrepresentations by any previous declarant;~~

5 (B) ~~warranty obligations on improvements made by any previous~~
6 ~~declarant, or made before the common interest community was created;~~

7 (C) ~~breach of any fiduciary obligation by any previous declarant or~~
8 ~~his appointees to the executive board; or~~

9 (D) ~~any liability or obligation imposed on the transferor as a result~~
10 ~~of the transferor's acts or omissions after the transfer.~~

11 (3) ~~A successor to only a right reserved in the declaration to maintain models,~~
12 ~~sales offices, and signs (Section 2-115), may not exercise any other special declarant right, and is~~
13 ~~not subject to any liability or obligation as a declarant, except the obligation to provide a public~~
14 ~~offering statement [.] and any liability arising as a result thereof [., and obligations under [Article]~~
15 ~~5].~~

16 (4) ~~A successor to all special declarant rights held by a transferor who succeeded~~
17 ~~to those rights pursuant to a deed or other instrument of conveyance in lieu of foreclosure or a~~
18 ~~judgment or instrument conveying title under subsection (c), may declare in a recorded-~~
19 ~~instrument the intention to hold those rights solely for transfer to another person. Thereafter,~~
20 ~~until transferring all special declarant rights to any person acquiring title to any unit or real estate~~
21 ~~subject to development rights owned by the successor, or until recording an instrument~~
22 ~~permitting exercise of all those rights, that successor may not exercise any of those rights other~~
23 ~~than any right held by his transferor to control the executive board in accordance with Section~~

1 ~~3-103(d) for the duration of any period of declarant control, and any attempted exercise of those~~
2 ~~rights is void. So long as a successor declarant may not exercise special declarant rights under~~
3 ~~this subsection, the successor declarant is not subject to any liability or obligation as a declarant~~
4 ~~other than liability for his acts and omissions under Section 3-103(d).~~

5 (a) In this section:

6 (1) “Involuntary transfer” means a transfer of real estate owned by a declarant
7 pursuant to a foreclosure of a mortgage, deed in lieu of foreclosure, tax sale, judicial sale, or sale
8 in a bankruptcy or receivership proceeding.

9 (2) “Non-affiliate successor” means a person that succeeds to a special declarant
10 right and is not an affiliate of the declarant that transferred the special declarant right to the
11 person.

12 (b) A special declarant right is an interest in real estate, which is appurtenant to all units
13 owned by the declarant and to real estate subject to a development right to create additional
14 units.

15 (c) A declarant that no longer owns a unit or a development right to create additional
16 units ceases to have any special declarant rights.

17 (d) A declarant may voluntarily transfer part or all of a special declarant right only by an
18 instrument that describes the special declarant right being transferred. The transfer becomes
19 effective when recorded in every [county] in which any portion of the common interest
20 community is located.

21 (e) Except as otherwise provided in this section, a successor to a special declarant right is
22 subject to all obligations and liabilities imposed on the transferor by this [act] or the declaration.

23 (f) If a declarant transfers a special declarant right to an affiliate of the declarant, the

1 transferor and the successor are jointly and severally liable for all obligations and liabilities
2 imposed on either person by this [act] or the declaration. Lack of privity does not deprive a unit
3 owner of standing to maintain an action to enforce any obligation or liability of the transferor or
4 transferee.

5 (g) A declarant that transfers a special declarant right to a non-affiliate successor:

6 (1) remains liable for any obligation or liability arising before the transfer
7 imposed by this [act] or the declaration, including a warranty obligation; and

8 (2) is not liable for an obligation or liability arising after the transfer imposed on
9 the successor by this [act] or the declaration.

10 (h) A non-affiliate successor that succeeds to fewer than all special declarant rights held
11 by the transferor is not subject to an obligation or liability that relates to a special declarant right
12 not transferred to the successor.

13 (i) A non-affiliate successor is not subject to an obligation or liability imposed by this
14 [act] or the declaration that relates to:

15 (1) a misrepresentation by a previous declarant;

16 (2) a warranty obligation on an improvement made by a previous declarant or
17 made before the common interest community was created;

18 (3) breach of a fiduciary obligation by a previous declarant or its appointees to the
19 executive board; or

20 (4) an obligation or liability imposed on the transferor as a result of the
21 transferor's act or omission after the transfer.

22 (j) If an involuntary transfer includes a special declarant right, the transferee may elect to
23 acquire or reject the special declarant right. A transferee that elects to acquire a special declarant

1 right is a successor declarant. The election is effective only if the judgment or instrument
2 conveying title describes the special declarant right.

3 (k) A successor to a special declarant right by an involuntary transfer may declare its
4 intention in a recorded instrument to hold the right solely for transfer to another person. After
5 recording the instrument, the successor may not exercise a special declarant right, other than a
6 right to control the executive board under Section 3-103(d), and an attempt to exercise a special
7 declarant right in violation of this subsection is void. As long as the successor complies with this
8 subsection, the successor is not subject to an obligation or liability imposed by this [act] or the
9 declaration other than liability for its act or omission under Section 3-103(d).

10 ~~(F)~~ (L) Nothing in this section subjects any successor to a special declarant right to any
11 claims against or other obligations of a transferor declarant, other than claims and obligations
12 arising under this [act] or the declaration.

13 **Reporter's Note (5/25/2021)**

14
15 Extensive revisions are made to Section 3-104, including reorganization, in an
16 attempt to make the section easier to comprehend. The major changes of
17 substance are the following:

18
19 1. Subsection (b) makes all special declarant rights interests in real property
20 and automatically makes every special declarant right appurtenant to all units
21 owned by the declarant in the common interest community, including potential
22 additional units that the declarant may add in the future by exercise of a
23 development right. In effect, a special declarant right is a “floating” servitude;
24 it is appurtenant to the declarant’s real estate in the common interest
25 community as it changes over time – reduced when the declarant sells units
26 and makes other transfers and increased when the declarant adds units to the
27 common interest community. A related revision to Section § 2-105(a)(8),
28 *Contents of Declaration*, drops the requirement that the declaration sufficiently
29 describe “the real estate to which each [special declarant right] applies” except
30 for a development right.

31
32 2. Subsection (c) is a mandatory rule that terminates all special declarant rights
33 when the declarant owns no units in the common interest community or the
34 right to create additional units pursuant to a development right, which

describes the relevant real estate in the declaration.

3. Subsection (d) allows all types of voluntary transfers of special declarant rights. Because a transfer of “part or all of a special declarant right” is allowed, a special declarant right is divisible. A declarant may transfer a special declarant right on an exclusive or non-exclusive basis. This section states no rules for involuntary transfers of special declarant rights (e.g., sales to satisfy judgment liens, tax sales) but they are allowed; the law generally recognizes that rights that may be voluntarily transferred are transferable involuntarily. The last sentence of existing Section 3-104(a) states: “The instrument is not effective unless executed by the transferee.” This sentence is not retained in subsection (d), and it is a change of substance. Most deeds and mortgages are signed only by the grantor, not by the “transferee.” A grantee’s acceptance of the instrument is considered agreement to its contents. Requiring execution by the transferee might result in inadvertent failures to transfer a special declarant right if parties fail to study the act carefully.

4. Subsection (i) protects successor declarants from certain obligations and liabilities of the transferor declarant who granted a special declarant right to the successor. This subsection relieves the successor only from obligations and liabilities “imposed by this [act] or the declaration.” This limitation means that a successor who uses improvements made by a previous declarant in the successor’s project is not necessarily relieved of an obligation to repair defects or make upgrades to the improvements. Other law, including contract and tort principles, will determine whether the successor who uses the transferor’s old improvements undertakes an obligation or liability.

5. Subsections (j) and (k) provide special rules for transfers of special declarant rights by foreclosure sales and other “involuntary transfers” defined in Section 3-104(a)(1). Under existing Section 3-104(c), (d), and (e)(4), a foreclosure purchaser must elect to take all of the declarant’s special declarant rights, none of them, or only the right to maintain models, sales offices, and signs. New subsections (j) and (k) add flexibility by allowing a foreclosure purchaser or other grantee in an involuntary transfer to elect any of all of the rights. New subsections (j) and (k) preserve the existing “deep freeze” procedure that allows the transferee to hold the special declarant rights for resale to a new developer, and thereby avoid liability by not exercising them before resale.

