THIRD READING

Bill No: SB 1007
Author: Menjivar (D)
Amended: 5/21/26
Vote: 21

SENATE HOUSING COMMITTEE: 8-2, 3/17/26
AYES: Arreguín, Ashby, Cabaldon, Caballero, Durazo, Gonzalez, Grayson, Padilla
NOES: Seyarto, Ochoa Bogh

SENATE JUDICIARY COMMITTEE: 9-1, 4/28/26
AYES: Umberg, Allen, Ashby, Caballero, Durazo, Laird, Reyes, Wahab, Weber Pierson
NOES: Alvarado-Gil
NO VOTE RECORDED: Niello, Stern, Wiener

SUBJECT: Common interest developments: annual reports: assessments: discipline

SOURCE: Center for California Homeowner Association Law
Consumer Federation of California

DIGEST: This bill: 1) adds reporting requirements to a homeowner's association's (HOA) annual budget report; 2) lowers the cap on regular assessment increases, without a vote of the membership, from 20% to 8%; and, 3) requires an HOA, when seeking specified monetary penalties from a member, to provide the physical evidence used to determine the violation to the member, as specified.

Senate Floor Amendments of 5/21/2026 change the cap on regular assessment increases, without a vote of the membership, from the rate of inflation to 8%, and clarify annual budget report requirements to prevent duplicative reporting.

ANALYSIS:

Existing law:

1) Establishes the Davis-Stirling Act, which provides rules and regulations for the operation of residential common interest developments (CIDs) and homeowner's associations (HOAs) and their members.

2) Prohibits an HOA Board from imposing a regular assessment that is 20% greater than that of the preceding fiscal year.

3) Prohibits an HOA Board from imposing special assessments which exceed 5% of the HOA's budgeted gross expenses for that fiscal year without the approval by a majority of a quorum of members at a meeting or election.

4) Requires an HOA to distribute an annual budget report 30 to 90 days before the end of its fiscal year.

5) Requires the annual budget report to contain specified information, unless the governing documents impose more stringent standards.

6) Prohibits an HOA Board from imposing annual increases in regular assessments for any fiscal year unless the board has complied with the annual budget requirements for that fiscal year or has obtained the approval of a majority of a quorum of members at a member meeting or election.

7) Defines quorum to mean 50% or more of an HOA's membership.

This bill:

1) Requires an HOA to provide a comparison breakdown, within the annual budget report, of the anticipated expenditures of the current year versus actual expenditures of the current year. Requires the expenditures be organized by major categories, including, but not limited to, the following:

    a) Reserve contributions

    b) Third-party management company

    c) Utilities

    d) Landscaping

    e) Maintenance

f) Insurance

2) Provides that associations may comply with 1) by providing the comparison breakdown in the pro forma operating budget.

3) Requires an association that uses an external management company to include a statement of the compensation of the management company within the annual budget report. Provides that associations may comply with this requirement by including it as a clearly identified line item in the pro forma operating budget.

4) Requires an association that provides a summary of the annual budget report to the association's members to include the comparison breakdown in 1) and the statement in 3) within the summary.

5) Lowers the cap on regular assessment increases, without a vote of the association's membership, from 20% to 8%.

6) Requires an association imposing a monetary penalty against an association member for violation of the governing documents, to provide the physical evidence – including digital materials – used to determine the violation to the accused member at least five business days before the hearing or the deadline for the member's response.

Background

HOAs. Homeowner associations (HOAs) are the legal governing bodies of common interest developments (CIDs), composed of homeowners who live within the CID. These developments cover a variety of community arrangements, including apartment complexes, housing cooperatives, condominiums, and planned unit developments. In 1986, California enacted the Davis-Stirling Act, which outlines the requirements for CID and HOA governance, including assessments and other fees, maintenance responsibilities, and elections. There are over 50,000 HOAs throughout California, covering 36.3% of the state's population. In L.A. County alone, there are over 16,500 HOAs.

Comments

1) *Author's statement.* "During a time when Californians are gripped by dual threats, an unprecedented housing shortage and a crippling affordability crisis, many find their homeownership dreams destabilized by the volatile and sometimes arbitrary escalation of homeowner association fees. Nearly 14 million Californians live in HOAs. Protecting homeowners' financial stability requires more HOA oversight, including rules for transparency, financial

accountability, and due process, keeping these monthly costs reasonable and predictable for homeowners who are on a tight budget."

