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# **Civil Justice & Courts Policy Committee**

**Tuesday, October 6, 2009  
8:15 AM - 9:15 AM  
12 HOB**

**MEETING PACKET**

**Larry Cretul  
Speaker**

**Carl J. Domino  
Chair**

**Committee Meeting Notice**  
**HOUSE OF REPRESENTATIVES**

**Civil Justice & Courts Policy Committee**

**Start Date and Time:** Tuesday, October 06, 2009 08:15 am  
**End Date and Time:** Tuesday, October 06, 2009 09:15 am  
**Location:** 12 HOB  
**Duration:** 1.00 hrs

Introduction of Committee Members

Staff presentation on current issues relating to laws affecting condominiums

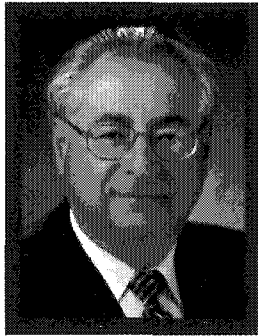
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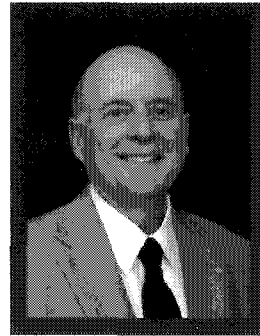
# Florida House of Representatives

## Civil Justice & Courts

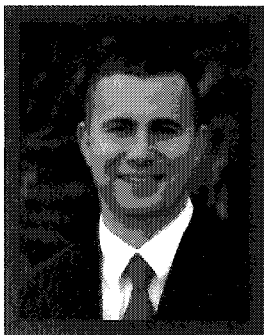
### POLICY COMMITTEE



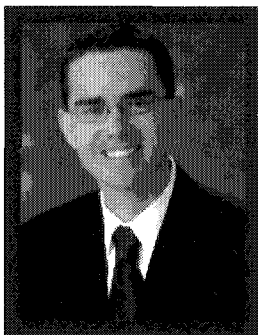
Rep. Domino  
Chair



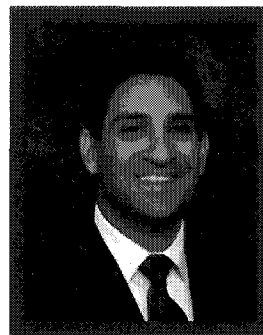
Rep. Weinstein  
Vice Chair



Rep. Soto  
Democratic Ranking  
Member



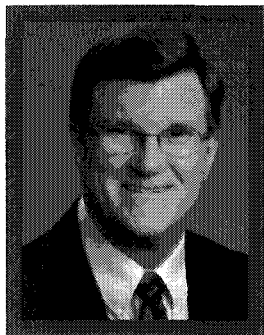
Rep. Eisnaugle



Rep. Fetterman



Rep. Flores



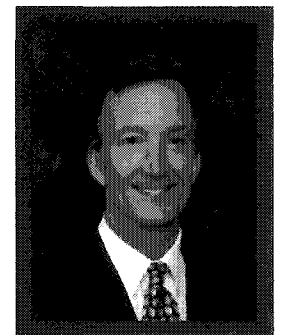
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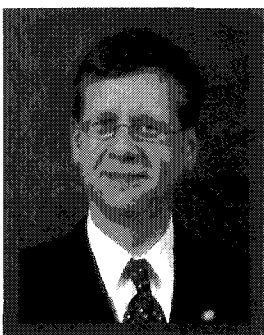
Rep. Gibson



Rep. Gonzalez



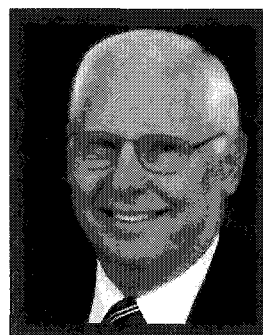
Rep. Grady



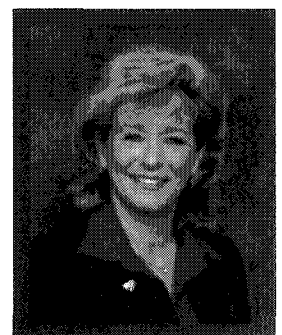
Rep. Murzin



Rep. O'Toole



Rep. Poppell



Rep. Rehwinkel  
Vasilinda

**Civil Justice & Courts Policy Committee Meeting  
10/6/09**

Current Issues Relating to Laws Affecting Condominiums

- Introduction and background.
- Effect of foreclosures on associations.
- Requirement for retrofitting of older condominiums with sprinklers, including discussion of veto and a DBPR report.
- Effect of non-paying owners and possible means to compel payment.
- Mandatory unit owner insurance coverage and potential repeal of the requirement.
- Description of distressed condominiums and possible legislation.

Other Association Issues

- Simplifying dispute resolution procedures in homeowners associations.
- Update of cooperatives law to match recent condominium law changes.

