

REFERENCE TITLE: homeowners' associations; budget ratification; requirements

State of Arizona  
House of Representatives  
Fifty-seventh Legislature  
First Regular Session  
2025

## HB 2442

Introduced by  
Representative Keshe1

AN ACT

AMENDING SECTIONS 33-1202, 33-1215, 33-1243, 33-1245, 33-1802 AND 33-1803,  
ARIZONA REVISED STATUTES; RELATING TO CONDOMINIUMS AND PLANNED  
COMMUNITIES.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Section 33-1202, Arizona Revised Statutes, is amended to  
3 read:

4 33-1202. Definitions

5 In the condominium documents, unless specifically provided otherwise  
6 or the context otherwise requires, and in this chapter:

7 1. "Affiliate of a declarant" means any person who controls, is  
8 controlled by or is under common control with a declarant.

9 2. "Allocated interests" means the undivided interests in the  
10 common elements, the common expense liability and votes in the association  
11 allocated to each unit.

12 3. "Articles of incorporation" means the instrument by which an  
13 incorporated association or unit owners' association is formed and  
14 organized under this state's corporate statutes.

15 4. "Assessment" means the ~~share of monies that is required for the~~  
16 ~~payment of common expenses and that the association assesses periodically~~  
17 ~~against each unit~~ ASSOCIATION'S CHARGES APPLIED TO EACH UNIT OWNER TO FUND  
18 THE ANTICIPATED COMMON EXPENSES BASED ON THE APPROVED ANNUAL OR  
19 SUPPLEMENTAL BUDGET OR APPROVED SPECIAL EXPENDITURE, AND EACH UNIT OWNER'S  
20 COMMON EXPENSE LIABILITY.

21 5. "Association" or "unit owners' association" means the unit  
22 owners' association organized under section 33-1241.

23 6. "Board of directors" means the body, regardless of its name,  
24 designated in the declaration and given general management powers to act  
25 on behalf of the association.

26 7. "Bylaws" means the bylaws required by section 33-1246.

27 8. "Common elements" means all portions of a condominium other than  
28 the units.

29 9. "Common expense liability" means the liability for common  
30 expenses allocated to each unit pursuant to ~~section~~ SECTIONS 33-1217 AND  
31 33-1255.

32 10. "Common expense lien" means the lien for assessments, charges  
33 for late payment of assessments if authorized in the declaration,  
34 reasonable collection fees and costs incurred or applied by the  
35 association and reasonable attorney fees and costs that are incurred with  
36 respect to those assessments, if the attorney fees and costs are awarded  
37 by a court.

38 11. "Common expenses" means expenditures made by or financial  
39 liabilities of the association, together with any allocations to reserves.

40 12. "Condominium" means real estate, portions of which are  
41 designated for separate ownership and the remainder of which is designated  
42 for common ownership solely by the owners of the separate portions. Real  
43 estate is not a condominium unless the undivided interests in the common  
44 elements are vested in the unit owners.

1           13. "Condominium documents" means the declaration, bylaws, articles  
2 of incorporation, if any, and rules, if any.

3           14. "Declarant" means any person or group of persons who reserves,  
4 is granted or succeeds to any special declarant right.

5           15. "Declaration" means any instruments, however denominated, that  
6 create a condominium and any amendments to those instruments.

7           16. "Development rights" means any right or combination of rights  
8 reserved by or granted to a declarant in the declaration to do any of the  
9 following:

10           (a) Add real estate to a condominium.

11           (b) Create easements, units, common elements or limited common  
12 elements within a condominium.

13           (c) Subdivide units, convert units into common elements or convert  
14 common elements into units.

15           (d) Withdraw real estate from a condominium.

16           (e) Make the condominium part of a larger condominium or planned  
17 community.

18           (f) Amend the declaration during any period of declarant control,  
19 pursuant to section 33-1243, subsection ~~F~~ J, to comply with applicable  
20 law or to correct any error or inconsistency in the declaration, if the  
21 amendment does not adversely affect the rights of any unit owner.

22           (g) Amend the declaration during any period of declarant control,  
23 pursuant to section 33-1243, subsection ~~F~~ J, to comply with the rules or  
24 guidelines, in effect from time to time, of any governmental or  
25 quasi-governmental entity or federal corporation guaranteeing or insuring  
26 mortgage loans or governing transactions involving mortgage instruments.

27           17. "Identifying number" means a symbol or address that identifies  
28 one unit in a condominium.

29           18. "Leasehold condominium" means a condominium in which all or a  
30 portion of the real estate is subject to a lease the expiration or  
31 termination of which will terminate the condominium or reduce its size.

32           19. "Limited common element" means a portion of the common elements  
33 specifically designated as a limited common element in the declaration and  
34 allocated by the declaration or by operation of section 33-1212, paragraph  
35 2 or 4 for the exclusive use of one or more but fewer than all of the  
36 units.

37           20. "Person" means:

38           (a) A natural person, corporation, business trust, estate, trust,  
39 partnership, association, joint venture, government, governmental  
40 subdivision or agency, or other legal or commercial entity.

