

(PRE-FILED)

By: Senator Middleton

Requested: November 15, 1996

Introduced and read first time: January 8, 1997

Assigned to: Finance

Committee Report: Favorable with amendments

Senate action: Adopted

Read second time: March 20, 1997

CHAPTER _____

1 AN ACT concerning

2 **Consumer Protection - Health Club Services - Registration Renewal Fees, Bonding**
3 **Liability, and Payment of Claims**

4 FOR the purpose of ~~exempting certain persons who provide health club services from~~
5 ~~paying the annual registration renewal fee required under the Maryland Health~~
6 ~~Club Services Act; altering the annual registration renewal fee required under the~~
7 ~~Maryland Health Club Services Act for certain persons who provide health club~~
8 ~~services; excluding certain payments from the definition of "outstanding liabilities"~~
9 ~~for purposes of determining the amount of certain bonds required under the~~
10 ~~Maryland Health Club Services Act; requiring certain persons to provide certain~~
11 ~~notices and disclosures to consumers; prohibiting the Consumer Protection Division~~
12 ~~from paying certain claims filed by certain persons; providing for the application of~~
13 ~~this Act; and generally relating to altering certain registration renewal fees, bonding~~
14 ~~requirements, and requirements for payment of claims under the Maryland Health~~
15 ~~Club Services Act.~~

16 BY repealing and reenacting, with amendments,

17 Article - Commercial Law

18 Section 14-12B-02(b), (e), and (f) and 14-12B-06

19 Annotated Code of Maryland

20 (1990 Replacement Volume and 1996 Supplement)

21 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF

22 MARYLAND, That the Laws of Maryland read as follows:

2

1 **Article - Commercial Law**

2 14-12B-02.

3 (b) (1) Each person who registers under this subtitle shall pay a registration fee
4 at the time of registration.

5 (2) ~~(1)~~ On September 1 of each year following the initial registration, each
6 registered person shall pay a renewal fee to the Division.

7 ~~(II) THE RENEWAL FEE REQUIRED UNDER SUBPARAGRAPH (I) OF~~
8 ~~THIS PARAGRAPH DOES NOT APPLY TO A REGISTERED PERSON WHO DOES NOT~~
9 ~~COLLECT MORE THAN 1 MONTH'S PAYMENT IN ADVANCE FROM THE BUYER OF THE~~
10 ~~HEALTH CLUB SERVICE.~~

11 (3) The fees for registration and renewal required under this subsection
12 shall be set by the Division:

13 (i) In an amount not exceeding \$800 for a person who is required to
14 purchase a surety bond or file an irrevocable letter of credit or cash under subsection (e)
15 of this section; ~~and~~

16 (ii) In an amount not exceeding \$150 for a person who:

17 1. Is exempt from the requirement to purchase a surety bond or
18 file an irrevocable letter of credit or cash under subsection (e) of this section; AND

19 2. DOES NOT MEET THE REQUIREMENTS OF ITEM (III) OF
20 THIS PARAGRAPH; AND

21 (III) IN AN AMOUNT NOT EXCEEDING \$50 FOR A PERSON WHO:

22 1. IS EXEMPT FROM THE REQUIREMENT TO PURCHASE A
23 SURETY BOND OR FILE AN IRREVOCABLE LETTER OF CREDIT OR CASH UNDER
24 SUBSECTION (E) OF THIS SECTION;

25 2. DOES NOT CHARGE AN INITIATION FEE OR OTHER FEE
26 THAT IS NOT IDENTIFIED AS A PAYMENT FOR SPECIFIED FUTURE SERVICES;

27 3. DOES NOT CONTRACTUALLY OBLIGATE A BUYER OF
28 HEALTH CLUB SERVICES FOR MORE THAN 1 MONTH OF SERVICE; AND

29 4. DOES NOT COLLECT MORE THAN 1 MONTH'S PAYMENT IN
30 ADVANCE FROM A BUYER.

31 (4) The fees collected under this subsection may only be used for the
32 administration and enforcement of this subtitle.

33 (e) (1) (i) Subject to the provisions of paragraph (3) of this subsection, a
34 person who sells health club services agreements shall purchase a surety bond in an
35 amount not less than the aggregate value of outstanding liabilities to members, including
36 all prepaid fees, membership fees, dues, deposits, initiation fees, and fees for health club
37 services. For the purposes of this section, "liabilities" means the moneys actually received
38 in advance from the members less the prorated value of services rendered by the health

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1 club facility. In the case of a lifetime contract, the liabilities shall be calculated on a
2 prorated basis for not more than 36 months.