**Civil Justice & Courts Policy Committee Meeting  
10/6/09**

- I. Governor Crist Veto Letter 2009**
  
- II. Condominium Sprinkler Retrofit Report  
A Review of Retrofit Costs and the Impact of Retrofitting  
on Insurance Premiums - Prepared by DBPR**
  
- III. Governor Bush Veto Letter 2006**





**CHARLIE CRIST**  
GOVERNOR

June 1, 2009

Secretary Kurt S. Browning  
Secretary of State  
Department of State  
R.A. Gray Building  
500 S. Bronough Street  
Tallahassee, Florida 32399

RECEIVED  
GOVERNOR'S OFFICE  
JUN 1 11 09

Dear Secretary Browning:

By the authority vested in me as the Governor of Florida, and under the provisions of Article III, Section 8, of the Constitution of Florida, I do hereby withhold my approval of and transmit to you my objections to, Committee Substitute for Committee Substitute for Senate Bill 714, enacted during the 41<sup>st</sup> Session of the Legislature of Florida, convened under the Constitution of 1968, during the Regular Session of 2009 and entitled:

An act relating to Condominiums...

This bill makes several changes to laws that are important to Floridians residing in condominiums, including modifying the requirement that condominium unit owners maintain property insurance coverage on items located within the boundaries of their units. The bill generally clarifies insurance provisions as they relate to unit owners and condominium associations and the requirements governing board members of condominium associations. However, the bill also includes changes that give me, as they did my predecessor, great concern.

This bill, similar to House Bill 391 passed during the 2006 Session and vetoed by Governor Bush, extends the date after which local authorities may require the retrofit of applicable residential common areas with a fire sprinkler system from 2014 to 2025. I share Governor Bush's concerns that this delay presents an unacceptable safety risk, especially to Florida's elderly condominium residents. I am sensitive to the costs associated with installing the fire sprinkler systems, especially in these challenging economic times. However, in the event of a fire, public safety for residents and for the firefighters and emergency medical personnel who lay their lives on the line to provide services greatly outweigh all other considerations.

Secretary Kurt S. Browning

June 1, 2009

Page Two

I am directing the Department of Business and Professional Regulation to initiate a comprehensive review of actual retrofit costs and the impacts that retrofitting may have on insurance premiums. The department may conduct workshops, as necessary, to solicit input from all stakeholders and must report its finding and recommendations to myself and the President of the Senate and the Speaker of the House of Representatives by October 1, 2009.

For this reason, I withhold my approval of Committee Substitute for Committee Substitute for Senate Bill 714, and do hereby veto the same.

Sincerely,

A handwritten signature in black ink, appearing to read "Charlie Crist". The signature is stylized with a large, looping initial "C" and a long, sweeping tail.

Charlie Crist





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# Condominium Sprinkler Retrofit Report

A Review of Retrofit Costs and the Impact of Retrofitting on Insurance Premiums

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**Report to the Governor,  
President of the Senate and  
Speaker of the House of  
Representatives**

October 2009



Prepared by the Department of Business and Professional Regulation

Division of Florida Condominiums, Timeshares and Mobile Homes

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## Table of Contents

Acknowledgements	2
Executive Summary	3
Introduction	4
Dolphin Cove	5
Sprinkler Retrofit Costs	6
Findings	8
Impact of Retrofitting on Insurance Premiums	8
Findings	9
Conclusions and Recommendations	10
Exhibits	
Exhibit A: Governor Crist's Veto Letter of Senate Bill 714	12
Exhibit B: Chapter No. 2003-14, Laws of Florida (Senate Bill 592)	12
Exhibit C: CALL survey to its membership	12
Exhibit D: Space Coast Communities Association report	12

## ACKNOWLEDGEMENTS

Citizens Property Insurance Corporation

The Community Action Network

The Community Association Leadership Lobby

The Department of Financial Services, Office of the State Fire Marshal

The Financial Services Commission, Office of Insurance Regulation

The Florida Fire Marshals and Inspectors Association

ISO, the Insurance Services Office

Lisa Miller and Associates

The National Fire Sprinkler Association

The Space Coast Communities Association

Wayne Automatic Fire Sprinklers, Inc.

## Executive Summary

In his veto message regarding Senate Bill 714, the Governor directed the Department of Business and Professional Regulation to survey the costs associated with installing or retrofitting a condominium with a fire safety sprinkler system. The Governor also asked for information on any insurance cost reductions associated with these installations.

Based on our review, the Department finds:

- The cost to retrofit a condominium with a fire safety sprinkler system ranged from a low of \$595 to a high of \$8,633 per unit. These costs vary depending on a number of factors. i.e., the extent of sprinkler coverage in the building (complete or common areas), the age of the building, the size and number of units in the building or buildings, type of construction, etc.
- Many associations have forgone retrofits because they are cash strapped in the current economy. With many units sitting empty or in foreclosure and not paying assessments, some condominiums are scraping by just paying their normal expenses.
- Another reason for this forbearance is that the deadline for such retrofits is far enough in the future (December 31, 2014) that they are, perhaps understandably, delaying this decision.
- A condominium can expect to receive a discount of 5% on the “all other perils” portion of their property and casualty insurance policy if the structure is completely sprinklered. However, this is not a certainty given that the risk a third party insurer is willing to bear may impact the decision after considering the nature, age, and condition of the property to be insured.

