

REFERENCE TITLE: HOAs; fiscal duties

State of Arizona
House of Representatives
Fifty-seventh Legislature
Second Regular Session
2026

HB 2277

Introduced by
Representatives Keshel: Carter N, Carter P

AN ACT

AMENDING SECTIONS 33-1202, 33-1215, 33-1243, 33-1245, 33-1254 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.

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

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

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

24 8. "Common elements" means all portions of a condominium other than
25 the units.

26 9. "Common expense liability" means the liability for common
27 expenses allocated to each unit pursuant to section 33-1217 or 33-1255.

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

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

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

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

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

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

3 16. "Development rights" means any right or combination of rights
4 reserved by or granted to a declarant in the declaration to do any of the
5 following:

6 (a) Add real estate to a condominium.

7 (b) Create easements, units, common elements or limited common
8 elements within a condominium.

9 (c) Subdivide units, convert units into common elements or convert
10 common elements into units.

11 (d) Withdraw real estate from a condominium.

12 (e) Make the condominium part of a larger condominium or planned
13 community.

14 (f) Amend the declaration during any period of declarant control,
15 pursuant to section 33-1243, subsection ~~E~~ I, to comply with applicable
16 law or to correct any error or inconsistency in the declaration, if the
17 amendment does not adversely affect the rights of any unit owner.

18 (g) Amend the declaration during any period of declarant control,
19 pursuant to section 33-1243, subsection ~~E~~ I, to comply with the rules or
20 guidelines, in effect from time to time, of any governmental or
21 quasi-governmental entity or federal corporation guaranteeing or insuring
22 mortgage loans or governing transactions involving mortgage instruments.

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

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

28 19. "Limited common element" means a portion of the common elements
29 specifically designated as a limited common element in the declaration and
30 allocated by the declaration or by operation of section 33-1212, paragraph
31 2 or 4 for the exclusive use of one or more but fewer than all of the
32 units.

33 20. "Person" means:

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

37 (b) In the case of a subdivision trust, as defined in section
38 6-801, the beneficiary of the trust who holds the right to subdivide,
39 develop or sell the real estate rather than the trust or trustee.

40 21. "Real estate":

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

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

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

6 23. "Special declarant rights" means any right or combination of
7 rights reserved by or granted to a declarant in the declaration to do any
8 of the following:

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

10 (b) Exercise any development right.

11 (c) Maintain sales offices, management offices, signs advertising
12 the condominium, and models.

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

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

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

20 25. "Unit owner" means:

21 (a) A declarant or other person who owns a unit or, unless
22 otherwise provided in the lease, a lessee of a unit in a leasehold
23 condominium whose lease expires simultaneously with any lease the
24 expiration or termination of which will remove the unit from the
25 condominium but does not include a person having an interest in a unit
26 solely as security for an obligation.

27 (b) In the case of a contract for conveyance, as defined in section
28 33-741, of real property, the purchaser of the unit.

29 26. "Unit owner expenses":

30 (a) Means fees, charges, late charges and monetary penalties or
31 interest that is imposed pursuant to section 33-1242, subsection A,
32 paragraphs 10, 11 and 12.

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

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

37 33-1215. Contents of declaration

38 A. The declaration shall contain:

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

42 2. The name of every county in which any portion of the condominium
43 is located.

44 3. A legal description of the real estate included in the
45 condominium.

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

3 5. A description of any limited common elements, other than those
4 specified in section 33-1212, paragraphs 2 and 4, but the declaration
5 shall contain a description of any porches, balconies, patios and
6 entryways, if any, as provided in section 33-1219, subsection B, paragraph
7 11.

8 6. A description of any development rights and other special
9 declarant rights, together with a legal description of the real estate to
10 which each of those rights applies, any time limit within which each of
11 those rights must be exercised and any other conditions or limitations
12 under which the rights described in this paragraph may be exercised or
13 will lapse.

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

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

17 9. All matters required by sections 33-1216, 33-1217, 33-1218,
18 33-1219 and 33-1226 and section 33-1243, subsection ~~E~~ I.

