



INDEPENDENT INSURANCE AGENTS of RHODE ISLAND

March 4, 2025

Testimony to the House Corporations Committee

Re: 2024 HB 5825 AN ACT RELATING TO PROPERTY -- CONDOMINIUM LAW. This Act “defines “deed restricted unit” and would restrict increases in monthly common expenses to 5% of the PROCEEDING year’s monthly expenses and limit special assessments for deed restricted units to cover unforeseen costs not included in the Associations approved annual budget.

This testimony is delivered on behalf of the Independent Insurance Agents of Rhode in **OPPOSITION** of House Bill 5825 which seeks to revise the Rhode Island Condominium Act.

Personally, as an insurance agent, I am privileged to work with Housing Authorities and Affordable Housing entities to find the best and most affordable program of insurance for them. I have a great deal of empathy and concern for the wellbeing of their clients and my fellow Rhode Islanders. I am very much aware and supportive of increasing funding to adequately house all Rhode Islanders who are currently housing insecure. Despite that, I have some serious concerns regarding the bill before you.

Section 34-36.1-2.07 Allocation of Common Element Interest, Votes and Common Expense Liabilities, currently provides that the Declaration can discriminate in favor of Units subject to a low-income restriction regarding the common element allocation. The amended language in 2.07 provides that, where the minority, less than 50%, of the units are deed restricted (i.e. low-income units), increases in monthly common expenses may not exceed 5% of the PROCEEDING year’s monthly common expenses. The Act before you further provides that, in associations where the minority of the deed restricted units and an association must impose a special assessment to cover unforeseen costs not included in the Association’s approved annual budget for common expenses, the special assessment attributed to deed restricted units is limited to 50% of the full assessment. The 50% is calculated based on what the per unit share would have “been” (word missing in proposed act) had the cost been equally distributed across units in the Association. It further requires the association to offer owners of deed restricted units a monthly payment plan including 12 equal installments.

The problem is twofold:

First, the 5% restraint limits an association’s ability to appropriately fund for critical expenses that ultimately lead to deferred maintenance (for example, the catastrophic collapse at Surfside in Florida), inadequate reserves, and difficulties in covering unexpected costs. Delayed repairs turn minor issues into major problems, significantly increasing the costs of necessary repairs and maintenance and frequently leading to significant insurance losses. Delayed repairs and maintenance also impact an Association’s ability to maintain an appropriate reserve fund. Significant insurance losses leave the Association uninsurable except for in the Surplus lines (aka residual) market at two to three times the standard insurance market. This would be unaffordable for all unit owners.



**INDEPENDENT INSURANCE
AGENTS of RHODE ISLAND**

Second, the limitation for deed restricted units to 50% of any special assessment to cover unforeseen costs not included in the association's budget (which is limited to a 5% increase year over year under this proposed act) would be an incredible burden on their fellow unit owners. For example, let's consider a 40unit condominium with 18 deed restricted units (less than 50%) and where one mile of the condo road requires repaving. The cost to repave one mile of road on the lowest end is \$500,000. At forty units, if the cost was equally distributed, the assessment per unit would be \$12,500. The 50% limit for the 18 deed restricted units would be \$6,250 for a total of \$112,500. That leaves the balance of the project at \$387,500 for the 22 non-restricted units or \$17,614 each. These unrestricted unit owners have not received any benefit similar to the Declarant and their tax credits. Some of these unrestricted unit owners may have just managed to qualify for their more expensive Unit and Mortgage. Imposing the excess condominium fee costs on the unrestricted Units seems unequitable at best and could well cause the unrestricted Owners to be unable to afford their home as well.

The provisions of this act will not in any way decrease the need for critically important maintenance, nor will it decrease the need for adequate reserves; it provides no flexibility to maintain an adequate rainy-day fund for unexpected expenses. It is critically important that Associations fund for all three categories. As noted above, the Condominium Declarant, in exchange for selling some units at reduced amounts, received in return valuable low income and other tax benefits. If the required annual increase to adequately fulfill these critically important areas is and the association is limited in it's ability to increase the assessment over 5%, the deferred maintenance will exacerbate the potential for loss and likely drive the Association into the excess and surplus line market at significant cost to all unit owners.

As stated previously, we empathize with the restricted Unit Owners, but there must be a better solution to handle this than to put it on the backs of the restricted unit owner's fellow unit owners. We believe that this is indeed an important issue, and that Rhode Island Housing should be asked to weigh in on possible solutions. Therefore, our organization is OPPOSED to the passage of House Bill 7698 which seeks to amend the Rhode Island Condominium Act. We respectfully request and encourage defeat passage of this bill. We are happy to provide further information to the Committee regarding the bill.

Respectfully Submitted,

Cristie A. Hanaway