

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: PCS for HB 735 Covenants and Restrictions of Property Owners

SPONSOR(S): Civil Justice & Claims Subcommittee

TIED BILLS: None **IDEN./SIM. BILLS:** SB 318, SB 1046

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR or BUDGET/POLICY CHIEF
Orig. Comm.: Civil Justice & Claims Subcommittee		Stranburg	Bond

SUMMARY ANALYSIS

The Marketable Record Title Act (MRTA) was enacted to simplify real estate transactions. In general, it provides that any person vested with any estate in land of record for 30 years or more has a marketable record title free and clear of most claims or encumbrances against the land. One effect of MRTA is that covenants and restrictions affecting real property are extinguished 30 years after their creation. Current law allows residential homeowners' associations to preserve existing covenants and restrictions, and provides a means by which expired covenants and restrictions of a homeowners' association may be revived if previously extinguished by MRTA. The bill:

- Authorizes counties and municipalities to amend, release, or terminate a restriction or covenant that they imposed or accepted during the approval of a development permit. This provision is retroactive and applies to existing restrictions and covenants;
- Replaces the term "homeowners' association" with "property owners' association," thus extending statutory provisions regarding preservation and revival to a broader range of associations, notably commercial property owners' associations;
- Authorizes parcel owners who were subject to covenants and restrictions but who do not have a homeowners' association to use the same mechanisms as a homeowners' association to revitalize extinguished covenants and restrictions;
- Repeals the requirement that a homeowners association board achieve a two-thirds vote for preservation of existing covenants and restrictions;
- Requires a homeowners association to annually consider preservation of the covenants and restrictions and requires an association to file a summary preservation every five years; and
- Conforms statutory and definitional cross references.

The bill appears to have an indeterminate minimal positive impact on the clerks of circuit courts and an equal indeterminate negative impact on property owners' association related to recording fees to preserve covenants or restrictions.

The bill has an effective date of July 1, 2017.

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. EFFECT OF PROPOSED CHANGES:

The Marketable Record Title Act - In General

The Marketable Record Title Act (MRTA) was enacted in 1963 to simplify and facilitate land transactions.¹ In general, MRTA provides that any person vested with any estate in land of record for 30 years or more has a marketable record title free and clear of most claims or encumbrances against the land. Current law includes 9 exceptions to the applicability MRTA.²

One effect of MRTA is that homeowner association covenants can lose effect after 30 years. In order to protect such covenants, MRTA has long provided for renewal of such covenants. However, many homeowners' associations fail to timely file a renewal of their covenants. Formerly, MRTA would apply in such cases and accordingly the covenants and restrictions expired and were unenforceable. In 2004, part III of ch. 720, F.S., was enacted to provide a means by which covenants and restrictions of a mandatory homeowners' association may be revived.³ In 2007, nonmandatory homeowners' associations became eligible for revitalization.⁴ Revitalization requires the creation of an organizing committee, notice to all affected property owners, approval by a majority of the homeowners, approval by the Department of Economic Opportunity, and the recording of notice in the public records.⁵

There are two categories of property owners who enact and enforce covenants and restrictions regarding their property and that of their neighbors who are impacted by MRTA, but have not been included in the laws regarding renewal or revival of their covenants and restrictions. These property owners are commercial landowners in office parks, industrial parks, and other commercial districts; and neighborhoods with enforceable covenants but no formal homeowners' association.

Effect of the Bill

Extinguishable Interests in Real Property

In *Save Calusa Trust v. St. Andrews Holding, Ltd.*,⁶ a recent decision by the Third District Court of Appeal, the court held that government imposed encumbrances are not subject to extinguishment under MRTA.⁷ In the case, the current owner of land sought to redevelop the land. A former owner had agreed with the county to a restrictive covenant as a condition of the building permit. In relevant part, the covenant provided that the restrictions

continue for a period of ninety-nine years unless released or revised by the Board of County Commissioners of the County of Dade, State of Florida, or its successors with the consent of 75% of the members of the corporation owning the aforescribed property and those owners within 150 feet of the exterior boundaries of the aforescribed property.⁸

¹ *Blanton v. City of Pinellas Park*, 887 So.2d 1224, 1227 (Fla. 2004).

² s. 712.03, F.S.

³ ch. 2004-345, L.O.F.

⁴ ch. 2007-173, L.O.F.

⁵ part III of ch. 720, F.S.

⁶ 193 So. 3d 910 (Fla. 3d DCA 2016).

⁷ *Id.* at 916.