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

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

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

26 (b) The date original construction was completed.

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

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

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

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

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

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

1 C. The declaration may contain any other matters the declarant
2 deems appropriate.

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

5 33-1243. Board of directors and officers; conflict; powers;
6 fiscal duties; limitations; removal; annual audit;
7 applicability

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

11 B. The board of directors shall not act on behalf of the
12 association to amend the declaration, terminate the condominium, elect
13 members of the board of directors or determine the qualifications, powers
14 and duties or terms of office of board of directors members. Except as
15 provided in subsection ~~H~~ L of this section, the board of directors may
16 fill vacancies in its membership for the unexpired portion of any term.

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

27 D. ~~Except as provided in the declaration, within thirty days after
28 adoption of any proposed budget for the condominium, the board of
29 directors shall provide a summary of the budget to all the unit owners.
30 Unless the board of directors is expressly authorized in the declaration
31 to adopt and amend budgets from time to time, any budget or amendment
32 shall be ratified by the unit owners in accordance with the procedures set
33 forth in this subsection. If ratification is required, the board of
34 directors shall set a date for a meeting of the unit owners to consider
35 ratification of the budget not fewer than fourteen or more than thirty
36 days after mailing of the summary. Unless at that meeting a majority of
37 all the unit owners or any larger vote specified in the declaration
38 rejects the budget, the budget is ratified, whether or not a quorum is
39 present. If the proposed budget is rejected, the periodic budget last
40 ratified by the unit owners shall be continued until such time as the unit
41 owners ratify a subsequent budget proposed by the board of directors.~~

42 D. AFTER TERMINATION OF THE PERIOD OF DECLARANT CONTROL, THE BOARD
43 OF DIRECTORS SHALL DEVELOP, OR HAVE DEVELOPED, AN ANNUAL OPERATING BUDGET
44 FOR THE FISCAL YEAR BASED ON A PRUDENT AND GOOD FAITH ESTIMATE OF THE
45 COMMON EXPENSES REASONABLY NECESSARY TO SATISFY ITS OBLIGATIONS TO THE

1 UNIT OWNERS TO MANAGE COST AND TO PROVIDE FOR THE MAINTENANCE AND
2 OPERATION OF THE COMMON ELEMENTS, UTILITIES OR OTHER SERVICES REQUIRED BY
3 THE DECLARATION, THE REASONABLE AND NECESSARY OPERATING AND ADMINISTRATIVE
4 EXPENSES OF THE ASSOCIATION AND APPROPRIATE ALLOCATIONS TO RESERVE
5 ACCOUNTS. A COPY OF ANY PROPOSED BUDGET AND THE CURRENT YEAR-TO-DATE
6 BUDGET COMPARISON REPORT MUST BE EITHER POSTED ON A COMMUNITY WEBSITE OR
7 PROVIDED TO ANY UNIT OWNER PRESENT AT THE BOARD OF DIRECTORS MEETING AT
8 WHICH THE BOARD OF DIRECTORS WILL CONSIDER THE APPROVAL OF THAT BUDGET.
9 NOTWITHSTANDING ANY PROVISION OF THE CONDOMINIUM DOCUMENTS TO THE
10 CONTRARY, FOR ANY CONDOMINIUM OF FIFTY UNITS OR MORE, ANY BOARD-APPROVED
11 ANNUAL BUDGET THAT RESULTS IN AN ASSESSMENT INCREASE OF FIVE PERCENT OR
12 MORE OVER THE PRIOR YEAR'S INITIAL ANNUAL ASSESSMENT, EXCLUDING ANY
13 INSTALLMENT PAYMENTS FOR FINANCING PREVIOUSLY APPROVED PURSUANT TO
14 SUBSECTION G OF THIS SECTION, MUST BE RATIFIED BY UNIT OWNERS BEFORE THE
15 APPLICATION OF THAT ASSESSMENT. IF NECESSARY, UNIT OWNER RATIFICATION
16 SHALL BE ESTABLISHED BY THE AFFIRMATIVE VOTE OF A SIMPLE MAJORITY OF THE
17 UNIT OWNERS VOTING ON THE BALLOT INITIATIVE, PURSUANT TO SECTION 33-1250,
18 WHETHER OR NOT A QUORUM IS SATISFIED. THE BALLOT QUESTION MAY BE INCLUDED
19 ON THE BALLOT FOR ANY ANNUAL OR SPECIAL MEETING OF THE UNIT OWNERS OR
20 PROCESSED SEPARATELY. THE BOARD OF DIRECTORS SHALL MANAGE THE
21 ASSOCIATION'S EXPENSES WITHIN THE OVERALL APPROVED BUDGET FOR THE FISCAL
22 YEAR. IF UNANTICIPATED AND UNBUDGETED ASSOCIATION EXPENSES BECOME
23 NECESSARY AND ARE NOT ABLE TO BE ACCOMMODATED WITHIN THE CURRENT APPROVED
24 BUDGET, THE ASSOCIATION MAY DEVELOP AND APPROVE AN AMENDMENT TO THE ANNUAL
25 BUDGET AND RESULTANT SUPPLEMENTAL ASSESSMENT, AS APPROPRIATE. THE
26 AMENDMENT AND SUPPLEMENTAL ASSESSMENTS MUST BE RATIFIED BY THE UNIT OWNERS
27 PURSUANT TO THIS SUBSECTION BEFORE INCURRING THE EXPENSES OR APPLYING THE
28 ASSESSMENT. THE ASSOCIATION'S BUDGETED ALLOCATION TO RESERVE ACCOUNTS IS
29 CONSIDERED COMMITTED EXPENSES AND MAY NOT BE REDUCED TO ADDRESS UNBUDGETED
30 EXPENSES WITHOUT THE PRIOR APPROVAL OF THE UNIT OWNERS.