41           (b) In the case of a subdivision trust, as defined in section  
42 6-801, the beneficiary of the trust who holds the right to subdivide,  
43 develop or sell the real estate rather than the trust or trustee.

1           21. "Real estate":

2           (a) Means any legal, equitable, leasehold or other estate or  
3 interest in, over or under land, including structures, fixtures and other  
4 improvements and interests which by custom, usage or law pass with a  
5 conveyance of land though not described in the contract of sale or  
6 instrument of conveyance.

7           (b) Includes parcels with or without upper or lower boundaries and  
8 spaces that may be filled with air or water.

9           22. "Rules" means the provisions, if any, adopted pursuant to the  
10 declaration or bylaws governing maintenance and use of the units and  
11 common elements.

12           23. "Special declarant rights" means any right or combination of  
13 rights reserved by or granted to a declarant in the declaration to do any  
14 of the following:

15           (a) Construct improvements provided for in the declaration.

16           (b) Exercise any development right.

17           (c) Maintain sales offices, management offices, signs advertising  
18 the condominium, and models.

19           (d) Use easements through the common elements for the purpose of  
20 making improvements within the condominium or within real estate that may  
21 be added to the condominium.

22           (e) Appoint or remove any officer of the association or any board  
23 member during any period of declarant control.

24           24. "Unit" means a portion of the condominium designated for  
25 separate ownership or occupancy.

26           25. "Unit owner" means:

27           (a) A declarant or other person who owns a unit or, unless  
28 otherwise provided in the lease, a lessee of a unit in a leasehold  
29 condominium whose lease expires simultaneously with any lease the  
30 expiration or termination of which will remove the unit from the  
31 condominium but does not include a person having an interest in a unit  
32 solely as security for an obligation.

33           (b) In the case of a contract for conveyance, as defined in section  
34 33-741, of real property, the purchaser of the unit.

35           26. "Unit owner expenses":

36           (a) Means fees, charges, ~~late charges~~ and monetary penalties ~~or~~  
37 ~~interest~~ that ~~is~~ ARE imposed pursuant to ~~section 33-1242, subsection A,~~  
38 ~~paragraphs 10, 11 and 12~~ THE CONDOMINIUM DOCUMENTS.

39           (b) Does not include any amount that is included in a common  
40 expense lien.

41           Sec. 2. Section 33-1215, Arizona Revised Statutes, is amended to  
42 read:

43           33-1215. Contents of declaration

44           A. The declaration shall contain:

1           1. The name of the condominium, which shall include the word  
2 "condominium" or be followed by the words "a condominium", and the name of  
3 the association.

4           2. The name of every county in which any portion of the condominium  
5 is located.

6           3. A legal description of the real estate included in the  
7 condominium.

8           4. A description of the boundaries of each unit created by the  
9 declaration, including each unit's identifying number.

10          5. A description of any limited common elements, other than those  
11 specified in section 33-1212, paragraphs 2 and 4, but the declaration  
12 shall contain a description of any porches, balconies, patios and  
13 entryways, if any, as provided in section 33-1219, subsection B, paragraph  
14 11.

15          6. A description of any development rights and other special  
16 declarant rights, together with a legal description of the real estate to  
17 which each of those rights applies, any time limit within which each of  
18 those rights must be exercised and any other conditions or limitations  
19 under which the rights described in this paragraph may be exercised or  
20 will lapse.

21          7. An allocation to each unit of the allocated interests in the  
22 manner described in section 33-1217.

23          8. Any restrictions on use, occupancy and alienation of the units.

24          9. All matters required by sections 33-1216, 33-1217, 33-1218,  
25 33-1219 and 33-1226 and section 33-1243, subsection ~~F~~ J.

26          10. A statement that the assessment obligation of the unit owner  
27 under section 33-1255 is secured by a lien on the owner's unit in favor of  
28 the association pursuant to section 33-1256.

29          11. If the condominium is a conversion from multifamily rental to  
30 condominiums, a statement containing all of the following:

31           (a) A statement that the property is a conversion from multifamily  
32 rental to condominiums.

33           (b) The date original construction was completed.

34           (c) The name and address of the original owner, builder, developer  
35 and general contractor as shown on the applicable city, town or county  
36 building permit.

37           (d) The name and address of each subsequent owner as determined by  
38 a search of the county recorder's records in the county in which the  
39 property is located.

40           (e) The subdivider's agreement to provide the following information  
41 on request:

42           (i) The name and address of any builder, developer, general  
43 contractor, subcontractor, architect and engineer who designed or made  
44 improvements to the property immediately before the first condominium was  
45 sold.

1 (ii) A specific description of all improvements made.

2 B. If a city, town or county is unable to produce a building permit  
3 as required in subsection A, paragraph 11, subdivision (c) of this  
4 section, the subdivider shall submit a letter from the applicable city,  
5 town or county stating that the information required by subsection A,  
6 paragraph 11, subdivision (c) of this section is not available.