## **Introduction**

On June 1, 2009, Governor Crist vetoed Senate Bill 714. In his veto message the Governor expressed sensitivity “to the costs associated with installing the fire sprinkler systems, especially in these challenging economic times. However, in the event of a fire, public safety for residents and for the firefighters and emergency medical personnel who lay their lives on the line to provide services greatly outweigh all other considerations.”

The Governor then directed the Department of Business and Professional Regulation to initiate a review of actual retrofit costs and the impact that retrofitting may have on insurance premiums. This review was conducted by the Department’s Division of Florida Condominiums, Timeshares, and Mobile Homes (Division).

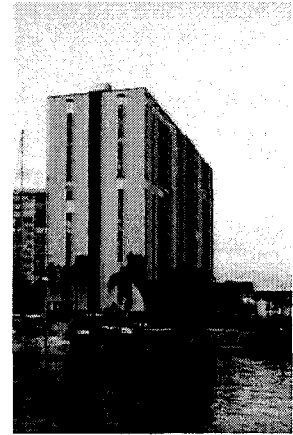
In conducting its review, the Division contacted leadership within Florida’s fire service industry, condominium community advocacy organizations, the Office of the State Fire Marshal, the Office of Insurance Regulation, Citizens Property Insurance Company, fire sprinkler installers and representatives of insurance companies, to receive input.

The Division appreciates the efforts of these organizations. Additionally, The Office of State Fire Marshal and the National Fire Sprinkler Association contributed actual sprinkler retrofit cost data. The Community Association Leadership Lobby (CALL), a statewide association representing approximately 4,500 condominium associations, surveyed its member organizations. The Community Action Network (CAN), representing approximately 2,500 condominium associations, issued an alert among its membership to identify associations that had initiated or completed a sprinkler retrofit. The Space Coast Communities Association also provided input to the Division.

The following report reflects the findings of the Division.

## Dolphin Cove

The early morning 5<sup>th</sup> floor kitchen fire at Dolphin Cove on June 28, 2002, that killed 2 residents and injured 3 firefighters is often referenced when discussing the need for high-rise condominiums to have sprinklers. As reported by the St. Petersburg Times on August 10, 2002, multiple factors contributed delaying firefighters from bringing the blaze under control, including the internal water system (standpipe) having been turned off, the hydrant closest to the fire was nonfunctional, and the delayed call to 911 reporting the fire. The Clearwater Fire Chief also attributed the lack of sprinklers in the condominium as contributing to the tragedy. At the time of the fire, the Florida Fire Code required all residential high-rise buildings to install a fire sprinkler or engineered lifesafety system by 2013. However, the Legislature in 2003 passed Senate Bill 592, clarifying that for high-rise condominiums the required deadline to retrofit was by the end of 2014.



Dolphin Cove  
Condominium

The relevant language of Senate Bill 592, now current law, as it related to the sprinkler retrofit can be found at Chapter 718.112(2)(l), Florida Statutes, and reads:

*Notwithstanding the provisions of chapter 633 or of any other code, statute, ordinance, administrative rule, or regulation, or any interpretation of the foregoing, an association, condominium, or unit owner is not obligated to retrofit the common elements or units of a residential condominium with a fire sprinkler system or other engineered lifesafety system in a building that has been certified for occupancy by the applicable governmental entity, if the unit owners have voted to forego such retrofitting and engineered lifesafety system by the affirmative vote of two-thirds of all voting interests in the affected condominium. However, a condominium association may not vote to forego the retrofitting with a fire sprinkler system of common areas in a high-rise building. For purposes of this subsection, the term*

*"high-rise building" means a building that is greater than 75 feet in height where the building height is measured from the lowest level of fire department access to the floor of the highest occupiable story. For purposes of this subsection, the term "common areas" means any enclosed hallway, corridor, lobby, stairwell, or entryway. In no event shall the local authority having jurisdiction require completion of retrofitting of common areas with a sprinkler system before the end of 2014.*

The costs to install (retrofit) a condominium varies depending on the size of the condominium unit. To completely retrofit Dolphin Cove and upgrade the alarm system in 2003, the costs varied from \$2,200 to \$5,940, as a one-time assessment, and from \$3,126 to \$8,280, if financed for 10 years at 7%. The residents proceeded with the retrofit in an effort to prevent a reoccurrence of June 28, 2002.

This commitment to retrofit their building in advance of the mandate is but one example of costs associated with a sprinkler retrofit. Nevertheless, since Legislative debate began on the topic of mandating sprinklers, advocacy groups representing condominium unit owners have vigorously opposed these measures. As noted by Yeline Goin, Co-Director of the Community Association Leadership Lobby (CALL), "many associations are taking a wait and see approach, hoping the Legislature will provide relief by extending the date or removing the requirement altogether." The primary reason for the opposition is the cost.