31 E. IT IS THE DUTY OF THE BOARD OF DIRECTORS TO ACT IN THE BEST
32 INTEREST OF THE ASSOCIATION AND TO ENSURE THAT REASONABLE PRUDENCY IS
33 APPLIED TO THE COMMITMENT, PROTECTION AND EXPENDITURE OF ASSOCIATION
34 MONIES. THE BOARD OF DIRECTORS SHALL:

35 1. CONSIDER THIS DUTY IN THE SOLICITATION AND REVIEW OF COMPETITIVE
36 BID PROPOSALS AND THE NEGOTIATION AND AWARD OF ANY CONTRACT FOR GOODS OR
37 SERVICES. THE BOARD OF DIRECTORS MAY NOT AGREE TO ANY PROVISION OF A
38 PROPOSED CONTRACT THAT IS UNCONSCIONABLE TO THE INTERESTS OF THE
39 ASSOCIATION AND THE UNIT OWNERS AS A WHOLE.

40 2. PROVIDE FOR OVERSIGHT OVER EVERY CONTRACTOR PROVIDING SERVICES
41 TO THE ASSOCIATION AND SHALL ENSURE THAT THE SERVICES OF THE CONTRACTOR
42 COMPLY WITH THIS CHAPTER, MEET THE EXPECTATIONS OF THE ASSOCIATION AND
43 PROVIDE VALUE TO THE ASSOCIATION COMMENSURATE WITH THE COST OF SERVICES.

44 3. ENSURE THAT ALL ASSOCIATION MONIES ARE DEPOSITED IN ACCOUNTS
45 ESTABLISHED IN THE ASSOCIATION'S NAME ALONE. THE ASSOCIATION SHALL RETAIN

1 CONTROL OVER ALL ASSOCIATION ACCOUNTS AND AT LEAST ONE CURRENT BOARD OF
2 DIRECTORS MEMBER SHALL HAVE SIGNATURE AUTHORITY OVER THOSE ACCOUNTS. THE
3 ASSOCIATION MAY ASSIGN DEPOSIT AND WITHDRAWAL AUTHORITY TO A DESIGNATED
4 MANAGING AGENT OR CERTIFIED PUBLIC ACCOUNTANT SUBJECT TO THE OVERSIGHT OF
5 THE BOARD OF DIRECTORS.