2) *Drivers of costs to HOAs.* Recent reporting has found that HOA insurance is one of the primary drivers of sharp increases in annual assessments. HOA insurance policies typically cover communal spaces, personal injury claims against an HOA-managed communal space, protection for Board Members against lawsuits, and natural disaster risks. Similar to standard property insurance policies, HOA insurance policies are susceptible to insurers becoming more stringent and restrictive in light of increased severity of wildfires and other natural disasters in California. More expensive premiums and fewer insurance providers have led to increased insurance cost burdens for HOAs, which are then passed onto homeowners through assessments. These costs can become particularly burdensome for condo owners, because their HOA insurance also covers shared walls and building exteriors.

3) *The relationship between HOAs and the broader affordability crisis.* With over one-third of Californians living in an HOA, regulations affecting these associations have widespread impacts. Statewide, 68% of Californians identify housing affordability as their top concern; and among homeowners, 4 in 10 are cost burdened.[1] Consequently, increases in monthly HOA costs are likely to worsen an already stressed population of homeowners. The bill's sponsors assert that the current 20% cap is not based on any index and can cause housing instability for homeowners in HOAs whose incomes cannot keep pace. By indexing the regular assessment cap on the previous year's rate plus the rate of inflation, the sponsors argue that homeowners will benefit from greater predictability year to year, and a stronger ability to keep pace with increases. As they write in reference to the current cap, "Needless to say, such increases can be a shock to a homeowner's wallet, since the salary or retirement income of few people increases annually by 20%. Sometimes assessments outstrip a homeowner's mortgage payment and lead to foreclosure."

4) *Embedded safeguards.* Existing law, pursuant to the Davis-Stirling Act, embeds multiple safeguards for associations experiencing financial challenges. For example, the cap on regular assessments specifically applies to increases without a membership vote. If an HOA needs to raise regular assessments to address higher costs, such as insurance premiums, maintenance needs, or reserve funding, the HOA may ask for approval from a majority of a quorum of

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[1] Public Policy Institute of California. *Californians and the Housing Crisis*. Accessible here: **https://www.ppic.org/interactive/californians-and-the-housing-crisis/**. n.d.

homeowners voting by secret ballot. Additionally, Davis-Stirling allows special assessments to be levied, without a vote of the membership, up to 5% of an association's budgeted expenses for the year for specific purposes. Similarly to a higher regular assessment increase, special assessments may also exceed the 5% cap upon approval by a majority of a quorum of its members. The author points to these safeguards in consideration of changing the cap on regular assessments levied without a vote of the membership.

5) *Opposition.* Writing in opposition, the Community Associations Institute (CAI) states, "Eliminating the authority for boards to increase regular assessments by up to 20 percent annually and limiting increases to the rate of inflation threatens the financial stability of associations. Costs such as insurance, labor, energy and repairs often rise faster than inflation." CAI also states insufficient funding for reserves could create issues with lenders like FreddieMac who require a certain amount of reserve funding in an HOA's budget to lend in the community. In addition, the California Association of Community Managers is opposed, expressing concerns about the viability of getting homeowners to vote for assessment increases, given concerns around affordability.

6) *Double-referral.* This bill is also referred to the Committee on Judiciary.

7) *One-time costs.* According to the Senate Appropriations Committee, "The Department of Real Estate indicates that it would incur one-time costs, likely in the range of $75,000 (Real Estate Fund), to promulgate regulations related to the bill's changes to HOA annual budget report requirements and HOA authority regarding adjustments to regular assessments."

FISCAL EFFECT: Appropriation: No Fiscal Com.: No Local: No

SUPPORT: (Verified 5/21/2026)

Center for California Homeowner Association Law (Co-source)
Consumer Federation of California (Co-source)

OPPOSITION: (Verified 5/21/2026)

California Association of Community Managers
California Building Industry Association
Community Associations Institute - California Legislative Action Committee
Executive Council of Home Owners
The Villages Association

ARGUMENTS IN SUPPORT: Writing in support, the Center for California Homeowner Association Law states, "Senator Menjivar's legislation could determine whether the 14 million Californians living in the state's 55,000 homeowner associations will be able to continue affording the cost of their homes. "Cost" means not just paying for an individual home -- mortgage, property taxes, insurance, and utilities -- but the cost of operating the association itself." Further, the Center for California Homeowner Association Law argues that the homeowner association industry itself recognizes that HOA boards need to use rational yardsticks – instead of fictional ones like arbitrarily raising assessments 20%.

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5/22/26 17:16:40

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