7 C. The declaration may contain any other matters the declarant  
8 deems appropriate.

9 Sec. 3. Section 33-1243, Arizona Revised Statutes, is amended to  
10 read:

11 33-1243. Board of directors and officers; conflict; powers;  
12 annual budget; limitations; removal; annual audit;  
13 applicability; definition

14 A. Except as provided in the declaration, the bylaws, subsection B  
15 of this section or other provisions of this chapter, the board of  
16 directors may act in all instances on behalf of the association.

17 B. The board of directors shall not act on behalf of the  
18 association to amend the declaration, terminate the condominium, elect  
19 members of the board of directors or determine the qualifications, powers  
20 and duties or terms of office of board of directors members. Except as  
21 provided in subsection ~~H~~ M of this section, the board of directors may  
22 fill vacancies in its membership for the unexpired portion of any term.

23 C. If any contract, decision or other action for compensation taken  
24 by or on behalf of the board of directors would benefit any member of the  
25 board of directors or any person who is a parent, grandparent, spouse,  
26 child or sibling of a member of the board of directors or a parent or  
27 spouse of any of those persons, that member of the board of directors  
28 shall declare a conflict of interest for that issue. The member shall  
29 declare the conflict in an open meeting of the board before the board  
30 discusses or takes action on that issue and that member may then vote on  
31 that issue. Any contract entered into in violation of this subsection is  
32 void and unenforceable.

33 D. ~~Except as provided in the declaration,~~ NOTWITHSTANDING ANY  
34 PROVISION IN THE CONDOMINIUM DOCUMENTS, AFTER THE TERMINATION OF THE  
35 PERIOD OF DECLARANT CONTROL, THE BOARD OF DIRECTORS HAS A DUTY TO DEVELOP  
36 AN ANNUAL OPERATING BUDGET FOR THE FISCAL YEAR BASED ON A REASONABLY  
37 PRUDENT AND GOOD FAITH ESTIMATE OF THE COMMON EXPENSES NECESSARY TO  
38 SATISFY THE BOARD OF DIRECTORS' OBLIGATIONS TO THE UNIT OWNERS TO MANAGE  
39 COSTS AND TO PROVIDE FOR THE ANNUAL MAINTENANCE AND OPERATION OF THE  
40 COMMON ELEMENTS AND THE ADMINISTRATIVE AND OPERATING EXPENSES OF THE  
41 ASSOCIATION, ALONG WITH ANY ALLOCATIONS TO RESERVE ACCOUNTS. A COPY OF ANY  
42 PROPOSED BUDGET SHALL BE MADE REASONABLY AVAILABLE FOR UNIT OWNER REVIEW  
43 AT LEAST FORTY-EIGHT HOURS BEFORE THE BOARD MEETING AT WHICH THE BOARD OF  
44 DIRECTORS WILL CONSIDER THE APPROVAL OF THAT BUDGET.

1 E. IF THE BOARD-APPROVED ANNUAL OPERATING BUDGET AND ANY  
2 SUPPLEMENTAL AMENDMENT TO THAT BUDGET, EXCLUDING CONSIDERATION OF LOAN  
3 INSTALLMENT PAYMENTS PREVIOUSLY APPROVED AS A SPECIAL ASSESSMENT OR  
4 FINANCING PURSUANT TO SUBSECTION H OF THIS SECTION, WOULD RESULT IN AN  
5 ANNUALIZED ASSESSMENT INCREASE FROM THE PREVIOUS YEAR'S INITIAL ANNUAL  
6 ASSESSMENT THAT IS GREATER THAN THE PERCENTAGE CHANGE IN THE CONSUMER  
7 PRICE INDEX FOR THE TWELVE MONTHS PRECEDING INITIAL BUDGET APPROVAL, THE  
8 BUDGET MUST BE RATIFIED BY THE UNIT OWNERS BEFORE IMPLEMENTATION AND  
9 ASSESSMENT AS FOLLOWS:

10 1. Within thirty days after adoption of any proposed budget for the  
11 condominium, the board of directors shall provide a summary AND  
12 JUSTIFICATION of the budget to all the unit owners. ~~Unless the board of~~  
13 ~~directors is expressly authorized in the declaration to adopt and amend~~  
14 ~~budgets from time to time, any budget or amendment shall be ratified by~~  
15 ~~the unit owners in accordance with the procedures set forth in this~~  
16 ~~subsection. If ratification is required,~~ The board of directors shall set  
17 a date AND PROVIDE NOTICE PURSUANT TO SECTION 33-1248 for a meeting of the  
18 unit owners to consider ratification of the budget. ~~not fewer than~~  
19 ~~fourteen or more than thirty days after mailing of the summary. Unless at~~  
20 ~~that meeting a majority of all the unit owners or any larger vote~~  
21 ~~specified in the declaration rejects the budget, the budget is ratified,~~  
22 THE PROPOSED BUDGET IS RATIFIED IF A MAJORITY OF UNIT OWNERS VOTING IN  
23 PERSON AND BY ABSENTEE BALLOT, OR AS OTHERWISE PROVIDED BY SECTION  
24 33-1250, VOTE TO APPROVE THE BUDGET AS PRESENTED whether or not ~~a~~ THE  
25 quorum REQUIREMENT is ~~present~~ MET.