SECTION 3-108. MEETINGS.

(a) The following requirements apply to unit owner meetings:

(1) An association shall hold a meeting of unit owners annually at a time, date, and place stated in or fixed in accordance with the bylaws.

1 (2) An association shall hold a special meeting of unit owners to address any
2 matter affecting the common interest community or the association if its president, a majority of
3 the executive board, or unit owners having at least 20 percent, or any lower percentage specified
4 in the bylaws, of the votes in the association request that the secretary call the meeting. If the
5 association does not notify unit owners of a special meeting within 30 days after the requisite
6 number or percentage of unit owners request the secretary to do so, the requesting members may
7 directly notify all the unit owners of the meeting. ~~Only matters described in the meeting notice~~
8 ~~required by paragraph (3) may be considered at a special meeting.~~ The unit owners may discuss
9 at a special meeting matters not described in the notice under paragraph (3), but may not take
10 action on a matter not described in the notice without the consent of all unit owners.

11 (3) An association shall notify unit owners of the time, date, and place of each
12 annual and special unit owners meeting not less than 10 days or more than 60 days before the
13 meeting date. Notice may be by any means described in Section 3-121. The notice of any
14 meeting must state the time, date and place of the meeting and the items on the agenda,
15 including:

16 (A) a statement of the general nature of any proposed amendment to the
17 declaration or bylaws;

18 (B) any budget changes; and

19 (C) any proposal to remove an officer or member of the executive board.

20 ~~(4) The minimum time to give notice required by paragraph (3) may be reduced or~~
21 ~~waived for a meeting called to deal with an emergency.~~

22 ~~(5)~~ (4) Unit owners must be given a reasonable opportunity at any meeting to
23 comment regarding any matter affecting the common interest community or the association.

1 ~~(6) (5) The declaration or bylaws may allow for meetings of unit owners to be~~
2 ~~conducted by telephonic, video, or other conferencing process, if the alternative process is~~
3 ~~consistent with subsection (b)(7). A meeting of unit owners is not required to be held at a~~
4 ~~physical location if the meeting:~~

5 (A) is conducted by a means of communication that enables owners in
6 different locations to communicate in real time to the same extent as if they were physically
7 present in the same location; and

8 (B) is not expressly prohibited by the declaration or bylaws.

9 (6) In the notice for a meeting held at a physical location, the executive board may
10 notify all unit owners that they may participate remotely in the meeting by a means of
11 communication consistent with paragraph (5).

12 ~~(7) Except as otherwise provided in the bylaws, meetings of the association must~~
13 ~~be conducted in accordance with the most recent edition of Roberts' Rules of Order Newly~~
14 ~~Revised.~~

15 (b) The following requirements apply to meetings of the executive board and committees
16 of the association authorized to act for the association:

17 (1) Meetings must be open to the unit owners except during executive sessions.
18 The executive board and those committees may hold an executive session only during a regular
19 or special meeting of the board or a committee. No final vote or action may be taken during an
20 executive session. An executive session may be held only to:

21 (A) consult with the association's attorney concerning legal matters;

22 (B) discuss existing or potential litigation or mediation, arbitration, or
23 administrative proceedings;

1 (C) discuss labor or personnel matters;

2 (D) discuss contracts, leases, and other commercial transactions to

3 purchase or provide goods or services currently being negotiated, including the review of bids or
4 proposals, if premature general knowledge of those matters would place the association at a
5 disadvantage; or

6 (E) prevent public knowledge of the matter to be discussed if the executive

7 board or committee determines that public knowledge would violate the privacy of any person.

8 (2) For purposes of this section, a gathering of board members at which the board

9 members do not conduct association business is not a meeting of the executive board. The

10 executive board and its members may not use incidental or social gatherings of board members
11 or any other method to evade the open meeting requirements of this section.

12 (3) During the period of declarant control, the executive board shall meet at least

13 four times a year. At least one of those meetings must be held at the common interest community

14 or at a place convenient to the community. After termination of the period of declarant control,

15 all executive board meetings must be at the common interest community or at a place convenient
16 to the community unless the unit owners amend the bylaws to vary the location of those
17 meetings.

18 (4) At each executive board meeting, the executive board shall provide a

19 reasonable opportunity for unit owners to comment regarding any matter affecting the common
20 interest community and the association.

21 (5) Unless the meeting is included in a schedule given to the unit owners ~~or the~~

22 ~~meeting is called to deal with an emergency~~, the secretary or other officer specified in the bylaws

23 shall give notice of each executive board meeting to each board member and to the unit owners.

1 The notice must be given at least 10 days before the meeting and must state the time, date, place,
2 and agenda of the meeting.

3 (6) If any materials are distributed to the executive board before the meeting, the
4 executive board at the same time shall make copies of those materials reasonably available to
5 unit owners, except that the board need not make available copies of unapproved minutes or
6 materials that are to be considered in executive session.

7 (7) Unless the declaration or bylaws otherwise provide, the executive board may
8 meet by telephonic, video, or other conferencing process if:

9 (A) the meeting notice states the conferencing process to be used and
10 provides information explaining how unit owners may participate in the conference directly or
11 by meeting at a central location or conference connection; and

12 (B) the process provides all unit owners the opportunity to hear or
13 perceive the discussion and to comment as provided in paragraph (4).

14 (8) After termination of the period of declarant control, unit owners may amend
15 the bylaws to vary the procedures for meetings described in paragraph (7).

16 (9) ~~Instead of meeting,~~ During the period of declarant control, the executive board
17 may act, without a meeting, by unanimous consent as documented in a record authenticated by
18 all its members. The secretary promptly shall give notice to all unit owners of any action taken
19 by unanimous consent. After termination of the period of declarant control, the executive board
20 may act by unanimous consent only to undertake ministerial actions or to implement actions
21 previously taken at a meeting of the executive board.

22 (10) Even if an action by the executive board is not in compliance with this
23 section, it is valid unless set aside by a court. ~~A challenge to the validity of an action of the~~

1 ~~executive board for failure~~ An action seeking relief for the failure of the executive board to
2 comply with this section may not be brought more than [60] days after the minutes of the
3 executive board of the meeting at which the action was taken are approved or the record of that
4 action is distributed to unit owners, whichever is later.

5 **Reporter's Note (5/25/2021)**
6

7 1. The revision to Section 3-108(a)(2) clears up an ambiguity about what
8 matters may be “considered” at a special meeting. The revision clarifies that,
9 subject to the normal rules governing meetings, unit owners may raise and discuss
10 any issues of their choosing, including the taking of nonbinding (straw) votes,
11 which do not take or implement action. The revision also allows unit owners to
12 avoid the rule against taking action on a matter not described in the meeting
13 notice with the consent of all unit owners.
14

15 2. Section 3-108(a)(4) and 3-108(b)(5) are deleted because the subject of
16 notice for emergency meetings is now addressed by new Section 3-125(c),
17 *Emergency Powers*, infra, which applies notwithstanding other sections of the act.
18

19 3. Revised 3-108(a)(5) and (6) authorize electronic unit owner meetings,
20 in which everyone attends remotely, and hybrid meetings in which some attend at
21 a physical location and some attend remotely. The existing paragraph authorizes
22 an electronic meeting only if authorized by the declaration or bylaws. Revised
23 paragraph (5) changes the default rule, allowing electronic meetings unless
24 prohibited by the declaration or bylaws. This allows the executive board to decide
25 whether live or electronic meetings are preferable. Second, this revision follows
26 the language of the Uniform Electronic Wills Act (E-Wills Act) (2019), approved
27 by the ULC in 2019, which defines “Electronic presence” as “the relationship of
28 two or more individuals in different locations communicating in real time to the
29 same extent as if the individuals were physically present in the same location.” Id.
30 § 2(2). As the Comment to the E-Wills Act notes, the “to the same extent” phrase
31 accommodates access for persons with disabilities. See also Revised Uniform
32 Law on Notarial Acts (RULONA) § 14A(a)(1) (2018), which defines
33 “communication technology” as “an electronic device or process that: (A) allows
34 a notary public and a remotely located individual to communicate with each other
35 simultaneously by sight and sound; and (B) when necessary and consistent with
36 other applicable law, facilitates communication with a remotely located individual
37 who has a vision, hearing, or speech impairment.”
38

39 4. Revised 3-108(a)(6) allows a hybrid unit owners meeting, with some
40 unit owners attending remotely, a topic not addressed in the existing section. The
41 paragraph permits the executive board to allow remote participation, without the
42 need for authority in the declaration or the bylaws, and regardless of the content

1 of those documents. It is not, however, mandatory; owners have no right to
2 remote participation.