⁸ *Id.*

Currently, more than 140 homes were developed in the ring.⁹ None of these homes had any reference to the restrictive covenant in their deeds and the homeowners had no role in maintaining the property or any other reciprocal responsibilities.¹⁰

The court of appeal held that a restrictive zoning covenant evidences the County's intent to regulate the property.¹¹ The Third District had previously determined that a Zoning Appeals Board resolution, with a restrictive covenant, constitutes a governmental regulation with the force of law.¹² The court concluded that as a governmental regulation, and not an estate, interest, claim, or charge affecting the property, the restrictive covenant was not subject to extinguishment pursuant to MRTA.¹³

The bill amends ss. 125.022 and 166.033, F.S., to provide that a county or municipality, in its sole discretion, may amend, release, or terminate a restriction or covenant that it imposed or accepted at the approval or issuance of the development permit. The county or municipality may accomplish this through its police powers. The county or municipality may not delegate its police power to a third party and declares any purported delegation to be void. Section 3 of the bill provides that these changes relating to development permits are remedial in nature and apply retroactively.

The bill also repeals an apparently unnecessary statement in ss. 125.022 and 166.033, F.S., that allows a county or city to provide information to an applicant on what other state or federal permits may apply to the development.

The bill also amends s. 712.04, F.S., to add that a marketable record title is also free and clear of all zoning requirements or building or development permits that occurred before the effective date of the root of title. This freedom from encumbrances does not alter or invalidate a zoning ordinance, land development regulation, building code, or other ordinance, rule, regulation or law if such operates independently of matters recorded in the official records. The bill provides that this provision is also intended to clarify existing law and is remedial in nature, applying to all covenants or restrictions imposed or accepted before, on, or after the effective date of the bill.

Preservation of Existing Covenants

Sections 712.05 and 712.06, F.S., provide that a homeowners' association wishing to timely renew its covenants may only do so under the following conditions:

- The board must give written notice to every parcel owner of the impending preservation of the covenants;¹⁴
- The board must give written notice to every parcel owner of a meeting of the board of directors where the directors will decide whether to renew the covenants;¹⁵
- The board of directors of the association must approve the renewal by a two-thirds vote;¹⁶ and
- Notice of the renewal must be recorded in the Official Records of the county.¹⁷

The bill changes this procedure to:

- Provide that compliance by a homeowners association with newly created s. 720.3032, F.S. (see discussion below) may substitute for the requirements of ss. 712.05 and 712.06, F.S.;

⁹ *Id.*

¹⁰ *Id.* at 913.

¹¹ *Id.* at 915.

¹² *Id.* referencing *Metro Dade Cty. v. Fontainebleau Gas & Wash, Inc.*, 570 So. 2d 1006 (Fla. 3d DCA 1990).

¹³ *Id.* at 916.

¹⁴ s. 712.06(1)(b), F.S.

¹⁵ s. 712.05(1), F.S.

¹⁶ *Id.*

¹⁷ s. 712.06(2), F.S.

- Repeal the requirement that the board achieve a two-thirds vote; and
- Repeal the requirement that affected property owners be furnished notice of the board meeting to vote on preservation.

Preservation and Revitalization of Covenants by a Commercial Property Owners' Association

Current law provides for the preservation and for the revitalization of covenants by a homeowners association.

The bill provides a definition for the term community covenant or restriction and substitutes the term property owners' association for homeowners' association. A property owners' association includes a homeowners' association as defined in s. 720.301, F.S., a corporation or entity responsible for the operation of property in which the voting membership is made up of the owners of the property or their agents, or a combination thereof, and in which membership is a mandatory condition of property ownership, as well as an association of parcel owners authorized to enforce a community covenant or restriction. The bill also makes changes in s. 712.01, F.S., to conform to these new terms.

The bill replaces all instances of the term "homeowners' association" found in ch. 712, F.S., with the term "property owners' association." The effect is to expand MRTA laws on preservation and revitalization of covenants or restrictions to these associations, that is, to expand the law to cover commercial associations.

The bill provides that Part III of ch. 720, F.S., comprised of ss. 720.403-.407, F.S., is intended to provide mechanisms for revitalization of covenants or restrictions by all types of communities and property associations, not just residential communities.

Revitalization by an Owner Not Subject to Homeowners' Association

There are residential communities in which there were recorded covenants and restrictions similar to those found in a homeowners association, but no association was ever created. Under current law, individual owners can file notice of preservation of covenants before they expire, see ss. 712.05 and 712.06, F.S., but there is no means of revitalization of such covenants and restrictions.