### **Sprinkler Retrofit Costs**

Upon reviewing the database of condominium projects throughout the State, the Division anticipates that the universe of condominium projects affected by the mandated retrofit is approximately 5,600 based upon a review of condominium construction dates and the number of units. However, of the associations surveyed for this report, a strikingly small number responded with actual costs. Donna Berger,



Galt Mile Condominium Association, a 27 building, 6,400 unit association that would be required to retrofit with sprinklers.



Executive Director of the Community Advocacy Network (CAN), suggests that retrofit costs are the factor. "Many associations have held off retrofitting because they simply do not have the funds to do so," she noted. Whatever the reason, the Division found that only a few associations have taken steps to adhere to the impending deadline to retrofit their condominiums. As detailed below, a sampling of sprinkler retrofit costs, primarily in South Florida, highlight the variation in costs associated with a sprinkler retrofit:

Table: Sprinkler Retrofit Costs

Name	City	Total SF	Cost / SF	Total Cost	Average Cost /	
					Unit	Retrofit Design
Corinthian	Miami Beach	183,518	\$1.30	\$238,355	\$1,727	Complete
Continental Towers	Clearwater	166,250	\$1.05	\$175,000	\$2,083	Complete
Brickell Phase II, D	Miami	357,400	\$1.16	\$415,024	\$1,836	Complete
Country Club	North Miami	71,568	\$1.05	\$74,954	\$503	Complete
Forest Place Tower	North Miami	286,000	\$1.20	\$342,404	\$1,695	Complete
Essex House	Sarasota	108,000	\$1.18	\$127,500	\$1,678	Complete
<i>Islander Club (bid)</i>	<i>Longboat Key</i>			<i>\$1.2M - \$780,000</i>	<i>\$8,633 - \$5,611</i>	<i>Complete</i>
Biscayne Cove	Aventura	425,000	\$0.49	\$214,790	\$813	Common Area
Biscayne Clipper	Aventura	607,500	\$0.42	\$195,250	\$595	Common Area
Arlen Beach	Miami Beach	250,848	\$1.58	\$394,950	\$1,755	Common Area
Admirals Port	Aventura	435,353	\$0.64	\$276,575	\$816	Common Area
Horizons West	Sarasota	245,000	\$0.58	\$121,000	\$896	Common Area
Peppertree Bay	Sarasota	50,400	\$0.47	\$175,000	\$810	Common Area

## **Findings**

As this survey of associations is five (5) years in advance of the mandated sprinkler retrofit, the sparse number of condominium associations that have completed the retrofit is not unexpected. The Division's experience is that condominium associations prepare their budgets in one year cycles. Further, with association board member terms being capped at no more than two years, any inherent fiscal shortsightedness coupled with the potential for a complete turnover of all association leadership could result in a last minute surprise for unsuspecting associations. To avert such a surprise—to the maximum extent possible—the Division, through its educational program, intends to play a role in alerting associations of current and future legislative mandates, namely the fire sprinkler requirement via annual billing inserts, the Division's webpage, and through regular interaction.

## **Impact of Retrofitting on Insurance Premiums**

As noted previously, with limited data regarding actual sprinkler retrofit projects, the corresponding insurance premium data is limited as well. The projects listed in the above table reported mixed results. If a reduction was granted for fire sprinklers, the impact of that reduction on the overall policy was not significant because the reduction applied only to the "all other perils" portion of the property and casualty policy, not the windstorm portion. To understand how sprinklers impact insurance premiums, the Division received input from Citizens Property Insurance Corporation, the State's largest insurer of condominiums. The Division also received input from the Space Coast Communities Association and Lisa Miller and Associates, an insurance consulting firm.

### Citizens Property Insurance Corporation

Citizens reported that a 5% sprinkler credit is applied if a building is fully sprinklered and the ISO (Insurance Services Office), a leading provider of information about property and liability risk, confirms the building has an approved sprinkler system. A condominium with sprinklers in the common areas only, as required by law, may be

eligible to be specifically rated by ISO (as opposed to class rated) and those specific rates would be based on the individual risk characteristics of that building (construction, occupancy, protection, exposure). As a result, a partially sprinklered building may receive a lower premium than a similar building that has no sprinkler protection.

#### Fully Sprinklered verse Partially Sprinklered

The experience of Harry Charles, President Emeritus of the Space Coast Communities Association, an umbrella association with 269 member associations, has been that associations receive a 5% premium discount of the “all other perils” portion of an insurance policy for a fully sprinklered building and no discount for a partially sprinklered building (see appendix D). That experience is echoed by Lisa Miller, an insurance consultant and former Deputy Insurance Commissioner. Mrs. Miller notes that ISO considers a building that is partially sprinklered the same as a building without sprinklers, from a rating perspective. However, individual insurance companies may or may not use the advice of ISO, which is a proprietary decision.