26 2. If the proposed budget is rejected, ~~the periodic budget last~~  
27 ~~ratified by the unit owners shall be continued~~ THE BOARD OF DIRECTORS MAY  
28 EITHER RETAIN THE EXISTING BUDGET AND ASSESSMENT OR DEVELOP AND APPROVE A  
29 BUDGET THAT DOES NOT REQUIRE RATIFICATION, until such time as the unit  
30 owners ratify a subsequent budget proposed by the board of directors.

31 F. IF AUTHORIZED IN THE DECLARATION, THE ASSOCIATION MAY ESTABLISH  
32 AND FUND RESERVE ACCOUNTS HOWEVER DENOMINATED AS NECESSARY TO ADDRESS  
33 ANTICIPATED LONG-TERM OR MAJOR MAINTENANCE AND UPGRADE OF THE COMMON  
34 ELEMENTS OR FOR ANY OTHER PURPOSE AUTHORIZED IN THE DECLARATION. EXCEPT  
35 FOR TEMPORARY CASH FLOW CONSIDERATIONS FOR BUDGETED EXPENSES, THE BOARD OF  
36 DIRECTORS OR THE BOARD'S MANAGING AGENT SHALL NOT SPEND OR TRANSFER ANY  
37 MONIES FROM THE ASSOCIATION'S RESERVE ACCOUNTS FOR ANY PURPOSE THAT IS NOT  
38 INCLUDED IN THE DECLARATION'S AUTHORIZED USE OF THAT RESERVE ACCOUNT  
39 WITHOUT THE PRIOR AUTHORIZATION OF THE UNIT OWNERS.

40 G. IF UNANTICIPATED AND UNBUDGETED OPERATING EXPENSES BECOME  
41 NECESSARY, THE ASSOCIATION SHALL DEVELOP, APPROVE AND, IF NECESSARY,  
42 RATIFY A SUPPLEMENTAL AMENDMENT TO THE ANNUAL BUDGET PURSUANT TO  
43 SUBSECTIONS D AND E OF THIS SECTION BEFORE INCURRING THE EXPENSES. THE  
44 ASSOCIATION'S BUDGET ALLOCATION TO RESERVE ACCOUNTS SHALL BE CONSIDERED

1 COMMITTED EXPENSES AND SHALL NOT BE REDUCED TO ADDRESS UNBUDGETED EXPENSES  
2 WITHOUT THE PRIOR APPROVAL OF THE UNIT OWNERS.

3 H. IF THE BOARD OF DIRECTORS VOTES TO APPROVE A SPECIAL ASSESSMENT  
4 OR TO SECURE FINANCING FOR ANY REASON, THAT SPECIAL ASSESSMENT OR  
5 FINANCING MUST BE RATIFIED BY THE AFFIRMATIVE VOTE OF A MAJORITY OF ALL  
6 ALLOCATED VOTES IN THE CONDOMINIUM OR ANY LARGER PERCENTAGE SPECIFIED IN  
7 THE DECLARATION FOR SPECIAL ASSESSMENTS BEFORE THE APPLICATION OF THAT  
8 ASSESSMENT OR FINANCING COMMITMENT.

9 I. IF THE ASSOCIATION DOES NOT COMPLY WITH SUBSECTIONS D THROUGH H  
10 OF THIS SECTION, ANY RESULTING ACTION OR ASSESSMENT IS INVALID AND  
11 UNENFORCEABLE.

12 ~~F.~~ J. The declaration may provide for a period of declarant  
13 control of the association, during which period a declarant or persons  
14 designated by the declarant may appoint and remove the officers and  
15 members of the board of directors. Regardless of the period provided in  
16 the declaration, a period of declarant control terminates not later than  
17 the earlier of:

18 1. Ninety days after conveyance of seventy-five percent of the  
19 units that may be created to unit owners other than a declarant.

20 2. Four years after all declarants have ceased to offer units for  
21 sale in the ordinary course of business.

22 ~~F.~~ K. A declarant may voluntarily surrender the right to appoint  
23 and remove officers and members of the board of directors before  
24 termination of the period prescribed in subsection ~~F.~~ J of this section,  
25 but in that event the declarant may require, for the duration of the  
26 period of declarant control, that specified actions of the association or  
27 board of directors, as described in a recorded instrument executed by the  
28 declarant, be approved by the declarant before they become effective.

29 ~~G.~~ L. Not later than the termination of any period of declarant  
30 control the unit owners shall elect a board of directors of at least three  
31 members, at least a majority of whom must be unit owners. The board of  
32 directors shall elect the officers. The board members and officers shall  
33 take office on election.

34 ~~H.~~ M. Notwithstanding any provision of the declaration or bylaws  
35 to the contrary, all of the following apply to a meeting at which a member  
36 of the board of directors, other than a member appointed by the declarant,  
37 is proposed to be removed from the board of directors:

38 1. The unit owners who are eligible to vote at the time of the  
39 meeting may remove any member of the board of directors, other than a  
40 member appointed by the declarant, by a majority vote of those voting on  
41 the matter at a meeting of the unit owners.