6 4. PROVIDE FOR A DETAILED REVIEW OF ANY FINANCIAL REPORTS PROVIDED
7 BY THE ASSOCIATION'S MANAGING AGENT, CERTIFIED PUBLIC ACCOUNTANT,
8 TREASURER OR FINANCIAL INSTITUTION, TO VALIDATE THAT ONLY AUTHORIZED AND
9 APPROPRIATE EXPENDITURES HAVE BEEN WITHDRAWN FROM ASSOCIATION ACCOUNTS.
10 ANY DISCREPANCIES OR CONCERN IDENTIFIED SHALL BE INVESTIGATED AND
11 RESOLVED BEFORE THE APPROVAL OF THE FINANCIAL REPORTS BY THE BOARD OF
12 DIRECTORS.

13 F. IF AUTHORIZED IN THE DECLARATION, THE ASSOCIATION MAY ESTABLISH
14 AND FUND THE SPECIFIED RESERVE ACCOUNTS, HOWEVER DENOMINATED, NECESSARY TO
15 ADDRESS LONG-TERM CAPITAL IMPROVEMENTS OR MAJOR MAINTENANCE OF THE COMMON
16 ELEMENTS OR FOR ANY OTHER PURPOSE AS ESTABLISHED IN THE DECLARATION. ANY
17 EXPENDITURES OR WITHDRAWALS FROM DECLARATION-AUTHORIZED RESERVE ACCOUNTS
18 MUST BE REASONABLY RELATED TO THE DECLARATION'S AUTHORIZED PURPOSE FOR
19 THAT ACCOUNT AND THE UNIT OWNERS' REASONABLE EXPECTATIONS FOR THE USE OF
20 THOSE MONIES.

21 G. NOTWITHSTANDING ANY PROVISION IN THE CONDOMINIUM DOCUMENTS TO
22 THE CONTRARY, IF THE BOARD OF DIRECTORS VOTES TO APPROVE A SPECIAL
23 ASSESSMENT, HOWEVER DENOMINATED, OR TO SECURE FINANCING FOR ANY REASON
24 THAT ASSIGNS FUTURE REVENUES OR CREATES A SECURITY INTEREST IN THE COMMON
25 ELEMENTS, THAT SPECIAL ASSESSMENT OR FINANCING MUST BE FIRST RATIFIED BY
26 THE AFFIRMATIVE VOTE OF FIFTY-FIVE PERCENT OF ALL ALLOCATED VOTES IN THE
27 CONDOMINIUM, BEFORE THE APPLICATION OF THE ASSESSMENT OR COMMITMENT TO THE
28 FINANCING.

29 H. ANY ASSESSMENT APPLIED THAT VIOLATES SUBSECTION D OR G OF THIS
30 SECTION IS INVALID AND UNENFORCEABLE AS A MATTER OF LAW.

31 ~~F.~~ I. The declaration may provide for a period of declarant
32 control of the association, during which period a declarant or persons
33 designated by the declarant may appoint and remove the officers and
34 members of the board of directors. Regardless of the period provided in
35 the declaration, a period of declarant control terminates not later than
36 the earlier of:

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

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

41 ~~F.~~ J. A declarant may voluntarily surrender the right to appoint
42 and remove officers and members of the board of directors before
43 termination of the period prescribed in subsection ~~F.~~ I of this section,
44 but in that event the declarant may require, for the duration of the
45 period of declarant control, that specified actions of the association or

1 board of directors, as described in a recorded instrument executed by the
2 declarant, be approved by the declarant before they become effective.

3 ~~G.~~ K. Not later than the termination of any period of declarant
4 control the unit owners shall elect a board of directors of at least three
5 members, at least a majority of whom must be unit owners. The board of
6 directors shall elect the officers. The board members and officers shall
7 take office on election.