3
4 5. Section 3-108(a)(7), adopting Roberts' Rules of Order for the conduct
5 of meetings as a default rule, is deleted on the basis that each association may
6 determine its own procedures.

7
8 **Proposed New Comment**
9

10 7. Subsection (b)(5) provides for unit owners to have access to materials distributed to the
11 executive board before its meeting with an exception for unapproved minutes. After a meeting, it
12 is clearly the better practice for the board to approve minutes and make them available to unit
13 owners as soon as reasonably practicable. Because the customs of common interest communities
14 and the expectations of unit owners in those communities vary widely across the country, the
15 drafters thought it inappropriate to impose a single standard regarding how or when to mandate
16 approval of minutes and the manner of their circulation to unit owners. The association,
17 however, may adopt a rule or bylaw governing the process and timing of approval of minutes for
18 board meetings that is consistent with the community's expectations.
19

20 **SECTION 3-109. QUORUM.**

21 (a) Unless the bylaws otherwise provide, a quorum is present throughout any meeting of
22 the unit owners if at the beginning of the meeting persons entitled to cast [20] percent of the
23 votes in the association:

24 ~~(1) are present~~ attend in person, ~~or by proxy, or by means of communication~~
25 under Section 3-108(a)(6) or (7) at the beginning of the meeting;

26 ~~(2) have cast absentee ballots solicited in accordance with Section 3-110 (c)(4)~~
27 ~~which have been delivered to the secretary in a timely manner; or~~

28 ~~(3) are present by any combination of paragraphs (1) and (2).~~

29 (b) Unless the bylaws specify a larger number, a quorum of the executive board is present
30 for purposes of determining the validity of any action taken at a meeting of the executive board
31 only if individuals entitled to cast a majority of the votes on that board are present at the time a
32 vote regarding that action is taken. If a quorum is present when a vote is taken, the affirmative
33 vote of a majority of the board members present is the act of the executive board unless a greater

1 vote is required by the declaration or bylaws.

2 ~~(c) Except as otherwise provided in the bylaws, meetings of the association must be~~
3 ~~conducted in accordance with the most recent edition of Roberts' Rules of Order Newly Revised.~~

4 **Reporter's Note (5/25/2021)**
5

6 1. The proposed revision to subsection (a) is not a change of substance. It
7 reflects the proposed revisions to Sections 3-108 and 3-110 that (i) eliminate the
8 use of the term "absentee ballot" for votes cast at meetings by unit owners who
9 are not present (under revised Section 3-110 they vote only by proxy) and (ii)
10 allow unit owners to attend meetings remotely by electronic means.
11

12 2. Section 3-109(c), adopting Roberts' Rules of Order for the conduct of
13 meetings as a default rule, is deleted on the basis that each association may
14 determine its own procedures.
15

16 **SECTION 3-110. VOTING; PROXIES; BALLOTS.**

17 ~~(a) Unless prohibited or limited by the declaration or bylaws, unit owners may vote at a~~
18 ~~meeting in person, by absentee ballot pursuant to subsection (b)(4), by a proxy pursuant to~~
19 ~~subsection (c) or, when a vote is conducted without a meeting, by electronic or paper ballot~~
20 ~~pursuant to subsection (d). Unit owners may vote at a meeting under subsection (b) or (c) or,~~
21 when a vote is conducted without a meeting, by ballot under subsection (d).

22 (b) At a meeting of unit owners the following requirements apply:

23 (1) ~~Unit owners who are present in person~~ Unless the declaration or bylaws
24 otherwise provide, unit owners may vote by voice vote, show of hands, standing, or any other
25 method ~~for determining the votes of unit owners, as designated by the person presiding~~
26 authorized at the meeting.

27 ~~(2) If only one of several owners of a unit is present, that owner is entitled to cast~~
28 ~~all the votes allocated to that unit. If more than one of the owners are present, the votes allocated~~
29 ~~to that unit may be cast only in accordance with the agreement of a majority in interest of the~~

1 owners, unless the declaration expressly provides otherwise. There is majority agreement if any
2 one of the owners casts the votes allocated to the unit without protest being made promptly to the
3 person presiding over the meeting by any of the other owners of the unit.

4 (2) If unit owners attend the meeting by a means of communication under Section
5 3-108(a)(5) or (6), the association must implement reasonable measures to verify the identity of
6 each unit owner attending remotely.

7 ~~(3) Unless a greater number or fraction of the votes in the association is required~~
8 ~~by this [act] or the declaration, a majority of the votes cast determines the outcome of any action~~
9 ~~of the association.~~

10 ~~(4) Subject to subsection (a), a unit owner may vote by absentee ballot without~~
11 ~~being present at the meeting. The association promptly shall deliver an absentee ballot to an~~
12 ~~owner that requests it if the request is made at least [three] days before the scheduled meeting.~~
13 ~~Votes cast by absentee ballot must be included in the tally of a vote taken at that meeting.~~

14 ~~(5) When a unit owner votes by absentee ballot, the association must be able to~~
15 ~~verify that the ballot is cast by the unit owner having the right to do so.~~

16 (c) Except as otherwise provided in the declaration or bylaws, unit owners may vote by
17 proxy subject to the following requirements apply with respect to proxy voting:

18 (1) Votes allocated to a unit may be cast pursuant to a directed or undirected
19 proxy executed by a unit owner.

20 (2) ~~If a unit is owned by more than one person, each owner of the unit may vote~~
21 ~~or register protest to the casting of votes by the other owners of the unit through a duly executed~~
22 ~~proxy. When a unit owner votes by proxy, the association must be able to verify the identity of~~
23 ~~the unit owner and the proxy holder.~~

1 (3) A unit owner may revoke a proxy given pursuant to this section only by actual
2 notice of revocation to the person presiding at a meeting.

3 (4) A proxy is void if it is not dated or purports to be revocable without notice.

4 (5) A proxy is valid only for the meeting at which it is cast and any recessed
5 session of that meeting.

6 (6) A person may not cast undirected proxies representing more than [15] percent
7 of the votes in the association.

8 (d) Unless prohibited or limited by the declaration or bylaws, an association may
9 conduct a vote without a meeting. In that event, the following requirements apply:

10 (1) The association shall notify the unit owners that the vote will be taken by
11 ballot without a meeting.

12 ~~(2) The association shall deliver a paper or electronic ballot to every unit owner~~
13 ~~entitled to vote on the matter.~~ With the notice the association shall deliver instructions for casting
14 a ballot and:

15 (A) a paper ballot to every unit owner except a unit owner that has
16 consented in a record to electronic voting; and

17 (B) if the association allows electronic voting, instructions for electronic
18 voting. A unit owner's casting an electronic ballot is consent.

19 (3) The ballot must set forth each proposed action and provide an opportunity to
20 vote for or against the action.