3 (ii) The amount of the bond shall be based upon a report prepared by
4 an independent certified public accountant describing the health club's outstanding
5 liabilities to the members using accepted standard accounting principles. In this section
6 "outstanding liabilities" includes all amounts that would be required to be refunded to
7 members if the health club facility ceases operations. FOR ANY MEMBERSHIP IN WHICH
8 THE HEALTH CLUB FACILITY DOES NOT COLLECT EITHER AN INITIATION FEE OF
9 MORE THAN \$200 OR AN ADVANCE PAYMENT FOR MORE THAN 1 MONTH'S SERVICE
10 FROM THE MEMBER, "OUTSTANDING LIABILITIES" DOES NOT INCLUDE THE
11 INITIATION FEE AND THE ADVANCE PAYMENT FOR 1 MONTH'S SERVICE.

12 (iii) The report shall be submitted at the time of initial registration and
13 updated at each renewal under subsection (b) of this section.

14 (2) (i) The amount of the bond shall be increased, or may be decreased,
15 as necessary to take into account changes in the health club facility's outstanding
16 liabilities to members in the following cases, whichever comes first:

17 1. When the health club facility's outstanding liabilities to
18 members increase or decrease by \$10,000; or

19 2. On a quarterly basis.

20 (ii) If a registrant's outstanding liabilities to the members exceed the
21 amount of the bond, and the registrant has failed to increase the bond, then the registrant
22 shall immediately stop selling health club services agreements and shall refrain from
23 selling health club services agreements until the requirements of this subsection have
24 been satisfied.

25 (3) (i) An irrevocable letter of credit in a form acceptable to the Division,
26 or cash, may be filed with the Division instead of a surety bond.

27 (ii) Notwithstanding any other provision of this subtitle, a seller of
28 health club services agreements does not have to file or maintain a bond, letter of credit,
29 or cash in excess of \$200,000 per health club services facility. The bonding requirement of
30 this subsection applies to each location at which health club services are sold in any case
31 where a person operates or plans to operate more than one facility within the State.

32 (f) (1) A buyer of health club services who suffers or sustains any loss or
33 damage by reason of the closing of a facility or bankruptcy by the seller of the health club
34 services agreement shall file a claim with the surety and, if the claim is not paid, may
35 bring an action based on the bond and recover against the surety. In the case of a letter
36 of credit or cash deposit that has been filed with the Division, the buyer may file a claim
37 with the Division.

38 (2) Any claim under paragraph (1) of this subsection shall be filed no later
39 than 1 year from the date on which the facility closed or bankruptcy was filed. The
40 Division shall notify each known buyer described in paragraph (1) of this subsection
41 about the procedure for filing a claim, unless the seller of the health club services
42 agreements has provided sufficient notice to each known buyer.

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1 (3) The Division may file a claim with the surety on behalf of any buyer in
2 paragraph (1) of this subsection. The surety shall pay the amount of the claims to the
3 Division for distribution to claimants entitled to restitution and shall be relieved of
4 liability to that extent.

5 (4) The liability of the surety under any bond may not exceed the aggregate
6 amount of the bond, regardless of the number or amount of claims filed.

7 (5) If the claims filed should exceed the amount of the bond, the surety shall
8 pay the amount of the bond to the Division for distribution to claimants entitled to
9 restitution and shall be relieved of all liability under the bond.

10 (6) The Division may obtain reimbursement for postage and other
11 reasonable nonsalary expenses incurred in notifying buyers and distributing claims by:

12 (i) Filing a priority claim for the expenses against the surety bond
13 posted by the seller; or

14 (ii) Applying to the expenses on a priority basis the proceeds of the
15 letter of credit or cash deposit posted by the seller with the Division.

16 (7) FOR ANY CLAIM UNDER PARAGRAPH (1), (3), OR (5) OF THIS
17 SUBSECTION, THE DIVISION MAY NOT PAY A CLAIM OF A BUYER THAT IS LESS THAN
18 \$5.

19 ~~[(7)]~~ (8) The provisions of this subsection do not apply where the buyer's
20 membership agreement provides for the transfer of membership privileges to a
21 comparable new or existing facility within a reasonable distance of the closed facility.

22 14-12B-06.