8 ~~H.~~ L. Notwithstanding any provision of the declaration or bylaws
9 to the contrary, all of the following apply to a meeting at which a member
10 of the board of directors, other than a member appointed by the declarant,
11 is proposed to be removed from the board of directors:

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

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

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

20 4. For ~~THE~~ purposes of calling for removal of a member of the board
21 of directors, other than a member appointed by the declarant, the
22 following apply:

23 (a) In an association with one thousand or fewer members, on
24 receipt of a petition that calls for removal of a member of the board of
25 directors and that is signed by the number of persons who are eligible to
26 vote in the association at the time the person signs the petition equal to
27 at least twenty-five percent of the votes in the association or by the
28 number of persons who are eligible to vote in the association at the time
29 the person signs the petition equal to at least one hundred votes in the
30 association, whichever is less, the board shall call and provide written
31 notice of a special meeting of the association as prescribed by section
32 33-1248, subsection B.

33 (b) Notwithstanding section 33-1248, subsection B, in an
34 association with more than one thousand members, on receipt of a petition
35 that calls for removal of a member of the board of directors and that is
36 signed by the number of persons who are eligible to vote in the
37 association at the time the person signs the petition equal to at least
38 ten percent of the votes in the association or by the number of persons
39 who are eligible to vote in the association at the time the person signs
40 the petition equal to at least one thousand votes in the association,
41 whichever is less, the board shall call and provide written notice of a
42 special meeting of the association. The board shall provide written
43 notice of a special meeting as prescribed by section 33-1248,
44 subsection B.

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

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

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

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

(g) The board of directors shall retain all documents and other records relating to the proposed removal of the member of the board of directors and any election or other action taken for that director's replacement for at least one year after the date of the special meeting and shall allow members to inspect those documents and records pursuant to section 33-1258.

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

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

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

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

~~1.~~ M. For an association in which board members are elected from separately designated voting districts, a member of the board of

1 directors, other than a member appointed by the declarant, may be removed
2 only by a vote of the members from that voting district, and only the
3 members from that voting district are eligible to vote on the matter or be
4 counted for **THE** purposes of determining a quorum.

5 **§. N.** Unless any provision in the condominium documents requires
6 an annual audit by a certified public accountant, the board of directors
7 shall provide for an annual financial audit, review or compilation of the
8 association. The audit, review or compilation shall be completed ~~to~~ NOT
9 later than one hundred eighty days after the end of the association's
10 fiscal year and shall be made available on request to the unit owners
11 within thirty days after its completion.

12 **K. O.** This section does not apply to timeshare plans or
13 associations, or the period of declarant control under timeshare
14 instruments, that are subject to chapter 20 of this title.

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

17 **33-1245. Termination of contracts and leases of declarant;**
18 **applicability**

19 A. A contract for any of the following, if entered into before the
20 board of directors elected by the unit owners pursuant to section 33-1243,
21 subsection ~~E~~ K takes office, shall contain a provision in the contract
22 that the contract may be terminated without penalty by the association at
23 any time after the board of directors elected by the unit owners takes
24 office:

- 25 1. Any management contract or employment contract.
- 26 2. Any other contract or lease between the association and a
27 declarant or an affiliate of a declarant.

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

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

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

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

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

40 Sec. 5. Section 33-1254, Arizona Revised Statutes, is amended to
41 read:

42 **33-1254. Surplus monies**

43 A. ~~Unless otherwise provided in the declaration EXCEPT AS PROVIDED~~
44 ~~IN SUBSECTION B OF THIS SECTION, NOTWITHSTANDING ANY PROVISION IN THE~~
45 ~~CONDOMINIUM DOCUMENTS TO THE CONTRARY~~, any surplus monies of the

1 ~~association~~ ASSOCIATION'S OPERATING ACCOUNT remaining after payment of or
2 provision for common expenses and any prepayment of reserves shall be ~~paid~~
3 ~~REFUNDED~~ to the unit owners in proportion to their common expense
4 liabilities or credited to them to reduce their future common expense
5 assessments.