#### **Findings**

The minimum requirement for a high-rise condominium, by law, is to install sprinklers in the common areas, defined by Chapter 718.112(2)(l), Florida Statutes, as “any enclosed hallway, corridor, lobby, stairwell, or entryway” of the condominium. The data and information provided for this report suggests that condominiums that apply this minimum standard may receive little to no discount on the overall policy. However, a fully sprinklered building insured by Citizens Property Insurance Corporation should expect to receive a 5% discount. Depending on the insurer, the discount may exceed 5%; however, any discount not applied to the windstorm portion of the policy may be nominal.

## **Conclusion and Recommendations**

The Division concludes that the lack of substantial data regarding the costs of sprinkler retrofits is not unexpected in light of the budgeting practices of condominium associations. Inherently focused on the challenges of the present, a mandate five (5) years from now for many associations likely appears to be in the distant future. Further, considering that in five years, with two year staggered terms, an association's board could be entirely different than the membership elected this winter. Addressing a mandate not realized until five (5) years from now is likely a lesser priority than the challenges of today—most notably collecting regular assessments and addressing a significant wave of foreclosures. Under the circumstances, the prospect of adding any additional costs for most associations would be difficult to propose, and perhaps result in a recall of the association's board.

**Recommendation:** The Division views this situation as an additional opportunity to communicate with our customers. Over the next five (5) years the Division via inserts in the billing statements, educational presentations, and electronic communication, will significantly increase awareness of the impending sprinkler retrofit mandate.

The Division concludes that installation costs vary depending on multiple factors including the initial condition of the association's standpipe, the type of installation performed (common areas only or common areas and units), and any aesthetic considerations the association may want to incorporate into the existing décor.

**Recommendation:** Understanding that multiple variables impact the costs of installing a fire sprinkler system and understanding that the statute provides an alternative to a fire sprinkler system in the form of an "other engineered lifesafety system," best management practices for condominium associations retrofitting with a fire sprinkler system should be established as associations consider their options.

Finally, the Division concludes that condominium associations will receive a premium reduction if the building is fully sprinklered, but may not if an association chooses to adhere to the minimum requirement of the law of installing sprinklers only in the common areas. The Legislature may wish to address the uncertainty of a premium discount when associations opt to install sprinklers in the common areas only.

**Recommendation:** Chapter 627.0654, Florida Statutes, mandates a premium discount if a fire sprinkler system has been installed in accordance with nationally accepted fire sprinkler design standards adopted by the Office of Insurance Regulation and if the fire sprinkler system is maintained within nationally accepted standards. To the extent that the minimum requirement provided in Chapter 718.112(2)(l), Florida Statutes, regarding the installation of fire sprinklers only in the common areas doesn't rise to the standard in Chapter 627.0654, Florida Statutes, affording a premium discount, the Legislature may want to harmonize the two chapters.

## Exhibits

Exhibit A: Governor Crist's Veto Letter of Senate Bill 714

Exhibit B: Chapter No. 2003-14, Laws of Florida (Senate Bill 592)

Exhibit C: CALL survey to its membership

Exhibit D: Space Coast Communities Association Report

## FIRE SPRINKLER RETROFITTING SURVEY

As you may be aware, Governor Crist vetoed SB 714 which would have extended the date for fire-sprinkler retrofitting for condominium associations to 2025. The current statute requires retrofitting by the end of 2014. The Governor's veto letter requires the Department of Business and Professional Regulation (DBPR) to initiate a comprehensive review of actual retrofit costs and the impacts that retrofitting may have on insurance premiums. DBPR's report is due to Governor Crist by October 1, 2009.

The purpose of this survey is to obtain information regarding fire-sprinkler retrofitting costs and impacts on insurance premiums, if any. A copy of the completed surveys will be provided to the DBPR for their use in preparation of a report to Governor Crist.

Please note that if you fill out this survey, it will be considered part of the Association's official records and must be maintained as part of the association's official records for 7 years. It will also be considered a public record and can be obtained from DBPR by any person pursuant to a public records' request.

Please fill out the survey only if your condominium association has undertaken and completed a fire-sprinkler retrofitting project of the subject buildings which your association operates. Please complete and return the survey to us by **September 1, 2009**. Only one survey should be completed per association. It should be completed by someone with knowledge of the information requested by the survey (i.e., the President, Treasurer, Manager, etc.) If your association is a cooperative association that is required to retrofit the cooperative buildings pursuant to Section 719.1055(5), Florida Statutes, you may also complete the survey.

The survey is attached as a Word document. You can save the document to your computer and then e-mail us the completed document as an attachment to your e-mail. You may e-mail it to [call@becker-poliakoff.com](mailto:call@becker-poliakoff.com). Or, you may fax it to Community Association Leadership Lobby (CALL), Attention: Diana Zayas-Bazan at: 954-985-4176, or may mail it to: Community Association Leadership Lobby (CALL), c/o Diana Zayas-Bazan, CALL Administrator, 3111 Sterling Road, Ft. Lauderdale, FL 33312.