The bill creates s. 712.12, F.S., relating to covenant or restriction revitalization by parcel owners not subject to a homeowners' association. The bill provides that the parcel owners may use the process available to a homeowners' association in ss. 720.403-.407, F.S., to revive covenants or restrictions that have lapsed under MRTA. The parcel owners are excepted from needing to provide articles of incorporation or bylaws to revive the covenants or restrictions and only need the required approval in writing. The organizing committee of the community may execute the revived covenants in the name of the community and the community name can be indexed as the grantee of the covenants with the parcel owners listed as grantors. A parcel owner who has ceased to be subject to covenants or restrictions as of October 1, 2017, may commence an action by October 1, 2018, to determine if revitalization would unconstitutionally deprive the parcel owner of right or property. Revived covenants or restrictions do not affect the rights of a parcel owner which are recognized by a court order in an action commenced by October 1, 2018, and may not be subsequently altered without the consent of the affected parcel owner.

Requirements on the Board of Directors of a Homeowners' Association

While it is probably good practice for a homeowners association to regularly consider the need for preservation of the covenants and restrictions of their neighborhood, there is no statutory requirement that a board of directors of a homeowners association do so.

The bill amends s. 720.303(2), F.S., to require that the board of directors for a homeowners' association must consider whether to file a notice to preserve the covenants and restrictions affecting

the community from extinguishment pursuant to MRTA. This must be considered at the first board meeting after the annual meeting of the members.

The bill creates s. 720.3032, F.S., to require that, at least once every five years, a homeowners' association must file in the official records of the county in which it is located a notice detailing:

- The legal name of the association;
- The mailing and physical addresses of the association;
- The names of the affected subdivision plats and condominiums, or the common name of the community;
- The name, address, and telephone number for the current community association management company or manager, if any;
- An indication as to whether the association desires to preserve the covenants or restrictions affecting the community from extinguishment pursuant to MRTA;
- The name and recording information of those covenants or restrictions affecting the community which the association wishes to preserve;
- A legal description of the community affected by the covenants or restrictions; and
- The signature of a duly authorized officer of the association.

The bill creates a statutory form for such information. The bill further provides that the filing of the completed form is considered a substitute for the notice required for preservation of the covenants pursuant to ss. 712.05 and 712.06, F.S. As such, every 5-year filing of the form will have the effect of starting the MRTA 30-year period anew.

The failure to file this notice does not affect the validity or enforceability of any covenant or restriction. A copy of this notice must be included as a part of the next notice of meeting or other mailing sent to all members of the association. The original signed notice must be recorded in the official records of the clerk of the circuit court or other recorder for the county.

Other Changes Made by the Bill

The bill also:

- Provides a short title of the "Marketable Record Title Act" for ch. 712, F.S.;
- Amends s. 712.05, F.S., to eliminate the requirement that an association seeking to extend existing covenants must obtain a two-thirds vote of the board of directors, and eliminates the notice requirement related to the meeting for that vote (requiring notice be mailed or delivered to each affected landowner prior to the meeting).
- Makes changes to conform various statutory and definitional cross references.

B. SECTION DIRECTORY:

Section 1 amends s. 125.022, F.S., relating to county development permits.

Section 2 amends s. 166.033, F.S., relating to municipality development permits.

Section 3 provides that the amendments to ss. 125.002 and 166.033, F.S., are remedial in nature and apply retroactively.

Section 4 creates s. 712.001, F.S., creating a short title.

Section 5 amends s. 712.01, F.S., relating to definitions applicable to the Marketable Record Title Act.

Section 6 amends s. 712.04, F.S., relating to interests extinguished by marketable record title.

Section 7 amends s. 712.05, F.S., relating to the effect of filing notice to preserve a covenant or restriction.

Section 8 amends s. 712.06, F.S., relating to the contents of a notice to preserve a covenant or restriction and the recording and indexing of the notice.

Section 9 amends s. 712.11, F.S., relating to covenant revitalization.

Section 10 creates s. 712.12, F.S., relating to covenant or restriction revitalization by parcel owners not subject to a homeowners' association.

Section 11 amends s. 720.303(2), F.S., relating to board meetings of a homeowners' association.

Section 12 creates s. 720.3032, F.S., relating to notice of association information and preservation of covenants or restrictions from the Marketable Record Title Act.

Section 13 amends s. 702.09, F.S., relating to definitions applicable to foreclosure of mortgages and statutory liens.

Section 14 amends s. 702.10, F.S., relating to an order to show cause in a mortgage foreclosure.

Section 15 amends s. 712.095, F.S., to conform a cross reference.

Section 16 amends s. 720.403, F.S., relating to preservation of communities and revival of a declaration of covenants.

Section 17 amends s. 720.404, F.S., relating to eligible communities and requirements for revival of a declaration of covenants.