6 B. THE ASSOCIATION MAY SUBMIT THE QUESTION TO THE UNIT OWNERS TO
7 APPLY SURPLUS MONIES IN THE OPERATING ACCOUNT TO LONG-TERM MAJOR
8 MAINTENANCE RESERVE ACCOUNTS. A SIMPLE MAJORITY OF UNIT OWNERS' VOTES
9 CAST DECIDES THE QUESTION, WHETHER OR NOT A QUORUM IS SATISFIED.

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

12 33-1803. Fiscal duties; penalties; notice to member of
13 violation

14 ~~A. Unless limitations in the community documents would result in a~~
15 ~~lower limit for the assessment, the association shall not impose a regular~~
16 ~~assessment that is more than twenty percent greater than the immediately~~
17 ~~preceding fiscal year's assessment without the approval of the majority of~~
18 ~~the members of the association.~~

19 A. AFTER TERMINATION OF THE PERIOD OF DECLARANT CONTROL, THE
20 ASSOCIATION'S BOARD OF DIRECTORS SHALL DEVELOP, OR HAVE DEVELOPED, AN
21 ANNUAL OPERATING BUDGET FOR THE FISCAL YEAR BASED ON A PRUDENT AND GOOD
22 FAITH ESTIMATE OF THE COMMON EXPENSES REASONABLY NECESSARY TO SATISFY ITS
23 OBLIGATIONS TO THE MEMBERS TO MANAGE COST AND TO PROVIDE FOR THE ANNUAL
24 MAINTENANCE AND OPERATION OF THE COMMON PROPERTY, THE MAINTENANCE OF
25 COMMUNITY PRIVATE PROPERTY OR OTHER SERVICES REQUIRED BY THE DECLARATION,
26 THE REASONABLE AND NECESSARY ADMINISTRATIVE AND OPERATING EXPENSES OF THE
27 ASSOCIATION AND APPROPRIATE ALLOCATIONS TO RESERVE ACCOUNTS. A COPY OF
28 ANY PROPOSED BUDGET AND CURRENT YEAR-TO-DATE BUDGET COMPARISON REPORT MUST
29 BE EITHER POSTED ON A COMMUNITY WEBSITE OR PROVIDED TO ANY MEMBER IN
30 ATTENDANCE AT THE MEETING AT WHICH THE BOARD WILL CONSIDER THE APPROVAL OF
31 THAT BUDGET. NOTWITHSTANDING ANY PROVISION OF THE COMMUNITY DOCUMENTS TO
32 THE CONTRARY, FOR ANY PLANNED COMMUNITY OF FIFTY MEMBERS OR MORE, ANY
33 BOARD-APPROVED ANNUAL BUDGET THAT RESULTS IN AN ASSESSMENT INCREASE OF
34 FIVE PERCENT OR MORE OVER THE PRIOR YEAR'S INITIAL ANNUAL ASSESSMENT,
35 EXCLUDING ANY INSTALLMENT PAYMENTS FOR FINANCING PREVIOUSLY APPROVED
36 PURSUANT TO SUBSECTION F OF THIS SECTION, MUST BE RATIFIED BY MEMBERS
37 BEFORE THE APPLICATION OF THAT ASSESSMENT. IF NECESSARY, MEMBER
38 RATIFICATION SHALL BE ESTABLISHED BY THE AFFIRMATIVE VOTE OF A SIMPLE
39 MAJORITY OF THE MEMBERS VOTING ON THE BALLOT INITIATIVE, PURSUANT TO
40 SECTION 33-1812, WHETHER OR NOT A QUORUM IS SATISFIED. THE BALLOT
41 QUESTION MAY BE INCLUDED ON THE BALLOT FOR ANY ANNUAL OR SPECIAL MEETING
42 OF THE MEMBERS OR PROCESSED SEPARATELY. THE ASSOCIATION BOARD OF
43 DIRECTORS SHALL MANAGE THE ASSOCIATION'S EXPENSES WITHIN THE OVERALL
44 APPROVED BUDGET FOR THE FISCAL YEAR. IF UNANTICIPATED AND UNBUDGETED
45 ASSOCIATION EXPENSES BECOME NECESSARY THAT CANNOT BE ACCOMMODATED WITHIN

