

# Rhode Island Condominium Association Inc.

“The Non-Profit Voice of the RI Condominium Community Since 1993”

**TO:** Members of the General Assembly  
**FROM:** Raymond Harrison, President of RICA  
**DATE:** January 12, 2024

## **RE: WHY CONDO BUDGET CAPS ARE BAD**

### Our Condominium Law

RIGL 34–36.1 (“Condo Law”) has been in effect since 1982. Based upon the model statute created by the Uniform Law Commission in Chicago Illinois, it is the most comprehensive and best statute available for states in our country. Approximately 14 states have adopted it to regulate everything related to condos. It is approximately 100 pages long and is a consumer protection law.

### Are Budget Caps Required By Our Condo Law?

Budget caps are not required by our Condo Law and in fact are not even mentioned in our Condo Law.

### How Many Condos Have Budget Caps?

Budget caps are found in approximately 10% or less of the Declarations or Bylaws of condos in our state.

### Where Do Budget Caps Come From?

Budget caps are not created by your constituents, the unit owners, they are created by some but fortunately not all condo developers. Budget caps found in many Association Declarations and Bylaws have been successfully repealed by the unit owners.

### Why Do Some Developers Create Budget Caps?

Some developers create budget caps to help them sell units. They like the strategy because it doesn't cost them any money while creating impressions in the minds of potential buyers that they will save money by paying lower condo fees for as long as they may own the units.

### Why Do Developers Have Low Initial Condo Fees?

Our Condo Law allows developers to control the condo Association from before the first unit is sold until 80% of all units which may be created are sold. All but very few developers establish unreasonably low condo fees to make buying a condo a more attractive proposition.

### Budget Caps And Low Initial Condo Fees

The combination of budget caps and low initial condo fees has created many problems for unit owners because their Association struggles to pay the bills for the necessary services. This dangerous combination often results underfunding of the Association reserve account.

### Budget Caps Are Too Good To Be True

Like many sales pitches made by businesses to consumers, the promise of something good for consumers often turn out to be bad for them. Combined with low initial condo fees, budget caps put Associations into a financial hole they struggle to get out of.

### An Example Of How A Budget Cap Works

To increase the annual budget for the next year by more than 10% over the annual budget of the previous year requires the approval of more than 80% of the unit owners at a meeting of the Association. Associations often struggle to meet and fall short of establishing a typical 50% quorum requirement to have an Association meeting, let alone having 80% of the units at the meeting in the first place. Budget caps are unreasonable because there are no caps on the costs of goods and services that the Association must purchase for your condo constituents.

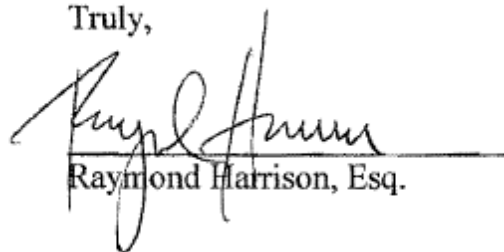
### Damage Done By Budget Caps

Chronic Association underfunding over decades without adequate reserve funds coupled with normal wear and tear and exposure of the outsides of condo buildings to the elements result in large expenses for new roofs, new siding, new balconies as well as new roads and parking areas are cause major problems for condos. Buildings that are not reasonably maintained suffer from rain water infiltration which damages units and common elements. Associations make insurance claims for damage caused by poor maintenance which results in much higher premiums and much higher deductibles for Association property insurance. Building deterioration diminishes the quality of life and condo market values of your condo constituents.

### There Are Budgetary Protections In Our Condo Law

An annual Association budget may be rejected by vote of a majority of the unit owners at an annual Association budget meeting. This protection for your condo constituents has been in RIGL 34-36.1-3.03(c) since 1982.

Truly,



Raymond Harrison, Esq.