You may use additional sheets of paper if additional space is needed.

Name of Association: \_\_\_\_\_.

Are you a Multi-Condominium Association? (A multi-condominium association is an association that operates more than one condominium): \_\_\_\_\_.

County where Association is Located: \_\_\_\_\_

Total Number of Units: \_\_\_\_\_. If you are a Multi-Condominium Association, please also provide the number of units in each Condominium:

\_\_\_\_\_

Name of Insurance Carrier: \_\_\_\_\_

Are the buildings in the Condominium considered "high-rise buildings"? (High rise is defined as a building greater than 75 feet measured from lowest level of fire department access to floor of highest occupiable story). \_\_\_\_\_

Has your Association completed a fire-sprinkler retrofitting of the Condominium? \_\_\_\_\_ If yes, please provide the following information:

a. Actual Cost of Retrofitting: \_\_\_\_\_

b. Is this for Common Areas, Units, or Both? \_\_\_\_\_ Common Areas, \_\_\_\_\_ Units, \_\_\_\_\_ Both. If for both, please provide a break-down of costs for common areas and units, if possible: \_\_\_\_\_. If you are a Multi-Condominium Association, please provide information for each Condominium, if possible:

\_\_\_\_\_

c. Date of Completion: \_\_\_\_\_

d. Name of Contractor: \_\_\_\_\_

e. How did the Association pay for the retrofitting? (Special Assessment, Reserves, Loans, etc):

\_\_\_\_\_

f. Did the Association receive a reduction or increase in insurance premiums as a result of the fire-sprinkler retrofitting? \_\_\_\_\_ If yes, please provide information regarding the savings or increases in insurance premiums. This should be a percentage or a dollar amount. If a dollar amount, please also include the premium amount with and without the retrofitting.

\_\_\_\_\_

\_\_\_\_\_

Has the Association experienced water damage as a result of water being released from or through the fire sprinklers? \_\_\_\_\_ If yes, please provide information regarding amount of damage, whether the damage was covered by insurance, and whether there were any non-insured losses.

\_\_\_\_\_

\_\_\_\_\_



To the best of your recollection, has your Association ever had a fire in a unit that spread to another unit? \_\_\_\_\_. If yes, please provide additional information regarding fire event:

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Please provide any additional information or comments regarding this issue that you believe is relevant:

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Completed By: \_\_\_\_\_(Signature) Date: \_\_\_\_\_

\_\_\_\_\_ (Printed Name)

Title: \_\_\_\_\_



July 31, 2009

Memorandum to: Kevin Stanfield, Deputy Director, Division of Condominiums

From: Harry Charles, President Emeritus, Space Coast Condominiums Association  
Roger Kesselbach, President, Space Coast Condominiums Association

Subject: Sprinkler Retrofit Study Requested by the Governor

S.B. 714 was vetoed by the Governor because it proposed to delay from 2014 to 2025 the date by which sprinkler retrofits in the common areas of condominiums must be complete.

The delay was put in S.B. 714 because of the economic crisis in the United States and in Florida. Many Florida condominiums are on the verge of bankruptcy and many condominium owners are facing foreclosure and loss of their homes. It is essential that we avoid every cost possible for condominiums and their owners. One source states that 12,000 units in Miami Dade are ready to be foreclosed in the near future. Another source states that South Florida is on pace for 100,000 foreclosures in 2009.

**Recommendation:** The Governor commit to sign this bill into law in the next session and request that it be put on the fast track.

The Governor asked for:

1. Actual sprinkler retrofit costs in common areas of condominiums.
2. Impact that retrofitting may have on cost of insurance premiums.

It is clear that the Governor wants to know whether this retrofit would result in a net added cost or a net reduction in cost. Implicit in these requests is the determination of the total retrofit impact on condominiums.

**Summary** - We have identified the nature of impacts and have collected real cost data.

**Costs:**

1. Direct retrofit costs are about \$6,000 per 2,000 square feet assuming infrastructure such as pumps and standpipes are already in place.
2. Installation of a diesel fire pump costs about \$60,000.
3. An electric pump is about \$32,000 without a backup generator, which is required in many areas of Florida.

4. Annual cost of maintaining and testing is about \$2,100 for the pumping system. This cost includes quarterly tests and once a year complete inspection, pressure and flow tests and system certification, and minor repairs as per individual contract.

**Insurance Savings:** Savings in insurance premiums for condominium insurance will be about:

0% for sprinkler retrofit of the common areas.

5% for sprinkler retrofit of common areas and all units. *This percentage applies only to the fire portion of the hazard insurance premium.*

Specifically, for example, Citizens Property Insurance credits 5% of the fire portion of the hazard insurance premium but only if both the units and the common areas are sprinklered. There is no credit if only the common areas are sprinklered.