42 2. The meeting of the unit owners shall be called pursuant to this  
43 section and action may be taken only if a quorum is present.

44 3. The unit owners may remove any member of the board of directors  
45 with or without cause, other than a member appointed by the declarant.



1           4. For purposes of calling for removal of a member of the board of  
2 directors, other than a member appointed by the declarant, the following  
3 apply:

4           (a) In an association with one thousand or fewer members, on  
5 receipt of a petition that calls for removal of a member of the board of  
6 directors and that is signed by the number of persons who are eligible to  
7 vote in the association at the time the person signs the petition equal to  
8 at least twenty-five percent of the votes in the association or by the  
9 number of persons who are eligible to vote in the association at the time  
10 the person signs the petition equal to at least one hundred votes in the  
11 association, whichever is less, the board shall call and provide written  
12 notice of a special meeting of the association as prescribed by section  
13 33-1248, subsection B.

14           (b) Notwithstanding section 33-1248, subsection B, in an  
15 association with more than one thousand members, on receipt of a petition  
16 that calls for removal of a member of the board of directors and that is  
17 signed by the number of persons who are eligible to vote in the  
18 association at the time the person signs the petition equal to at least  
19 ten percent of the votes in the association or by the number of persons  
20 who are eligible to vote in the association at the time the person signs  
21 the petition equal to at least one thousand votes in the association,  
22 whichever is less, the board shall call and provide written notice of a  
23 special meeting of the association. The board shall provide written  
24 notice of a special meeting as prescribed by section 33-1248,  
25 subsection B.

26           (c) The special meeting shall be called, noticed and held within  
27 thirty days after receipt of the petition.

28           (d) If all of the requirements of this subsection for calling a  
29 special meeting are met and the board of directors fails to call, notice  
30 and hold a special meeting within thirty days after receipt of the  
31 petition, the members of the board of directors are deemed removed from  
32 office effective at midnight of the thirty-first day.

33           (e) For purposes of a special meeting called pursuant to this  
34 subsection, a quorum is present if the number of owners who are eligible  
35 to vote in the association at the time the person attends the meeting  
36 equal to at least twenty percent of the votes of the association or the  
37 number of persons who are eligible to vote in the association at the time  
38 the person attends the meeting equal to at least one thousand votes,  
39 whichever is less, is present at the meeting in person or as otherwise  
40 allowed by law.

41           (f) If a civil action is filed regarding the removal of a board  
42 member, the prevailing party in the civil action shall be awarded its  
43 reasonable attorney fees and costs.

44           (g) The board of directors shall retain all documents and other  
45 records relating to the proposed removal of the member of the board of

1 directors and any election or other action taken for that director's  
2 replacement for at least one year after the date of the special meeting  
3 and shall allow members to inspect those documents and records pursuant to  
4 section 33-1258.

5 (h) A petition that calls for the removal of the same member of the  
6 board of directors shall not be submitted more than once during each term  
7 of office for that member.

8 5. On removal of at least one but fewer than a majority of the  
9 members of the board of directors at a special meeting of the membership  
10 called pursuant to this subsection, the vacancies shall be filled as  
11 provided in the condominium documents.

12 6. On removal of a majority of the members of the board of  
13 directors at a special meeting of the membership called pursuant to this  
14 subsection, or if the condominium documents do not provide a method for  
15 filling board vacancies, the association shall hold an election for the  
16 replacement of the removed directors at a separate meeting of the members  
17 of the association that is held not later than thirty days after the  
18 meeting at which the members of the board of directors were removed.

19 7. A member of the board of directors who is removed pursuant to  
20 this subsection is not eligible to serve on the board of directors again  
21 until after the expiration of the removed board member's term of office,  
22 unless the condominium documents specifically provide for a longer period  
23 of ineligibility.

24 ~~I.~~ N. For an association in which board members are elected from  
25 separately designated voting districts, a member of the board of  
26 directors, other than a member appointed by the declarant, may be removed  
27 only by a vote of the members from that voting district, and only the  
28 members from that voting district are eligible to vote on the matter or be  
29 counted for purposes of determining a quorum.

30 ~~J.~~ O. Unless any provision in the condominium documents requires  
31 an annual audit by a certified public accountant, the board of directors  
32 shall provide for an annual financial audit, review or compilation of the  
33 association. The audit, review or compilation shall be completed no later  
34 than one hundred eighty days after the end of the association's fiscal  
35 year and shall be made available on request to the unit owners within  
36 thirty days after its completion.

37 ~~K.~~ P. This section does not apply to timeshare plans or  
38 associations, or the period of declarant control under timeshare  
39 instruments, that are subject to chapter 20 of this title.

40 Q. FOR THE PURPOSES OF THIS SECTION, "CONSUMER PRICE INDEX" MEANS  
41 THE UNITED STATES DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS, INDEX  
42 FOR URBAN WAGE EARNERS AND CLERICAL WORKERS THAT IS DESIGNATED AS "CPI-W".