Section 18 amends s. 720.405, F.S., relating to the organizing committee and parcel owner approval for revival of a declaration of covenants.

Section 19 amends s. 720.407, F.S., relating to recording of a declaration of covenants.

Section 20 provides an effective date of July 1, 2017.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

The bill does not appear to have any impact on state revenues.

2. Expenditures:

The bill does not appear to have any impact on state expenditures.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

The bill requires the recording of documents in the public records of the county. Recording is subject to a fee of \$10.00 for the first page and \$8.50 for every subsequent page, payable to the

recording department (in most counties, the clerk of the court).¹⁸ The net revenue to county recorders, after deductions for incremental costs of recording and indexing documents, are unknown.

2. Expenditures:

The bill does not appear to have any impact on local government expenditures.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Section 12 of the bill requires associations to prepare and record a notice every 5 years. The recording fee is nominal (\$10 for the first page, \$8.50 for additional pages). Because the form is in statute, associations may be able to complete the task without assistance, or a community association manager can assist an association with preparation and filing without reference to a licensed attorney.

D. FISCAL COMMENTS:

None.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

The bill does not appear to require counties or municipalities to take an action requiring the expenditure of funds, reduce the authority that counties or municipalities have to raise revenue in the aggregate, nor reduce the percentage of state tax shared with counties or municipalities.

2. Other:

Impairment of Contracts

To the extent that a court may find that a covenant or restriction may be considered a contract between the parties, the changes made by this bill may affect such current contract rights and obligations. Article I, s. 10 of the United States Constitution, and art. I, s. 10 of the state constitution both prohibit the Legislature from enacting any law impairing the obligation of contracts. Although written in terms of an absolute prohibition, the courts have long interpreted the provisions to prohibit enactment of any unreasonable impairment of contractual rights existing at the time that the law is enacted. The Florida Supreme Court in *Pomponio v. Claridge of Pompano Condominium, Inc.*¹⁹ set forth the following test:

- Was the law enacted to deal with a broad, generalized economic or social problem?
- Does the law operate in an area which was already subject to state regulation at the time the parties' contractual obligations were originally undertaken, or does it invade an area never before subject to regulation by the state?
- Does the law effect a temporary alteration of the contractual relationships of those within its coverage, or does it work a severe, permanent, and immediate change in those relationships irrevocably and retroactively?

Retroactive Application of Laws

Sections 1, 2, 3 and 6 of the bill appear to operate retroactively. The following analysis applies to those sections to the extent that they may have retroactive application:

¹⁸ s. 28.24(12), F.S.

¹⁹ *Pomponio v. Claridge of Pompano Condominium, Inc.*, 378 So.2d 774, 779 (Fla. 1979).

Article I, s. 2, of the Florida Constitution guarantees to all persons the right to acquire, possess, and protect property. Article I, s. 9 provides that "[n]o person shall be deprived of life, liberty or property without due process of law." These constitutional due process rights protect individuals from the retroactive application of a substantive law that adversely affects or destroys a vested right; imposes or creates a new obligation or duty in connection with a previous transaction or consideration; or imposes new penalties. For the retroactive application of a law to be constitutionally permissible, the Legislature must express a clear intent that the law apply retroactively, and the law must be procedural or remedial in nature.²⁰

Remedial statutes operate to further a remedy or confirm rights that already exist, and a procedural law provides the means and methods for the application and enforcement of existing duties and rights. In contrast, a substantive law prescribes legal duties and rights and, once those rights and duties are vested, due process prevents the Legislature from retroactively abolishing or curtailing them.²¹

B. RULE-MAKING AUTHORITY:

The bill does not appear to create rulemaking authority or a need for rulemaking.

C. DRAFTING ISSUES OR OTHER COMMENTS:

Section 12 of the bill requires every homeowners association to prepare a summary notice every 5 years, which notice is recorded in the public records of the county. Paragraph (1)(e) requires the notice to indicate whether the association desires to preserve the covenants and restrictions from extinguishment by operation of MRTA. Section 712.05(2)(a), F.S., as created by the bill, provides that the filing of the summary notice preserves and extends the covenants and restrictions for a new MRTA 30 year period, even if the association does not desire preservation and extension. An association that does not wish to extend has no apparent means under this bill to not extend other than by violating the 5-year recording requirement of Section 12.

IV. AMENDMENTS/ COMMITTEE SUBSTITUTE CHANGES

n/a

²⁰ *Maronda Homes, Inc. v. Lakeview Reserve Homeowners Ass'n*, 127 So. 3d 1258, 1272 (Fla. 2013).

²¹ *Id.*