23 (a) A health club services agreement may not contain an automatic renewal
24 clause, unless the agreement provides for a renewal option for continued membership
25 which must be accepted by the buyer.

26 (b) (1) A buyer described in § 14-12B-01(b)(1)(i) of this subtitle may cancel a
27 health club services agreement within 3 business days after receipt of a copy of the
28 agreement by notifying the health club in writing. Written notification shall be delivered
29 in person or by certified mail, return receipt requested, bearing a postmark from the
30 United States Postal Service, and if mailed shall be postmarked by midnight of the third
31 business day.

32 (2) If the buyer cancels within 3 business days, the health club facility shall
33 refund any deposit, down payment, or payment on the agreement including any initiation,
34 deposit, membership, or other fees.

35 (3) Each contract for health club services shall conspicuously disclose under
36 the heading "Notice of Consumer Rights":

37 (i) The seller's health club registration number with the Division;

38 (ii) A description of whether the seller is bonded and the amount of
39 the bond or, if not bonded, an explanation of the basis for the seller's exemption from the
40 bonding requirements;

1 (III) IF THE SELLER IS BONDED, THE FOLLOWING STATEMENT: "IF
2 THIS FACILITY DOES NOT COLLECT EITHER AN INITIATION FEE OF MORE THAN \$200
3 OR AN ADVANCE PAYMENT OF MORE THAN 1 MONTH'S SERVICES FROM YOU, YOUR
4 PAYMENT IS NOT PROTECTED BY THE FACILITY'S BOND. IF, AT ANY TIME, THIS
5 FACILITY COLLECTS AN INITIATION FEE OF MORE THAN \$200 OR AN ADVANCE
6 PAYMENT FOR MORE THAN 1 MONTH'S SERVICE FROM YOU, THE FACILITY MUST
7 INCLUDE THOSE PAYMENTS IN DETERMINING THE AMOUNT OF THE BOND IT IS
8 REQUIRED TO POST WITH THE CONSUMER PROTECTION DIVISION."

9 [(iii)] (IV) The buyer's right to cancel as defined in this section; [and]

10 [(iv)] (V) The buyer's rights in the event of a disability or temporary
11 closing under § 14-12B-04 of this subtitle; AND

12 (VI) FOR THOSE PERSONS WHO REGISTER IN ACCORDANCE WITH §
13 14-12B-02(B)(3)(III) OF THIS SUBTITLE, A STATEMENT THAT THE FACILITY DOES NOT:

14 1. CHARGE AN INITIATION FEE OR OTHER FEE THAT IS NOT
15 IDENTIFIED AS A PAYMENT FOR SPECIFIC FUTURE SERVICES;

16 2. OBLIGATE THE BUYER TO PURCHASE MORE THAN 1
17 MONTH'S HEALTH CLUB SERVICES; OR

18 3. COLLECT MORE THAN 1 MONTH'S PAYMENT IN ADVANCE
19 FOR SERVICES.

20 (4) Each contract for the sale of health club services shall contain in a form
21 acceptable to the Division:

22 (i) A clear and conspicuous itemized description of any fees and
23 charges; and

24 (ii) If the facility is not in operation, the expected date of opening and
25 a description of the specific services and facilities that will be available upon opening.

26 (C) A PERSON WHO REGISTERS IN ACCORDANCE WITH § 14-12B-02(B)(3)(III) OF
27 THIS SUBTITLE SHALL POST IN A CLEAR AND CONSPICUOUS MANNER A SIGN IN A
28 PROMINENT LOCATION IN EACH HEALTH CLUB FACILITY THAT THE PERSON OPENS
29 OR OPERATES THAT STATES THAT THE FACILITY DOES NOT:

30 (1) CHARGE AN INITIATION FEE OR OTHER FEE THAT IS NOT
31 IDENTIFIED AS A PAYMENT FOR SPECIFIC FUTURE SERVICES;

32 (2) OBLIGATE THE BUYER TO PURCHASE MORE THAN 1 MONTH'S
33 HEALTH CLUB SERVICES; OR

34 (3) COLLECT MORE THAN 1 MONTH'S PAYMENT IN ADVANCE FOR
35 SERVICES.

36 SECTION 2. AND BE IT FURTHER ENACTED, That the provisions of this Act
37 do not apply to any initial registration or renewal of registration until September 1, 1997.

38 SECTION 2- 3. AND BE IT FURTHER ENACTED, That this Act shall take
39 effect July 1, 1997.