1           Sec. 4. Section 33-1245, Arizona Revised Statutes, is amended to  
2 read:

3           33-1245. Termination of contracts and leases of declarant;  
4                                   applicability

5           A. A contract for any of the following, if entered into before the  
6 board of directors elected by the unit owners pursuant to section 33-1243,  
7 subsection ~~6~~ L takes office, shall contain a provision in the contract  
8 that the contract may be terminated without penalty by the association at  
9 any time after the board of directors elected by the unit owners takes  
10 office:

11           1. Any management contract or employment contract.

12           2. Any other contract or lease between the association and a  
13 declarant or an affiliate of a declarant.

14           3. Any contract or lease that is not bona fide or was  
15 unconscionable to the unit owners at the time entered into under the  
16 circumstances then prevailing.

17           B. The board of directors shall notify the appropriate contractual  
18 party of the termination at least thirty days before termination.

19           C. This section does not apply to any lease if the termination of  
20 the lease would terminate the condominium or reduce its size.

21           D. If a contract covered by this section fails to contain the  
22 provisions required by subsection A of this section, the contract is  
23 voidable at the option of the association.

24           E. This section does not apply to timeshare plans or associations  
25 that are subject to chapter 20 of this title.

26           Sec. 5. Section 33-1802, Arizona Revised Statutes, is amended to  
27 read:

28           33-1802. Definitions

29           In this chapter and in the community documents, unless the context  
30 otherwise requires:

31           1. "ASSESSMENT" MEANS THE ASSOCIATION'S CHARGES APPLIED TO EACH  
32 MEMBER TO FUND THE ANTICIPATED COMMON EXPENSES BASED ON THE APPROVED  
33 ANNUAL OR SUPPLEMENTAL BUDGET OR APPROVED SPECIAL EXPENDITURE, AND EACH  
34 MEMBER'S COMMON EXPENSE LIABILITY.

35           ~~1.~~ 2. "Association":

36           (a) Means a nonprofit corporation or unincorporated association of  
37 owners that is created pursuant to a declaration to own and operate  
38 portions of a planned community and that has the power under the  
39 declaration to assess association members to pay the costs and expenses  
40 incurred in the performance of the association's obligations under the  
41 declaration.

42           (b) Does not include a nonprofit corporation or unincorporated  
43 association of owners that is created or incorporated before January 1,  
44 1974 and that does not have authority to enforce covenants, conditions or  
45 restrictions related to the use, occupancy or appearance of the separately

owned lots, parcels or units in a real estate development, unless the nonprofit corporation or unincorporated association of owners elects to be subject to this chapter pursuant to section 33-1801, subsection D.

3. "COMMON EXPENSE LIABILITY" MEANS THE SHARE OR ASSIGNMENT OF COMMON EXPENSES ALLOCATED TO EACH MEMBER BY THE DECLARATION.

4. "Common expense lien" means the lien for assessments, charges for late payment of assessments if authorized in the declaration, reasonable collection fees and costs incurred or applied by the association and reasonable attorney fees and costs that are incurred with respect to those assessments, if the attorney fees and costs are awarded by a court.

5. "COMMON EXPENSES" MEANS EXPENDITURES MADE BY OR FINANCIAL LIABILITIES OF THE ASSOCIATION FOR THE MAINTENANCE, OPERATION, UPGRADE AND REPLACEMENT OF COMMON PROPERTY AND THE ASSOCIATION'S ADMINISTRATIVE AND OPERATING EXPENSES, TOGETHER WITH ANY ALLOCATIONS TO RESERVES.

6. "Community documents" means the declaration, bylaws, articles of incorporation, if any, and rules, if any.

7. "Declaration" means any instruments, however denominated, that establish a planned community and any amendment to those instruments.

8. "Member expenses":

(a) Means fees, charges, ~~late charges~~ and monetary penalties ~~or interest~~ THAT ARE IMPOSED PURSUANT TO THE COMMUNITY DOCUMENTS.

(b) Does not include any amount that is included in a common expense lien.

9. "Planned community":

(a) Means a real estate development that includes real estate owned and operated by or real estate on which an easement to maintain roadways or a covenant to maintain roadways is held by a nonprofit corporation or unincorporated association of owners, that is created for the purpose of managing, maintaining or improving the property and in which the declaration expressly states both that the owners of separately owned lots, parcels or units are mandatory members and that the owners are required to pay assessments to the association for these purposes.

(b) Does not include any of the following:

(i) A timeshare plan or a timeshare association that is governed by chapter 20 of this title.

(ii) A condominium that is governed by chapter 9 of this title.

(iii) A real estate development that is not managed or maintained by an association.