21 (4) ~~When~~ In the notice the association ~~delivers the ballots,~~ it shall also:

22 ~~(A) indicate the number of responses needed to meet the quorum~~
23 ~~requirements;~~

1 ~~(B)~~ (A) state the percent of votes necessary to approve each matter other
2 than election of directors;

3 ~~(C)~~ (B) specify the time and date by which a ballot must be delivered to
4 the association to be counted, which time and date may not be fewer than [three] days after the
5 date the association delivers the ballot; and

6 ~~(D)~~ (C) describe the time, date, and manner by which unit owners wishing
7 to deliver information to all unit owners regarding the subject of the vote may do so.

8 (5) A unit owner may revoke a ballot before the time and date by which the ballot
9 must be delivered to the association under paragraph (4). Except as otherwise provided in the
10 declaration or bylaws, a ballot is not revoked by death or disability after delivery to the
11 association ~~by death or disability or attempted revocation by the person that cast that vote.~~

12 (6) Approval by ballot pursuant to this subsection is valid only if the number of
13 votes cast by ballot equals or exceeds the quorum required to be present at a meeting authorizing
14 the action.

15 (7) The association shall verify that each paper and electronic ballot is cast by the
16 unit owner having a right to do so.

17 (8) If the association allows electronic ballots, the association shall create a
18 record of electronic votes that is capable of retention, retrieval, and review.

19 (e) If the declaration requires that votes on specified matters affecting the common
20 interest community be cast by lessees rather than unit owners of leased units:

21 (1) this section applies to lessees as if they were unit owners;

22 (2) unit owners that have leased their units to other persons may not cast votes on
23 those specified matters;

(3) lessees are entitled to notice of meetings, access to records, and other rights respecting those matters as if they were unit owners.

(f) Unit owners are entitled to notice of all meetings at which lessees are entitled to vote.

(g) Votes allocated to a unit owned by the association must be cast in any vote of the unit owners in the same proportion as the votes cast on the matter by unit owners other than the association.

(h) Unless a different number or fraction of the votes in an association is required by this [act] or the declaration, a majority of the votes cast determines the outcome of any vote taken at a meeting or without a meeting.

(i) If a unit is owned by more than one person and:

(1) if only one of the owners casts a vote, that owner may cast all the votes allocated to that unit; and

(2) if more than one of the owners casts a vote, unless the declaration otherwise provides, the votes allocated to that unit may be cast only in accordance with the agreement of a majority in interest of the owners.

Reporter's Note (5/25/2021)

1. The revision to Section 3-110(b)(1) makes it clear that unit owners may select the method of voting, subject to the declaration or bylaws, by using normal parliamentary procedures, regardless of the preference of the person presiding at the meeting. The revised language "authorized at the meeting" allows this outcome by removing the reference to the presiding officer.

2. The content in existing Section 3-110(b)(2) dealing with voting at meetings when multiple persons own a unit, and the content in existing Section 3-110(c)(2) dealing with proxy voting when multiple persons own a unit, is combined and integrated in a new subsection (i).

3. New Section 3-110(b)(2) requires that for electronic meetings and hybrid electronic meetings, the association must implement reasonable measures to verify the identity of each unit owner attending remotely. Those unit owners

1 have the right to vote by a method determined under Section 3-110(b)(1).

2
3 4. The content in existing Section 3-110(b)(3) dealing with the number of
4 votes required to pass an action is moved to new subsection (h), with some
5 changes in its language including extending its scope from voting at meetings to
6 votes taken without a meeting.

7
8 5. The existing Section allows a unit owner to vote at a meeting without
9 being physically present either by “absentee ballot” under existing Section 3-
10 110(b)(4) or by proxy under Section 3-110(c). The revision eliminates the
11 alternatives, allowing an absent unit owner to vote at a meeting only by using a
12 proxy (which may be directed or undirected). Section 3-110(b)(4) is deleted, and
13 the revised section uses “ballot” only for a vote without a meeting. This better
14 conforms to how the terms are generally used in corporate practice.

15
16 6. New Section 3-110(c)(2) adds a requirement that, for proxy voting, the
17 association must be able to verify the identity of the unit owner and the proxy
18 holder.

19
20 7. The revisions to Section 3-110(d) dealing with voting without a meeting
21 include rules for electronic ballots, the right of a unit owner to revoke a ballot,
22 and requirements that the association verify the identity of unit owners casting
23 ballots and create a record of electronic votes that is capable of retention,
24 retrieval, and review.

25
26 **SECTION 3-115. ASSESSMENTS.**

27 (a) Until the association makes a common expense assessment, the declarant shall pay all
28 common expenses. After an assessment has been made by the association, assessments must be
29 made at least annually, based on a budget adopted at least annually by the association.

30 (b) Except for assessments under subsections (c), ~~(d), and (e)~~ through (f), or as otherwise
31 provided in this [act], all common expenses must be assessed against all the units in accordance
32 with the allocations set forth in the declaration pursuant to Section 2-107(a) and (b). The
33 association may charge interest on any past due assessment or portion thereof at the rate
34 established by the association, not exceeding [18] percent per year.

35 (c) ~~To the extent required by the declaration:~~ The declaration may provide that:

36 (1) a common expense associated with the maintenance, repair, or replacement of

1 a limited common element must be assessed against the units to which that limited common
2 element is assigned, equally, or in any other proportion the declaration provides;

3 (2) a common expense ~~benefiting~~ identified in the declaration benefitting fewer
4 than all of the units or their owners ~~may~~ must be assessed exclusively against the units or unit
5 owners benefitted, but if the common expense is for the maintenance, repair, or replacement of a
6 common element other than a limited common elements, the expense may be assessed
7 exclusively against them only if the declaration reasonably identifies the common expense by
8 specific listing or category; and

9 (3) the costs of insurance must be assessed in proportion to risk, and the costs of
10 utilities must be assessed in proportion to usage whether metered or reasonably estimated.

11 (d) Assessments to pay a judgment against the association may be made only against the
12 units in the common interest community at the time the judgment was entered, in proportion to
13 their common expense liabilities.

14 (e) ~~If damage to a unit or other part of the common interest community, or if any other~~
15 ~~common expense is caused by the willful misconduct or gross negligence of any unit owner or a~~
16 ~~guest or invitee of a unit owner, the association may assess that expense exclusively against that~~
17 ~~owner's unit, even if the association maintains insurance with respect to that damage or common~~
18 ~~expense. The association may assess either or both of the following common expenses, including~~
19 expenses relating to damage to or loss of property, exclusively against an owner's unit:

20 (1) expense caused by the willful misconduct of the unit owner or a guest or
21 invitee of the unit owner; or

22 (2) expense caused by the unit owner's failure to comply with a maintenance
23 standard prescribed by the declaration or a rule, if that standard contains a statement that an

owner may be liable for damage or loss caused by failure to comply with the standard.

(f) Before the association makes an assessment under subsection (e), the association shall give notice to the unit owner and an opportunity for a hearing. The assessment is limited to the expenses of the association incurred under subsection (e) less any insurance proceeds received by the association, whether the difference results from the application of a deductible or otherwise.

(g) If common expense liabilities are reallocated, common expense assessments and any instalment thereof not yet due must be recalculated in accordance with the reallocated common expense liabilities.

(h) The association may adopt a rule that allows unit owners to prepay assessments at a reasonable discount.

Reporter's Note (5/25/2021)

1. Section 3-115(c) is revised to make it clear that for all three paragraphs (1)-(3), the declaration may change the default rule of Section 3-115(b) that unit owners pay common expenses according to their allocated interests only if the declaration has a provision that common expenses “must be assessed” differently. The provision in the declaration may not confer discretion on the executive board with respect to making an assessment.

2. The revision to Section 3-115(c)(2) allows the association to assess a common expense for the maintenance, repair, or replacement of a common element exclusively against a benefitted unit only if the declaration “reasonably identifies the common expense by specific listing or category.” The purpose of this condition is to provide notice to unit owners of when they may expect to bear more than a proportionate share of common expenses based on the “benefit rule.” The source for this condition is UCC Article 9. UCC § 9-108(b), *Sufficiency of Description*, which provides: “. . . a description of collateral reasonably identifies the collateral if it identifies the collateral by: (1) specific listing; (2) category;” The UCC rules for describing collateral in security agreements and financing statements have proven to be generally successful in striking a balance between flexibility and notice to debtors and third parties. The term “categories” in paragraph (2) include heating and air conditioning equipment, elevators, and recreational facilities.