Retrofitting sprinklers into the condominium common areas will increase the total cost to the condominium associations and owners. The increase will be:

Moderate if the condominium already has operable pumps and standpipes.

Large if a pump or standpipe must be replaced or installed.

Retrofit costs will result in additional foreclosures and loss of owners' homes.

### **Detailed Cost Impact on Owners for Sprinkler Retrofit in Common Areas and in Units**

1. Retrofitting a condominium with sprinklers will cost about \$6,000 per 2000 square feet if pumps and standpipes are already in place. This is true for common areas and for condominium units. The owners pay for all the expenses of the association.

Installation of a diesel pump costs about \$60,000. An electric pump is about \$32,000 without a backup generator, which is required in many areas of Florida. Most buildings of 4 stories or more already have pumps and standpipes. However an initial installation or a replacement represents a prohibitive expense. Annual cost of maintaining and testing is about \$2,100 for the pumping system. Replacement of a standpipe will cost several thousands of dollars.

2. There will be no reduction in insurance premium resulting from installing sprinklers in the common areas.
3. Retrofitting necessarily involves modification of older buildings that are often occupied by elderly retirees living on fixed incomes. Inevitably some owners cannot pay, and the association or the mortgagee will be forced to foreclose on their units.

Every expense contributes to this problem, the effect is additive, and the probability of being forced into foreclosure increases. It is common to have unanticipated major maintenance resulting in a special assessment that may be large but nevertheless must be paid. Every effort must be made to avoid adding discretionary spending to the necessary spending.

Note that if an owner vacates the unit the association must care for the unit to protect property values, further escalating costs.

4. If a unit is foreclosed the owner will no longer pay his assessments and, since all association expenses must be paid, his assessments must be paid by the other owners. Therefore foreclosures increase the assessments of the other owners and some of them may be forced into foreclosure. The problem cascades and can increase out of control.

Example. Suppose the budgeted monthly fee per unit is \$400.

Fraction of Units Foreclosed	Monthly Fee Required from Other Owners
0.0	\$ 400
0.2	\$ 500
0.4	\$ 667
0.6	\$1000
0.8	\$2000

At every level of the increased monthly fee it is likely that one or more owners will be priced out of their units.

#### **Other Cost Factors Associated with Retrofit**

1. Secondary costs resulting from foreclosures.

Note that if there is a foreclosure that owner will not pay his part of the sprinkler system cost and will no longer pay maintenance fees. But the remaining owners must pay extra to make up for the shortfall and pay added maintenance fees. This is a direct result of the large cost of the sprinkler system. This will quickly jeopardize the other owners and cause additional foreclosures.

Condominium owners in Florida already are in critical trouble financially and foreclosures are increasing. Any additional large expenditure will lead to additional foreclosures.

2. Secondary cost from sprinkler activation by fire and by vandalism.

The water released from sprinklers will flood and damage nearby areas and in addition areas which are below. The fire fighters would similarly flood the area with water in the absence of sprinklers. However water from sprinklers will continue until the fire fighters turn it off which might be 20 minutes or more.

Sprinklers are probably activated by vandalism and accident more often than by fires. Every time they are activated there is the expense of repairing water damage.

### **Lives Saved and Lives Lost due to Sprinklers.**

1. Lives saved in 2008 by sprinklers in common areas. No data yet.
2. Estimated lives which might be lost due to sprinkler cost:

There are about 25,000 condominiums with 1,500,000 units in Florida. Assume 60% are owner occupied = 900,000. About 2% are in foreclosure. Suppose an additional 1 % of the owners' homes are foreclosed because of the cost of sprinklers in common areas.

Under these circumstances 9,000 additional owners and their families would lose their homes. The total number of people would be more than 20,000. Suppose 10% of these become homeless street people with 1% of the 10% dying on the street. This would be 20 deaths attributable to the sprinkler retrofit. Furthermore some of the 40% of the owners not residing in their condos would end the same way. The total number of deaths might be 25. To be even more conservative we might cut this estimate in half. Then perhaps 13 deaths would result.

Note that Florida has about 75,000 homeless people.

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## Appendix — Condominium Budgeting

An expanded analysis follows:

### 1. What is the cost of a sprinkler system?

- a. Water source.
- b. Pump. Cost \$60,000 diesel or \$32,000 electric without backup power.  
**Note:** The Brevard County fire code requires a backup Generator and we understand that many other Florida jurisdictions do as well.
- c. Standpipes. One per building. Cost \$5,000, and up for a high rise.
- d. Dedicated water lines and sprinklers. Cost \$6,000 per 2,000 square feet. This price includes minimum drywall and concrete repair due to core drilling. Also included is a standard pipe cover for a clean finish to job.

**Note:** All above pricing is the direct result of speaking to Fire prevention companies in Brevard County (Wigington, Wayne & international fire prevention to name a few). The pump pricing came from Patterson Pump & Clark Pump. All prices are the middle of the spectrum. Also note that we did not include the cost of an electric generator because during our research we found some small cities do not have this requirement in there code.