Sec. 6. Section 33-1803, Arizona Revised Statutes, is amended to read:

33-1803. Annual budget; assessment limitation; penalties; notice to member of violation; definition

~~A. Unless limitations in the community documents would result in a lower limit for the assessment, the association shall not impose a regular~~

~~assessment that is more than twenty percent greater than the immediately preceding fiscal year's assessment without the approval of the majority of the members of the association.~~

A. NOTWITHSTANDING ANY PROVISION IN THE COMMUNITY DOCUMENTS, AFTER THE TERMINATION OF THE PERIOD OF DECLARANT CONTROL, THE ASSOCIATION'S BOARD OF DIRECTORS HAS A DUTY TO DEVELOP AN ANNUAL OPERATING BUDGET FOR THE FISCAL YEAR BASED ON A REASONABLY PRUDENT AND GOOD FAITH ESTIMATE OF THE COMMON EXPENSES NECESSARY TO SATISFY THE BOARD OF DIRECTORS' OBLIGATIONS TO THE MEMBERS TO MANAGE COSTS AND TO PROVIDE FOR THE ANNUAL MAINTENANCE AND OPERATION OF THE COMMON PROPERTY AND THE ADMINISTRATIVE AND OPERATING EXPENSES OF THE ASSOCIATION, ALONG WITH ANY ALLOCATIONS TO RESERVE ACCOUNTS. A COPY OF ANY PROPOSED BUDGET SHALL BE MADE REASONABLY AVAILABLE FOR MEMBER REVIEW AT LEAST FORTY-EIGHT HOURS BEFORE THE BOARD MEETING AT WHICH THE BOARD OF DIRECTORS WILL CONSIDER THE APPROVAL OF THAT BUDGET.

B. IF THE BOARD-APPROVED ANNUAL OPERATING BUDGET AND ANY SUPPLEMENTAL AMENDMENT TO THAT BUDGET, EXCLUDING CONSIDERATION OF LOAN INSTALLMENT PAYMENTS PREVIOUSLY APPROVED AS A SPECIAL ASSESSMENT OR FINANCING PURSUANT TO SUBSECTION F OF THIS SECTION, WOULD RESULT IN AN ANNUALIZED ASSESSMENT INCREASE FROM THE PREVIOUS YEAR'S INITIAL ANNUAL ASSESSMENT THAT IS GREATER THAN THE PERCENTAGE CHANGE IN THE CONSUMER PRICE INDEX FOR THE TWELVE MONTHS PRECEDING INITIAL BUDGET APPROVAL, THE BUDGET MUST BE RATIFIED BY THE MEMBERS BEFORE IMPLEMENTATION AND ASSESSMENT AS FOLLOWS:

1. WITHIN THIRTY DAYS AFTER ADOPTION OF ANY PROPOSED BUDGET FOR THE PLANNED COMMUNITY, THE BOARD OF DIRECTORS SHALL PROVIDE A SUMMARY AND JUSTIFICATION OF THE BUDGET TO ALL THE MEMBERS.

2. IF THE PROPOSED BUDGET IS REJECTED, THE BOARD OF DIRECTORS MAY EITHER RETAIN THE EXISTING BUDGET AND ASSESSMENT OR DEVELOP AND APPROVE A BUDGET THAT DOES NOT REQUIRE RATIFICATION, UNTIL SUCH TIME AS THE MEMBERS RATIFY A SUBSEQUENT BUDGET PROPOSED BY THE BOARD OF DIRECTORS.

C. PURSUANT TO THE DECLARATION, THE ASSOCIATION MAY ESTABLISH AND FUND RESERVE ACCOUNTS HOWEVER DENOMINATED AS NECESSARY TO ADDRESS ANTICIPATED LONG-TERM OR MAJOR MAINTENANCE AND UPGRADE OF THE COMMON PROPERTY OR FOR ANY OTHER PURPOSE AUTHORIZED IN THE DECLARATION. EXCEPT FOR TEMPORARY CASH FLOW CONSIDERATIONS FOR BUDGETED EXPENSES, THE ASSOCIATION'S BOARD OF DIRECTORS OR THE BOARD'S MANAGING AGENT SHALL NOT SPEND OR TRANSFER ANY MONIES FROM THE ASSOCIATION'S RESERVE ACCOUNTS FOR ANY PURPOSE THAT IS NOT INCLUDED IN THE DECLARATION'S AUTHORIZED USE OF THAT RESERVE ACCOUNT WITHOUT THE PRIOR AUTHORIZATION OF THE MEMBERS.

D. IF UNANTICIPATED AND UNBUDGETED OPERATING EXPENSES BECOME NECESSARY, THE ASSOCIATION SHALL DEVELOP, APPROVE AND, IF NECESSARY, RATIFY A SUPPLEMENTAL AMENDMENT TO THE ANNUAL BUDGET PURSUANT TO SUBSECTIONS A AND B OF THIS SECTION BEFORE INCURRING THE EXPENSES. THE ASSOCIATION'S BUDGET ALLOCATION TO RESERVE ACCOUNTS SHALL BE CONSIDERED

1 COMMITTED EXPENSES AND SHALL NOT BE REDUCED TO ADDRESS UNBUDGETED EXPENSES  
2 WITHOUT THE PRIOR APPROVAL OF THE MEMBERS.