1 THE CURRENT APPROVED BUDGET, THE ASSOCIATION MAY DEVELOP AND APPROVE AN
2 AMENDMENT TO THE ANNUAL BUDGET AND RESULTANT SUPPLEMENTAL ASSESSMENT, AS
3 APPROPRIATE. THE AMENDMENT AND SUPPLEMENTAL ASSESSMENTS MUST BE RATIFIED
4 BY THE MEMBERS PURSUANT TO THIS SUBSECTION BEFORE INCURRING THE EXPENSES
5 OR APPLYING THE ASSESSMENT. THE ASSOCIATION'S BUDGETED ALLOCATION TO
6 RESERVE ACCOUNTS SHALL BE CONSIDERED COMMITTED EXPENSES AND MAY NOT BE
7 REDUCED TO ADDRESS UNBUDGETED EXPENSES WITHOUT THE PRIOR APPROVAL OF THE
8 MEMBERS.

9 B. EXCEPT AS PROVIDED IN SUBSECTION C OF THIS SECTION,
10 NOTWITHSTANDING ANY PROVISION IN THE COMMUNITY DOCUMENTS TO THE CONTRARY,
11 ANY SURPLUS MONIES OF THE ASSOCIATION'S OPERATING ACCOUNT REMAINING AFTER
12 PAYMENT OF OR PROVISION FOR COMMON EXPENSES AND ANY PREPAYMENT OF RESERVES
13 SHALL BE REFUNDED TO THE MEMBERS IN PROPORTION TO THEIR COMMON EXPENSE
14 LIABILITIES OR CREDITED TO THEM TO REDUCE THEIR FUTURE COMMON EXPENSE
15 ASSESSMENTS.

16 C. THE ASSOCIATION MAY SUBMIT THE QUESTION TO THE MEMBERS TO APPLY
17 SURPLUS MONIES IN THE OPERATING ACCOUNT TO LONG-TERM MAJOR MAINTENANCE
18 RESERVE ACCOUNTS. A SIMPLE MAJORITY OF MEMBERS' VOTES CAST DECIDES THE
19 QUESTION, WHETHER OR NOT A QUORUM IS SATISFIED.

20 D. IT IS THE DUTY OF THE BOARD OF DIRECTORS TO ACT IN THE BEST
21 INTEREST OF THE ASSOCIATION AND TO ENSURE THAT REASONABLE PRUDENCY IS
22 APPLIED TO THE COMMITMENT, PROTECTION AND EXPENDITURE OF ASSOCIATION
23 MONIES. THE BOARD SHALL:

24 1. CONSIDER THIS DUTY IN THE SOLICITATION AND REVIEW OF COMPETITIVE
25 BID PROPOSALS AND THE NEGOTIATION AND AWARD OF ANY CONTRACT FOR GOODS OR
26 SERVICES. THE BOARD MAY NOT AGREE TO ANY PROVISION OF A PROPOSED CONTRACT
27 THAT IS UNCONSCIONABLE TO THE INTERESTS OF THE ASSOCIATION AND THE MEMBERS
28 AS A WHOLE.

29 2. PROVIDE FOR OVERSIGHT OVER EVERY CONTRACTOR PROVIDING SERVICES
30 TO THE ASSOCIATION AND SHALL ENSURE THAT THE SERVICES OF THE CONTRACTOR
31 COMPLY WITH THIS CHAPTER, MEET THE EXPECTATIONS OF THE ASSOCIATION DEFINED
32 IN THE CONTRACT AND PROVIDE VALUE TO THE ASSOCIATION COMMENSURATE WITH THE
33 COST OF SERVICES.