1 3. Section 3-115(c)(3) is revised to make clear that assessing utilities “in
2 proportion to usage” does not require separate metering if usage is reasonably
3 estimated.
4

5 4. Section 3-115(e) deals with the ability of the association to assess
6 expenses exclusively against a unit owner whose “bad behavior” causes loss,
7 damage, or expense. The revision to this subsection requires “wilfull
8 misconduct,” eliminating the ability to assess due to “gross negligence” on the
9 ground that it is too difficult for executive boards and other persons to distinguish
10 gross negligence from ordinary negligence. The revision adds liability for a unit
11 owner’s failure to meet maintenance standards for their equipment for which they
12 are responsible causes damage outside their unit. For example, an association rule
13 may require replacement of hot water heaters every 10 years, and a failure to
14 replace may result in water damage to property outside of the owner’s unit. New
15 subsection (f) adds procedural protections for unit owners charged with “bad
16 behavior” and provides that the owner is liable only for loss not covered by the
17 association’s master insurance policy. The source for revised subsection (e) and
18 new subsection (f) is Conn. Gen. Stat. Ann. § 47-257(e), which Connecticut
19 adopted as a non-uniform provision in an amendment to its enactment of UCIOA.
20

21 5. New subsection (h) allows the association to adopt a rule allowing unit
22 owners to prepay their assessments at a reasonable discount.
23
24

Comment

25 1. This section contemplates that a declarant might find it advantageous, particularly in
26 the early stages of project development, to pay all of the expenses of the common interest
27 community himself rather than assessing each unit individually. Such a situation might arise, for
28 example, where a declarant owns most of the units in the project and wishes to avoid ~~building~~
29 billing the costs of each unit separately and crediting payment to each unit. It might also arise in
30 the case of a declarant who, although willing to assume all expenses of the common interest
31 community, is unwilling to make payments for replacement reserves or for other expenses which
32 he expects will ultimately be part of the association’s budget. Subsection (a) grants the declarant
33 such flexibility while at the same time providing that once an assessment is made against any
34 unit, all units, including those owned by the declarant, must be assessed for their full portion of
35 the common expense liability.
36

37 2. Common expenses are by their nature recurring, and the association must collect what
38 the act calls the “periodic common expense assessment.” Subsection (a) requires assessment “at
39 least annually” and allows any shorter period. Monthly assessments are most commonly used.
40 The association may choose to change its periodic common expense assessment if it determines a
41 shorter or longer period is appropriate.
42

SECTION 3-123. ADOPTION OF BUDGETS; SPECIAL ASSESSMENTS.

44 (a) The executive board, at least annually, shall adopt a proposed budget for the

1 common interest community for consideration by the unit owners. Not later than [30] days after
2 adoption of a proposed budget, the executive board shall provide to all the unit owners a
3 summary of the budget, including any reserves, and a statement of the basis on which any
4 reserves are calculated and funded. Simultaneously, the board shall set a date not less than 10
5 days or more than 60 days after providing the summary for a meeting of the unit owners to
6 consider ratification of the budget. Unless at that meeting a majority of all unit owners or any
7 larger number specified in the declaration reject the budget, the budget is ratified, whether or not
8 a quorum is present. If a proposed budget is rejected, the budget last ratified by the unit owners
9 continues until unit owners ratify a subsequent budget.

10 (b) The executive board, at any time, may propose a special assessment. Except as
11 otherwise provided in subsection (c), the assessment is effective only if the executive board
12 follows the procedures for ratification of a budget described in subsection (a) and the unit owners
13 do not reject the proposed assessment.

14 ~~(c) If the executive board determines by a two-thirds vote that a special assessment is~~
15 ~~necessary to respond to an emergency:~~

16 ~~(1) the special assessment becomes effective immediately in accordance with the~~
17 ~~terms of the vote;~~

18 ~~(2) notice of the emergency assessment must be provided promptly to all unit~~
19 ~~owners; and~~

20 ~~(3) the executive board may spend the funds paid on account of the emergency~~
21 ~~assessment only for the purposes described in the vote.~~

22 **Reporter's Note (4/2/2021)**
23

24 Subsection (c), the final subsection of this section, is deleted because the subject
25 is now addressed by new proposed Section 3-125(e), *Emergency Powers*, infra.

Comment

1 shall be given in any practicable manner. No quorum is required for a meeting under this
2 subsection. Instead of meeting, after giving notice under this subsection, the board may take
3 action by vote without a meeting.

4 (e) In an emergency, the executive board may take action it considers necessary to protect
5 the interests of the unit owners and other persons holding interests in the common interest
6 community, acting in a manner reasonable under the circumstances and without consideration of
7 limitations contained in the declaration, bylaws, or rules. If the board determines by a two-thirds
8 vote that a special assessment is necessary:

9 (1) the special assessment becomes effective immediately in accordance with the
10 terms of the vote; and

11 (2) the board may spend funds paid on account of the emergency assessment only
12 for the purposes described in the vote.

13 (f) The executive board may use funds of the association, including reserves, to pay the
14 reasonable costs of an action under subsection (e).

15 (g) After taking an action under this section, the executive board promptly shall notify the
16 unit owners of the action in any practicable manner.

17 **Reporter's Note (6/26/2021)**

18
19 1. New Section 3-125 provides guidance and flexibility for associations
20 and their executive boards to respond to emergencies, including natural disasters
21 and public health emergencies such as the coronavirus pandemic. This section
22 replaces and expands upon the following three existing provisions in the act:

23 Section 3-108(a)(4). The minimum time to give notice [for a unit owners
24 meeting] may be reduced or waived for a meeting called to deal with an
25 emergency.

26 Section 3-108(b)(5). Unless the [executive board] meeting is included in a
27 schedule given to the unit owners or the meeting is called to deal with an
28 emergency, the secretary or other officer specified in the bylaws shall give
29 notice of each executive board meeting to each board member and to the unit
30 owners. The notice must be given at least 10 days before the meeting and must

1 state the time, date, place, and agenda of the meeting.

2 Section 3-123(c). If the executive board determines by a two-thirds vote
3 that a special assessment is necessary to respond to an emergency: (1) the
4 special assessment becomes effective immediately in accordance with the
5 terms of the vote; (2) notice of the emergency assessment must be provided
6 promptly to all unit owners; and (3) the executive board may spend the funds
7 paid on account of the emergency assessment only for the purposes described
8 in the vote.
9

10 2. Subsection (a) defines “emergency,” a term not defined in the existing
11 act. Although the definition is broad, it should serve to discourage an executive
12 board from bypassing normal procedures by “declaring an emergency” without a
13 solid justification. The section provides special rules for notices. Before and after
14 acting to respond to an emergency, the executive board must notify unit owners
15 “whom it is practicable to reach” with notices given “in any practicable manner.”
16 Subsection (e) authorizes the board to take actions it considers reasonably
17 necessary to protect the unit owners and other persons during an emergency. The
18 section does not attempt to indicate what those actions may be; when appropriate,
19 they may include turning off electrical and other utility services, limiting access to
20 the common interest community for residents and other persons, and passing
21 emergency rules. In taking action under this section, board members must comply
22 with the normal standards of care and loyalty required by Section 3-103.
23

24 [ARTICLE] 4

25 PROTECTION OF PURCHASERS

26 * * *

27 SECTION 4-103. PUBLIC OFFERING STATEMENT; GENERAL

28 PROVISIONS.

29 (a) Except as otherwise provided in subsection (b), a public offering statement must
30 contain or fully and accurately disclose:

31 (1) the name and principal address of the declarant and of the common interest
32 community, and a statement that the common interest community is a condominium,
33 cooperative, or planned community;

34 (2) a general description of the common interest community, including to the
35 extent possible, the types, number, and declarant’s schedule of commencement and completion