3 E. IF THE ASSOCIATION OWNS AND OPERATES A COMMERCIAL FACILITY THAT  
4 IS OPEN TO THE GENERAL PUBLIC, THAT FAILS OR HAS FAILED TO GENERATE A  
5 PROFIT FOR THREE SUCCESSIVE FISCAL YEARS AND THAT CREATES A BURDEN ON THE  
6 MEMBERS TO SUBSIDIZE THE EXPENSES OF THAT COMMERCIAL FACILITY, THE  
7 ASSOCIATION SHALL SEND THE QUESTION OF THE CONTINUED OPERATION OF THAT  
8 FACILITY TO A VOTE OF THE MEMBERS.

9 F. IF THE BOARD OF DIRECTORS VOTES TO APPROVE A SPECIAL ASSESSMENT  
10 OR TO SECURE FINANCING FOR ANY REASON, THAT SPECIAL ASSESSMENT OR  
11 FINANCING MUST BE RATIFIED BY THE AFFIRMATIVE VOTE OF A MAJORITY OF ALL  
12 ALLOCATED VOTES IN THE PLANNED COMMUNITY OR ANY LARGER PERCENTAGE  
13 SPECIFIED IN THE DECLARATION FOR SPECIAL ASSESSMENTS BEFORE THE  
14 APPLICATION OF THAT ASSESSMENT OR FINANCING COMMITMENT.

15 G. IF THE ASSOCIATION DOES NOT COMPLY WITH SUBSECTIONS A THROUGH F  
16 OF THIS SECTION, ANY RESULTING ACTION OR ASSESSMENT IS INVALID AND  
17 UNENFORCEABLE.

18 H. Unless reserved to the members of the association, the board of  
19 directors may impose reasonable charges for the late payment of  
20 assessments. A payment by a member is deemed late if it is unpaid fifteen  
21 or more days after its due date, unless the community documents provide  
22 for a longer period. Charges for the late payment of assessments are  
23 limited to the greater of ~~fifteen dollars~~ \$15 or ten percent of the amount  
24 of the unpaid assessment **INSTALLMENT** and may be imposed only after the  
25 association has provided notice that the assessment **INSTALLMENT** is overdue  
26 or provided notice that the assessment **INSTALLMENT** is considered overdue  
27 after a certain date. Any monies paid by the member for an unpaid  
28 assessment shall be applied ~~first to the principal amount unpaid and then~~  
29 ~~to the interest accrued~~ **AS PRESCRIBED BY SECTION 33-1807.**

30 ~~B.~~ I. After notice and an opportunity to be heard, the board of  
31 directors may impose reasonable monetary penalties on members for  
32 violations of the declaration, bylaws and rules of the association.  
33 Notwithstanding any provision in the community documents, the board of  
34 directors shall not impose a charge for a late payment of a penalty that  
35 exceeds the greater of ~~fifteen dollars~~ \$15 or ten percent of the amount of  
36 the unpaid penalty. A payment is deemed late if it is unpaid fifteen or  
37 more days after its due date, unless the declaration, bylaws or rules of  
38 the association provide for a longer period. Any monies paid by a member  
39 for an unpaid penalty shall be applied ~~first to the principal amount~~  
40 ~~unpaid and then to the interest accrued~~ **AS PRESCRIBED BY SECTION 33-1807.**  
41 Notice pursuant to this subsection shall include information pertaining to  
42 the manner in which the penalty shall be enforced.

43 ~~C.~~ J. A member who receives a written notice that the condition of  
44 the property owned by the member is in violation of the community  
45 documents without regard to whether a monetary penalty is imposed by the

1 notice may provide the association with a written response by sending the  
2 response by certified mail within twenty-one calendar days after the date  
3 of the notice. The response shall be sent to the address identified in  
4 the notice.

5 ~~D.~~ K. Within ten business days after receipt of the certified mail  
6 containing the response from the member, the association shall respond to  
7 the member with a written explanation regarding the notice that shall  
8 provide at least the following information unless previously provided in  
9 the notice of violation:

10 1. The provision of the community documents that has allegedly been  
11 violated.

12 2. The date of the violation or the date the violation was  
13 observed.

14 3. The first and last name of the person or persons who observed  
15 the violation.

16 4. The process the member must follow to contest the notice.

17 ~~E.~~ L. Unless the information required in subsection ~~D.~~ K,  
18 paragraph 4 of this section is provided in the notice of violation, the  
19 association shall not proceed with any action to enforce the community  
20 documents, including the collection of attorney fees, before or during the  
21 time prescribed by subsection ~~D.~~ K of this section regarding the exchange  
22 of information between the association and the member and shall give the  
23 member written notice of the member's option to petition for an  
24 administrative hearing on the matter in the state real estate department  
25 pursuant to section 32-2199.01. At any time before or after completion of  
26 the exchange of information pursuant to this section, the member may  
27 petition for a hearing pursuant to section 32-2199.01 if the dispute is  
28 within the jurisdiction of the state real estate department as prescribed  
29 in section 32-2199.01.

30 M. FOR THE PURPOSES OF THIS SECTION, "CONSUMER PRICE INDEX" MEANS  
31 THE UNITED STATES DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS, INDEX  
32 FOR URBAN WAGE EARNERS AND CLERICAL WORKERS THAT IS DESIGNATED AS "CPI-W".