### 2. Overview of condo owner financial impact:

- a. Ability to pay. Some OK financially, some marginal.
- b. Financial responsibilities to condominium. Owners pay all expenses.
- c. Some cannot pay.
- d. Foreclosures.

### 3. Condo Budget - Operating Funds and Reserves

#### Operating Funds - Month to month:

- a. Regular maintenance
- b. Salaries
- c. Office
- d. Supplies
- e. Utilities
- f. Security

#### Reserves - Periodic long term maintenance and replacement:

- a. Building painting
- b. Roof replacement
- c. Pool major maintenance

- d. Pavement repair and resurfacing
- e. Etc.

Comment. These reserve payments usually stretch the owner obligations to the limit. In fact probably the majority of condominiums do not fully fund the reserves.

Additional Large Expenses for Condominiums:

- a. Unexpected insurance premium increases.
- b. Hurricane damage restoration.
- c. Sprinkler retrofit.
- d. Restoration of balconies and walkways.
- e. Emergency Maintenance.
  - Replace water pump or standpipe.
  - Replace common area (building) plumbing.
  - Treat mold infestations

4. How Does a Condominium Pay for these Large Items?

Declare a special assessment on each owner.  
Use a line of credit to enable an owner to pay over time.

One of the authors' own condominium association assessed the owners \$17,000 each about 7 years ago to pay for well anticipated and carefully planned large maintenance expenses.





# Office of the Governor

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June 27, 2006



JEB BUSH  
GOVERNOR

Ms. Sue Cobb  
Secretary of State  
Florida Department of State  
R.A. Gray Building  
500 South Bronough Street  
Tallahassee, FL 32399

Dear Secretary Cobb:

By the authority vested in me as Governor of the State of Florida, under the provisions of Article III, Section 8, of the Constitution of Florida, I do hereby withhold my approval of and transmit to you my objections, House Bill 391, enacted during the 108<sup>th</sup> Session of the Legislature of Florida, since statehood in 1845, during the Regular Session of 2006 and entitled:

An act relating to community associations...

I understand that the reason many homeowners join community associations is to ensure the value of their property and to enjoy a certain quality of lifestyle. I also believe community associations owe their members the utmost care in managing financial and other community affairs. House Bill 391 contains several provisions that support these principles, particularly in the area of homeowner associations. For example, the bill seeks to improve the operation of these associations by requiring the documents supplied by the developer when the association is transferred to be audited, authorizing reserve accounts for future expenses to be maintained, increasing the ability of a community developer to guarantee common expenses, and increasing visibility regarding financial and other decision-making.

However, the bill includes changes to Florida's condominium and homeowner's association laws that cause me serious concern.

First, the bill extends the date after which local authorities may require the retrofit of applicable residential condominiums common areas with a fire sprinkler system from 2014 until 2025. The change appears to be an arbitrary postponement of an already distant timeframe, and presents an unacceptable safety risk, especially to Florida's many elderly condominium residents. This change should be revisited following a review of actual retrofit costs and impacts that the retrofit may have on decreased insurance premiums.



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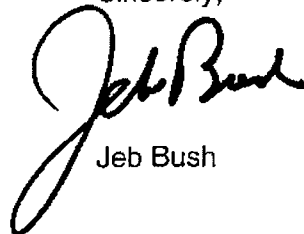
Ms. Sue Cobb  
June 27, 2006  
Page Two

Second, the bill substantially removes language adopted by the Legislature in 2004 requiring alternative dispute resolution (ADR) that would address and prevent disputes frequently arising between owners and associations. The alternative dispute resolution framework adopted by the Legislature includes mandatory mediation and voluntary binding or nonbinding arbitration. Both programs are administered by the Department of Business and Professional Regulation, Division of Land Sales, Condominiums and Mobile Homes. The bill replaces the mandatory mediation program with voluntary presuit mediation not administered by the department. Under the proposed voluntary mediation scheme, disputes could be filed in the courts without the requirement for mediation. A return to civil litigation for typical owner-association disputes reduces the benefits in time and money that mandatory mediation saves over protracted court proceedings.

I am directing the Department to initiate a project to study, and make recommendations on, the following: (1) ways to improve and/or expand existing ADR and educational programs to accommodate stricter association requirements such as those set forth in House Bill 391; (2) the extent to which protections afforded members of mandatory homeowner associations can approach parity with those afforded condominium owners while still upholding legislative intent that homeowner associations not be regulated; and (3) whether, using the Uniform Common Interest Ownership Act as a starting point and analyzing the laws of other states, the State of Florida should move toward establishing a comprehensive common interest realty law. The Secretary of the Department may, if deemed necessary, conduct one or more workshops to solicit stakeholder input. The Department shall submit its report and recommendations to the Governor, the President of the Florida Senate and the Speaker of the Florida House of Representatives on or before October 1, 2006.

For the reasons stated above, I am hereby withholding my approval of House Bill 391.

Sincerely,



Jeb Bush