1 of construction of buildings, and amenities that the declarant anticipates including in the
2 common interest community;

3 (3) the number of units in the common interest community;

4 (4) copies and a brief narrative description of the significant features of the
5 declaration, other than any plats and plans, and any other recorded covenants, conditions,
6 restrictions, and reservations affecting the common interest community; the bylaws and any rules
7 of the association; copies of any contracts and leases to be signed by purchasers at closing; and a
8 brief narrative description of any contracts or leases that will or may be subject to cancellation by
9 the association under Section 3-105;

10 (5) the financial information required by subsection (b);

11 (6) any services not reflected in the budget that the declarant provides, or
12 expenses that the declarant pays and which the declarant expects may become at any subsequent
13 time a common expense of the association and the projected common expense assessment
14 attributable to each of those services or expenses for the association and for each type of unit;

15 (7) any initial or special fee due from the purchaser or seller at the time of sale,
16 together with a description of the purpose and method of calculating the fee;

17 (8) a description of any liens, defects, or encumbrances on or affecting the title to
18 the common interest community;

19 (9) a description of any financing offered or arranged by the declarant;

20 (10) the terms and significant limitations of any warranties provided by the
21 declarant, including statutory warranties and limitations on the enforcement thereof or on
22 damages;

23 (11) a statement that:

1 (A) within 15 days after receipt of a public offering statement a purchaser,
2 before conveyance, may cancel any contract for purchase of a unit from a declarant;

3 (B) if a declarant fails to provide a public offering statement to a purchaser
4 before conveying a unit, that purchaser may recover from the declarant [10] percent of the sales
5 price of the unit plus [10] percent of the share, proportionate to the purchaser's common expense
6 liability, of any indebtedness of the association secured by security interests encumbering the
7 common interest community; and

8 (C) if a purchaser receives the public offering statement more than 15 days
9 before signing a contract, the purchaser may not cancel the contract;

10 (12) a statement of any unsatisfied judgment or pending action against the
11 association, and the status of any pending action material to the common interest community of
12 which a declarant has actual knowledge;

13 (13) a statement that any deposit made in connection with the purchase of a unit
14 will be held in an escrow account until closing and will be returned to the purchaser if the
15 purchaser cancels the contract pursuant to Section 4-108, together with the name and address of
16 the escrow agent;

17 (14) any restraints on alienation of any portion of the common interest community
18 and any restrictions:

19 (A) on use, occupancy, and alienation of the units; and

20 (B) on the amount for which a unit may be sold or on the amount that may
21 be received by a unit owner on sale, condemnation, or casualty loss to the unit or to the common
22 interest community, or on termination of the common interest community;

23 (15) a description of the insurance coverage provided for the benefit of unit

1 owners;

2 (16) any current or expected fees or charges to be paid by unit owners for the use
3 of the common elements and other facilities related to the common interest community;

4 (17) the extent to which financial arrangements have been provided for
5 completion of all improvements that the declarant is obligated to build pursuant to Section 4-119;

6 (18) a brief narrative description of any zoning and other land use requirements
7 affecting the common interest community;

8 (19) any other unusual and material circumstances, features, and characteristics of
9 the common interest community and the units;

10 (20) in a cooperative, a statement whether the unit owners will be entitled, for
11 federal, state, and local income tax purposes, to a pass-through of deductions for payments made
12 by the association for real estate taxes and interest paid the holder of a security interest
13 encumbering the cooperative and a statement as to the effect on every unit owner if the
14 association fails to pay real estate taxes or payments due the holder of a security interest
15 encumbering the cooperative; ~~and~~

16 (21) a description of any arrangement described in Section 1-209 binding the
17 association; and

18 (22) in a condominium or planned community containing a unit not having
19 horizontal boundaries described in the declaration, a statement whether the unit may be sold
20 without the consent of all the unit owners after termination under Section 2-118 of the common
21 interest community.

22 (b) The public offering statement must contain any current balance sheet and a projected
23 budget for the association, either within or as an exhibit to the public offering statement, for

[one] year after the date of the first conveyance to a purchaser, and thereafter the current budget of the association, a statement of who prepared the budget, and a statement of the budget's assumptions concerning occupancy and inflation factors. The budget must include:

(A) a statement of the amount, or a statement that there is no amount, included in the budget as a reserve for repairs and replacement;

(B) a statement of any other reserves;

(C) the projected common expense assessment by category of expenditures for the association; and

(D) the projected ~~monthly~~ periodic common expense assessment for each type of unit.

(c) If a common interest community composed of not more than 12 units is not subject to any development right and no power is reserved to a declarant to make the common interest community part of a larger common interest community, group of common interest communities, or other real estate, a public offering statement may include the information otherwise required by subsection (a) (9), (10), (15), (16), (17), (18), and (19) and the narrative descriptions of documents required by subsection (a)(4).

(d) A declarant promptly shall amend the public offering statement to report any material change in the information required by this section.

Reporter's Note (5/25/2021)

1. New Section 4-103(a)(22) requires the public offering statement to disclose whether units may be sold without the consent of all the unit owners after termination under Section 2-118 if the common interest community contains a unit without horizontal boundaries (i.e., if there are units not in multi-story buildings). This added disclosure is a companion to the revision to Section 2-118(c) and (d), which allows termination of a common interest community and the sale of all real estate, including all units, with a supermajority vote of 80%, regardless of whether the units have horizontal boundaries. This is a significant

1 change in rights of units owners, who should be informed of the possibility.

2
3 2. Section 4-103(b) requires that the public offering statement contain a
4 projected budget, including “the projected monthly common expense assessment
5 for each type of unit.” Although monthly assessments are the common practice,
6 UCOIA allows any period up to annual assessments. See Section 3-115(a)
7 (“assessments must be made at least annually”). The amendment corrects this
8 subsection by replacing “monthly common expense assessment” with “periodic
9 common expense assessment,” the term presently used in Section 4-109(a)(2) to
10 describe content in the certificate to be provided to the purchaser of a resale unit.

11 12 **Comment**

13 * * *

14 7. Paragraph (14) requires that the declarant disclose the existence of any ~~right~~
15 restrictions on the use and occupancy of units, including restrictions on rentals or the creation of
16 time-share arrangements. The declarant must disclose any rights of first refusal or other
17 restrictions on the ~~uses for which or~~ classes of persons to whom units may be sold. It also
18 requires disclosure of any provisions limiting the amount for which units may be sold or on the
19 part of the sales price which may be retained by the selling unit owner. In some existing housing
20 cooperatives for low income families the unit owner is required to sell at no more than a fixed
21 sum; sometimes the amount which the unit owner paid; sometimes that plus a fixed appreciation.
22 In addition to that practice, the section contemplates other possible limitations on the owner’s
23 right to receive sales proceeds such as a provision under which the developer shares in any
24 appreciation in value.

25
26 * * *

27
28 10. In addition to the information required to be disclosed by paragraphs (1) through
29 (18), paragraph (19) requires that the declarant disclose all other “unusual and material
30 circumstances, features, and characteristics” of the common interest community and all units
31 therein. This requires only information which is both “unusual **and** material.” Thus, the
32 provision does not require the disclosure of “material” factors which are commonly understood
33 to be part of the common interest community, *e.g.*, the fact that buildings have a roof, walls,
34 doors, and windows. Similarly, the provision does not require the disclosure of “unusual”
35 information about the common interest community which is not also “material;” (*e.g.*, the fact
36 that a common interest community is the first development of its type in a particular locality).
37 Information which would normally be required to be disclosed pursuant to paragraph (19) might
38 include, to the extent that they are unusual and material, environmental conditions affecting the
39 use or enjoyment of the common interest community, features of the location of the common
40 interest community; (*e.g.*, near the end of an airport runway or a planned rendering plant), a plan
41 to convert any units to time-share ownership, and the like.

42 43 **Reporter’s Notes**

1. The proposed amendment to Comment 7 makes explicit what was already implicit: requiring the disclosure of restrictions on sale means a provision in the declaration that prohibits the creation of time-share arrangements should be disclosed. The amendment also cleans up the language and includes restrictions on rentals, including restrictions on short-term rentals.

