

## HOUSE OF REPRESENTATIVES STAFF ANALYSIS

**BILL #:** CS/HB 569 Automatic Renewal of Service Contracts  
**SPONSOR(S):** Jobs & Entrepreneurship Council/McBurney  
**TIED BILLS:** **IDEN./SIM. BILLS:** SB 1270

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REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1) <u>Committee on Business Regulation</u>	<u>10 Y, 0 N</u>	<u>Marra/Smith</u>	<u>Liepshutz</u>
2) <u>Jobs &amp; Entrepreneurship Council</u>	<u>13 Y, 0 N, As CS</u>	<u>Marra/Topp</u>	<u>Thorn</u>
3) _____	_____	_____	_____
4) _____	_____	_____	_____
5) _____	_____	_____	_____

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### SUMMARY ANALYSIS

Some contracts are designed to continuously renew unless a party takes action to cancel the contract. These contracts contain automatic renewal provisions that may go unnoticed by consumers.

Florida law does not affect the ability of businesses to offer automatically renewable contracts in general. There are certain restrictions on warranty contracts and health club memberships.

The bill creates a requirement for automatic renewal provisions to be disclosed clearly and conspicuously in certain service contracts. It also requires a renewal notice to be sent to consumers during the month before the cancellation deadline in certain cases.

The requirement applies to service contracts between consumers and sellers that contain automatic renewal provisions that cause the contract to be effective for more than 6 months from the date the contract was initially entered into. The bill excludes banks and other financial institutions, health studios and warranty contracts.

Violations of the bill would result in the automatic renewal provision becoming void and unenforceable.

The bill provides a safe harbor for businesses that can demonstrate that compliance is part of their routine practices, violation was the result of error and they provide a refund of the unearned portion of the contract paid or billed to the consumer from the date the seller is notified of the erroneous renewal.

The bill explicitly excludes existing contracts.

The legislation is not expected to have any fiscal impact to the state, as the service provider would be held responsible for any violations of the new disclosure requirements and would carry any fiduciary responsibility to the consumer.

## FULL ANALYSIS

### I. SUBSTANTIVE ANALYSIS

#### A. HOUSE PRINCIPLES ANALYSIS:

Safeguard individual liberty – The bill would require clear and conspicuous notification of certain contract terms, thus creating new limitations on the ability of businesses to secure automatically renewable contracts.

#### B. EFFECT OF PROPOSED CHANGES:

##### Present situation

Some contracts are designed to automatically renew unless a party takes action to cancel the contract. These contracts contain automatic renewal provisions that may go unnoticed by consumers.

Currently, Florida law does not limit the ability of businesses to offer automatically renewable contracts in general. The renewal of certain contracts is limited. For example, health club memberships may only renew for a 1 year period and consumers must be given the ability to cancel the contract under certain circumstances.<sup>1</sup> Similarly, warranty contracts governed by chapter 634, F.S., must allow the consumer to cancel the contract at any time.<sup>2</sup>

Many states have reacted to growing customer complaints with laws varying from automatic renewal limitations on specific types of contracts (for example, health club memberships) to more broadly applied limitations accompanied by private rights of action with punitive damages. The laws generally require the automatic renewal provision to be clearly communicated.

##### Effect of proposed changes

##### **Requirement**

The bill creates a requirement for automatic renewal provisions to be disclosed clearly and conspicuously in certain service contracts.

'*Automatic renewal provision*' is defined as a service contract provision that renews the contract for a specified period of time unless the consumer notifies the seller of his intention to terminate the contract.

'*Clearly and conspicuously*' is not defined by the bill. Whether a disclosure is clear and conspicuous generally depends on the size and font of the typeface and is often determined by deciding whether a reasonable person would notice it.

##### **Renewal Notice**

If a contract has a term of 12 months or more and an automatic renewal provision that renews the contract for more than 1 month, the consumer must be notified in writing of the pending renewal between 30 and 90 days before the cancellation deadline. This notification may be by electronic means. (i.e. If contract will automatically renew on January 1 if the consumer does not cancel by December 1, then the consumer must be notified no earlier than October 1 and no later than November 1)

The notice must inform the consumer that the contract will automatically renew unless the contract is specifically cancelled by the consumer, and the notice must also disclose methods by which the consumer can learn more about the renewal provision and cancellation procedure.

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<sup>1</sup> See § 501.017, F.S.

<sup>2</sup> See § 634.121(5), F.S. (Motor Vehicle Service Agreements); § 634.414(3), F.S. (Home Warranties); and § 634.312(8), F.S. (Service Warranties).

## Consequence

The bill provides that violation of the clear and conspicuous or notice requirements would void the automatic renewal provision, making it unenforceable.

The bill provides a safe harbor for businesses that can demonstrate:

1. They have established and implemented written procedures to comply with the requirement as part of their routine business practice;
2. Failure to comply was the result of error;
3. They provide a refund or credit for the unearned portion of the contract paid or billed to the consumer from the date the seller is notified of the error.

## Applicability

The requirements of the bill would apply to service contracts between consumers and sellers that contain automatic renewal provisions that cause the contract to be effective for more than 6 months from the date the contract was initially entered into.

'*Consumer*' is defined as any individual receiving service, maintenance or repair under a service contract. Contracts entered into by persons engaged in business activities are excluded.

'*Seller*' is defined as any person providing service, maintenance or repair under a service contract. The term is only used in the bill once, in the requirement for renewal notices to include cancellation methods.

The bill applies the requirements to "any person, firm, partnership, association or corporation engaged in commerce that sells, leases, or offers to sell or lease service ... pursuant a service contract that automatically renews..."

'*Service Contract*' is defined as a written contract for the performance of services over a fixed period of time. The requirements would not extend to real property lease and sale contracts.

The following are exempt from the requirements:

- Financial institutions
- Health studios
- Warranty contracts

## Effect on existing contracts

The bill explicitly excludes contracts entered into before the effective date.

### C. SECTION DIRECTORY:

Section 1. Creates new requirements for automatic renewal provisions to be clear and conspicuous in certain contracts and for certain automatic renewals to be accompanied by advance notification.

Section 2. Effective date - July 1, 2008.

## II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

### A. FISCAL IMPACT ON STATE GOVERNMENT:

#### 1. Revenues:

None.

#### 2. Expenditures:

None.

### B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

#### 1. Revenues:

None.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Unknown but service contract providers who fail to meet the new disclosure obligations as provided in the bill could be required to provide refunds to consumers.

D. FISCAL COMMENTS:

The proposed legislation is not anticipated to have any fiscal impact to the state.

### III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

This bill does not appear to require counties or municipalities to take an action requiring the expenditure of funds, does not appear to reduce the authority that counties or municipalities have to raise revenue in the aggregate, and does not appear to reduce the percentage of state tax shared with counties or municipalities.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

N/A

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

D. STATEMENT OF THE SPONSOR

No statement of the sponsor submitted.

### IV. AMENDMENTS/COUNCIL SUBSTITUTE CHANGES

On April 1, 2008, the Jobs and Entrepreneurship Council heard the bill, adopted a council substitute and reported the substitute favorably.

The council substitute:

- Excludes contracts entered into before the effective date;
- Defines "service contract" as a written contract for the performance of services over a fixed period of time or for a specified duration;
- Removes references to products;
- Excludes nonprofit businesses from the definition of consumer;
- Clarifies financial institution exemption;
- Exempts health studios and warranty contracts;
- Allows for electronic notification;
- Limits necessary refund to unearned portions as payment as of the date the seller is notified of the erroneous renewal.