34 3. ENSURE THAT ALL ASSOCIATION MONIES ARE DEPOSITED IN ACCOUNTS
35 ESTABLISHED IN THE ASSOCIATION'S NAME ALONE. THE ASSOCIATION SHALL RETAIN
36 CONTROL OVER ALL ASSOCIATION ACCOUNTS AND AT LEAST ONE CURRENT BOARD
37 MEMBER SHALL HAVE SIGNATURE AUTHORITY OVER THOSE ACCOUNTS. THE
38 ASSOCIATION MAY ASSIGN DEPOSIT AND WITHDRAWAL AUTHORITY TO A DESIGNATED
39 MANAGING AGENT OR CERTIFIED PUBLIC ACCOUNTANT SUBJECT TO THE OVERSIGHT OF
40 THE BOARD.

41 4. PROVIDE FOR A DETAILED REVIEW OF ANY FINANCIAL REPORTS PROVIDED
42 BY THE ASSOCIATION'S MANAGING AGENT, CERTIFIED PUBLIC ACCOUNTANT,
43 TREASURER OR FINANCIAL INSTITUTIONS, TO VALIDATE THAT ONLY AUTHORIZED AND
44 APPROPRIATE EXPENDITURES HAVE BEEN WITHDRAWN FROM ASSOCIATION ACCOUNTS.

1 ANY DISCREPANCIES OR CONCERNS IDENTIFIED SHALL BE INVESTIGATED AND
2 RESOLVED BEFORE THE APPROVAL OF THE FINANCIAL REPORTS BY THE BOARD.

3 E. IF AUTHORIZED IN THE DECLARATION, THE ASSOCIATION MAY ESTABLISH
4 AND FUND THE SPECIFIED RESERVE ACCOUNTS, HOWEVER DENOMINATED, NECESSARY TO
5 ADDRESS LONG-TERM CAPITAL IMPROVEMENTS OR MAJOR MAINTENANCE OF THE COMMON
6 ELEMENTS OR FOR ANY OTHER PURPOSE AS ESTABLISHED IN THE DECLARATION. ANY
7 EXPENDITURES OR WITHDRAWALS FROM DECLARATION-AUTHORIZED RESERVE ACCOUNTS
8 MUST BE REASONABLY RELATED TO THE DECLARATION'S AUTHORIZED PURPOSE FOR
9 THAT ACCOUNT AND THE MEMBERS' REASONABLE EXPECTATIONS FOR THE USE OF THOSE
10 MONIES.

11 F. NOTWITHSTANDING ANY PROVISION IN THE COMMUNITY DOCUMENTS TO THE
12 CONTRARY, IF THE BOARD OF DIRECTORS VOTES TO APPROVE A SPECIAL ASSESSMENT,
13 HOWEVER DENOMINATED, OR TO SECURE FINANCING FOR ANY REASON THAT ASSIGNS
14 FUTURE REVENUES OR CREATES A SECURITY INTEREST IN THE COMMON PROPERTY,
15 THAT SPECIAL ASSESSMENT OR FINANCING SHALL BE FIRST RATIFIED BY THE
16 AFFIRMATIVE VOTE OF FIFTY-FIVE PERCENT OF ALL ALLOCATED VOTES IN THE
17 ASSOCIATION BEFORE THE APPLICATION OF THE ASSESSMENT OR COMMITMENT TO THE
18 FINANCING.

19 G. ANY ASSESSMENT APPLIED THAT VIOLATES SUBSECTION A OR F OF THIS
20 SECTION IS INVALID AND UNENFORCEABLE AS A MATTER OF LAW.

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

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

1 ~~E.~~ J. A member who receives a written notice that the condition of
2 the property owned by the member is in violation of the community
3 documents without regard to whether a monetary penalty is imposed by the
4 notice may provide the association with a written response by sending the
5 response by certified mail within twenty-one calendar days after the date
6 of the notice. The response shall be sent to the address identified in
7 the notice.

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

13 1. The provision of the community documents that has allegedly been
14 violated.

15 2. The date of the violation or the date the violation was
16 observed.

17 3. The first and last name of the person or persons who observed
18 the violation.

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

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