2. The proposed amendment to Comment 10 requires the disclosure of any plan to allow some or all of the units to be devoted to time-share arrangements. Such a provision would be unusual in many communities. If the plan is set forth in the declaration, Section 4-105 also requires inclusion in the public offering statement.

SECTION 4-105. SAME; TIME SHARES. If the declaration provides that ownership or occupancy of any units, is or may be in time shares, the public offering statement shall disclose, in addition to the information required by Section 4-103:

(1) the number and identity of units in which time shares may be created;

(2) the total number of time shares that may be created;

(3) the minimum duration of any time shares that may be created; and

(4) the extent to which the creation of time shares will or may affect the enforceability of the association's lien for assessments provided in Section 3-116.

Comment

1. Time sharing has become increasingly important in recent years frequent since the 1960s, particularly ~~with respect to~~ in resort common interest communities. In recognition of this fact, this section requires the disclosure of certain information with respect to time sharing. This section does not apply to the sale of time-share units that are subject to another state statute requiring the declarant to file a public offering statement with a state agency. See Section 4-107.

2. ~~Virtually all~~ Some existing state statutes dealing with condominiums, planned communities, or cooperatives are silent with respect to time-share ownership. The inclusion of disclosure provisions for certain forms of time sharing in this Act, however, does not imply that other law regulating time sharing is affected in any way in a State merely because that State enacts this Act.

The Uniform Law Commissioners’ Model Real Estate Time-Share Act specifies more extensive disclosures for time-share properties. A “time-share property” may include part or all of the common interest community, and Section 1-109 of the Model Act governs conflicts between this Act and time-share legislation.

1 **Reporter's Note**

2
3 The amendment updates the language of the Comment and refers to Section
4 4-107, which contains a proposed amendment for an exemption from this act's
5 requirement of a public offering statement when the declarant has prepared a
6 time-share public offering statement.
7

8 **SECTION 4-107. SAME; COMMON INTEREST COMMUNITY SECURITIES**

9 **REGISTERED WITH GOVERNMENT AGENCY.** If an interest in a common interest
10 community is currently registered with the Securities and Exchange Commission of the United
11 States [or with the state pursuant to [cite to appropriate state time-share statute or other state
12 statute]], a declarant satisfies all requirements of this [act] relating to the preparation of a public
13 offering statement ~~of this [act]~~ if the declarant delivers to the purchaser ~~[and files with the~~
14 ~~agency]~~ a copy of the public offering statement filed with the Securities and Exchange
15 Commission [or [the appropriate state agency]]. [An interest in a common interest community is
16 not a security under ~~the provisions of [insert cite to appropriate state securities regulation~~
17 ~~statutes].~~]

18 **Legislative Note:** *A state that has an agency that regulates time-share developments or other*
19 *types of common interest communities and requires the preparation of a public offering*
20 *statement should refer to statute and provide the name of the state agency in the brackets in the*
21 *first sentence.*
22

23 **Reporter's Note**

24
25 The proposed amendment provides optional language for an exemption from the
26 public offering statement provisions of this article when the state has enacted a
27 time-share statute that requires the developer or seller of time shares to prepare a
28 public offering statement to be filed with a state agency and given to purchasers.
29 The amendment follows the language of Nev. Rev. Stat. § 116.4107, which
30 provides an exemption for a common interest community registered to sell time-
31 shares with the Real Estate Division of the Department of Business and Industry.
32

33 **SECTION 4-109. RESALES OF UNITS.**

34 (a) Except in the case of a sale in which delivery of a public offering statement is

1 required, or unless exempt under Section 4-101(b), a unit owner shall furnish to a purchaser
2 before the earlier of conveyance or transfer of the right to possession of a unit, a copy of ~~the~~
3 ~~declaration, other than any plats and plans,~~ the bylaws, the rules ~~or regulations~~ of the association,
4 and the declaration other than plats and plans. The unit owner shall also furnish a certificate
5 containing:

6 (1) a statement disclosing the effect on the proposed disposition of any right of
7 first refusal or other restraint on the free alienability of the unit held by the association;

8 (2) a statement setting forth the amount of the periodic common expense
9 assessment and any unpaid common expense or special assessment currently due and payable
10 from the selling unit owner;

11 (3) a statement of any other fees payable by the owner of the unit being sold;

12 (4) a statement of any capital expenditures approved by the association for the
13 current and succeeding fiscal years;

14 (5) a statement of the amount of any reserves for capital expenditures and of any
15 portions of those reserves designated by the association for any specified projects;

16 (6) the most recent regularly prepared balance sheet and income and expense
17 statement, if any, of the association;

18 (7) the current operating budget of the association;

19 (8) a statement of any unsatisfied judgments against the association and the status
20 of any pending suits in which the association is a defendant;

21 (9) a statement describing any insurance coverage provided for the benefit of unit
22 owners;

23 (10) a statement as to whether the executive board has given or received notice in

1 a record that any existing uses, occupancies, alterations, or improvements in or to the unit or to
2 the limited common elements assigned thereto violate any provision of the declaration;

3 (11) a statement as to whether the executive board has received notice in a record
4 from a governmental agency of any violation of environmental, health, or building codes with
5 respect to the unit, the limited common elements assigned thereto, or any other portion of the
6 common interest community which has not been cured;

7 (12) a statement of the remaining term of any leasehold estate affecting the
8 common interest community and the provisions governing any extension or renewal thereof;

9 (13) a statement of any restrictions in the declaration affecting the amount that
10 may be received by a unit owner upon sale, condemnation, casualty loss to the unit or the
11 common interest community, or termination of the common interest community;

12 (14) in a cooperative, an accountant's statement, if any was prepared, as to the
13 deductibility for federal income tax purposes by the unit owner of real estate taxes and interest
14 paid by the association;

15 (15) a statement describing any pending sale or encumbrance of common
16 elements; and

17 (16) a statement disclosing the effect on the unit to be conveyed of any
18 ~~restrictions~~ restriction on the owner's right to use or occupy the unit ~~or to~~, including a restriction
19 on a lease or other rental of the unit to another person.

20 (b) The association, within 10 days after a request by a unit owner, shall furnish a
21 certificate containing the information necessary to enable the unit owner to comply with this
22 section. A unit owner providing a certificate pursuant to subsection (a) is not liable to the
23 purchaser for any erroneous information provided by the association and included in the

1 certificate.

2 (c) A purchaser is not liable for any unpaid assessment or fee greater than the amount set
3 forth in the certificate prepared by the association. A unit owner is not liable to a purchaser for
4 the failure or delay of the association to provide the certificate in a timely manner, but the
5 purchase contract is voidable by the purchaser until the certificate has been provided and for
6 [five] days thereafter or until conveyance, whichever first occurs.

7 **Reporter's Note (5/25/2021)**
8

9 1. The revision to Section 4-109(a) removes a possible ambiguity
10 concerning the location of the phrase "other than." The "other than" phrase means
11 the unit owner need not furnish "plats and plans" to the purchaser; the owner must
12 furnish the bylaws and rules.
13

14 2. The revision to Section 4-109(a)(16) expands the scope of the
15 disclosure in to include not only standard leases, but also time-share
16 arrangements, short-term rentals, and sharing platforms that sell licenses to
17 guests, such as Airbnb. The revision matches the scope of what the declaration
18 must and may disclose in Section 2-105(a)(12) and (b). Recently many common
19 interest communities have placed restrictions on short-term rentals in declarations
20 and rules, and this information is important for many purchasers.
21

22 ~~{OPTIONAL}~~

23 **[ARTICLE] 5**

24 ~~**ADMINISTRATION AND REGISTRATION OF COMMON INTEREST**~~

25 ~~**COMMUNITIES**~~ **TRANSITION**

26 **SECTION 5-101. EFFECTIVE DATE.**

27 (a) This [act] takes effect ...

28 (b) Before [all-inclusive date], this [act] applies to only:

29 (1) a common interest community created on or after [the effective date of this
30 [act]]; and

31 (2) a common interest community created before [the effective date of this [act]]

1 that amends its declaration to elect to be subject to this [act].

2 (c) [Except as provided in subsection (d),] On and after [all-inclusive date] this [act]
3 applies to all common interest communities.

4 [(d) This [act] does not apply to a common interest community created before [the
5 effective date of this [act]] which elects not to be subject to this [act] by amending its declaration
6 by vote or agreement of unit owners of units to which more than 50 percent of the votes in the
7 association are allocated and recording the amendment before [all-inclusive date]. This
8 subsection supersedes the requirements of Section 2-117(a), any inconsistent provisions of other
9 laws of this State, and any inconsistent provisions in the declaration or bylaws of the common
10 interest community.]

11 **Legislative Note:** The “all-inclusive” date should be three years after the effective date of the
12 act. For a state that previously adopted UCIOA (2014) or an earlier version of UCIOA, the
13 effective date in subsection (b) should be the effective date stated in the earlier adoption.
14 Subsection (d) is an optional provision. If a state decides that full applicability of the act to all
15 preexisting common interest communities is not appropriate, subsection (d) provides for a
16 procedure for preexisting communities to make an election to opt out of the act.

17
18 **Reporter’s Note (5/25/2021)**
19

20 1. Subsections (a) and (b) provide effective-date rules using the technique
21 of an “all-inclusive date” found in many ULC acts dealing with corporations and
22 other business organizations. The Legislative Note recommends an all-inclusive
23 date of 3 years after the effective date of the act. The length should depend on
24 how long it should take for people who are responsible for running the affairs of
25 associations (e.g., executive boards and in many cases management companies) to
26 become aware of and familiar with the new act.

27
28 2. The existing act contains an Optional Article 5, titled “Administration
29 and Registration of Common Interest Communities,” which contains procedures
30 and rules for a state agency to regulate the development and sale of units. None of
31 the states that have adopted UCIOA have included Article 5. The Drafting
32 Committee recommends the withdrawal of Article 5, with this new transition
33 article in its place.
34

35 **SECTION 5-102. PRIOR STATUTES.** The provisions of [insert reference to all

1 present statutes expressly applicable to planned communities, condominiums, cooperatives, or
2 horizontal property regimes]:

3 (1) do not apply to common interest communities that are subject to this [act]; and

4 (2) apply to common interest communities created before [the effective date of this [act]]
5 only until the community becomes subject to this [act].

6 ***Legislative Note:*** For a state that previously adopted UCIOA (2014) or an earlier version of
7 UCIOA, the effective date in this section should be the effective date stated in the earlier
8 adoption. After the all-inclusive date, unless the state adopts the optional bracketed provision in
9 Section 5-101(d), the state should repeal any previous condominium statute identified in this
10 section because this act will then apply to all condominiums within the state.

11
12 **Reporter's Note (5/25/2021)**

13
14 This section moves the existing second sentence from Section 1-201 and keeps it
15 without change as paragraph (1). The existing text in Section 1-201 does not
16 expressly address retention of the statutes for preexisting communities, although
17 obviously that is implied. New paragraph (2) says this directly. A preexisting
18 common interest community remains subject to the old statutes until the "all-
19 inclusive date" or until it makes an election to adopt the act under Section 1-202,
20 1-203, or 5-101(b)(2).

21
22 **SECTION 5-103. RETROACTIVE APPLICATION.**

23 (a) Except as provided in subsection (b), if a common interest community created before
24 [the effective date of this [act]] becomes subject to this [act] on [all-inclusive date] or earlier, a
25 provision of its declaration or bylaws that is inconsistent with this [act] is invalid unless:

26 (1) the provision is expressly permitted under Section 1-117; or

27 (2) the common interest community is a cooperative described in Section 1-202, a
28 planned community described in Section 1-203, or a nonresidential or mixed-use common
29 interest community described in Section 1-207.

30 (b) This [act] does not require a common interest community validly created before [the
31 effective date of this [act]]:

1 (1) to comply with the requirements of this [act] for the creation of a common
2 interest community; or

3 (2) to prepare or amend surveys, plats, and plans.

4 (c) This [act] does not invalidate an action validly taken, or transaction validly entered
5 into, before a common interest community becomes subject to this [act].

6 **Legislative Note:** *For a state that previously adopted UCIOA (2014) or an earlier version of*
7 *UCIOA, the effective date in this section should be the effective date stated in the earlier*
8 *adoption.*

9
10 **Reporter's Note (5/25/2021)**

11
12 1. Subsection (a) invalidates the provisions in the declaration or bylaws of
13 a preexisting common interest community that do not comply with the act's
14 mandatory rules when the community becomes subject to the act. Common
15 interest communities created before the effective date of this act become fully
16 subject to this act under Section 5-101(c) at the all-inclusive date or by an earlier
17 election under Section 5-101(b)(2).

18
19 2. A common interest community that becomes subject to the act should
20 study their governing documents and amend or restate them to comply with this
21 act, but this section does not require amendment; invalidation of provisions that
22 are not permitted takes place automatically.

23
24 3. The reference in subsection (a) to newly drafted Section 1-117,
25 *Mandatory and Default Rules*, means that existing provisions of the declaration
26 and bylaws that are inconsistent with the rules and procedures of this act remain
27 effective if the act allows their variation by content in the declaration or bylaws.
28 For example, if the preexisting declaration provides that termination of the
29 common interest community requires the unanimous approval of unit owners, this
30 provision supersedes the rule in Section 2-118 that authorizes termination by a
31 vote of 80 percent of unit owners. The preexisting community does not have to
32 amend its declaration to restate its unanimity provision.

33 4. Plats and plans are part of the declaration. Under subsection (b), a
34 preexisting common interest community does not have to prepare plats and plans
35 if the community was validly created without them; or amend any existing
36 surveys, plats, and plans that do not comply with Section 2-109.

37
38 **SECTION 5-104. APPLICABILITY TO PRE-EXISTING COMMON INTEREST**
39 **COMMUNITIES.**

40 (a) Except for a cooperative described in Section 1-202, a planned community described

1 in Section 1-203, or a nonresidential or mixed-use common interest community described in
2 Section 1-207, the following sections apply to a common interest community created before [the
3 effective date of this [act]]:

4 (1) Section 1-105;

5 (2) Section 1-106;

6 (3) Section 1-107;

7 (4) Section 1-206;

8 (5) Section 2-102;

9 (6) Section 2-103;

10 (7) Section 2-104;

11 (8) Section 2-117 (h) and (i);

12 (9) Section 2-121;

13 (10) Section 2-124;

14 (11) Section 3-102(a)(1) through (6) and (11) through (16);

15 (12) Section 3-103;

16 (13) Section 3-111;

17 (14) Section 3-116;

18 (15) Section 3-118;

19 (16) Section 3-124;

20 (17) Section 4-109;

21 (18) Section 4-117; and

22 (19) Section 1-103 to the extent necessary to construe those sections.

23 (b) The sections listed in subsection (a) apply only to events and circumstances occurring

1 after [the effective date of this [act]] and do not invalidate existing provisions of the declaration or
2 bylaws of the common interest community.

3 (c) This section does not apply to a common interest community that becomes subject to
4 this entire [act] under Section 5-101 or by election under Section 1-202, 1-203, or 1-207.

5 ***Legislative Note:*** *For a state that previously adopted UCIOA (2014) or an earlier version of*
6 *UCIOA, the effective date in this section should be the effective date stated in the earlier*
7 *adoption.*

8
9 **Reporter's Note (5/25/2021)**

10
11 Section 5-104(a) and (b) continues the content of existing Section 1-204, which is
12 moved with minor edits. Subsection (c) makes Section 5-104 inapplicable to a
13 common interest community created before the effective date of this act that
14 becomes fully subject to this act at the all-inclusive date or by election. For such a
15 community, the validity of the existing provisions of its declaration and bylaws
16 are subject to Section 5-103(a).