N1, C1 HB 313/21 – ENT

(PRE-FILED)

2lr0596

By: Delegate Holmes Delegates Holmes, Foley, Healey, Lehman, and Terrasa

Requested: September 29, 2021 Introduced and read first time: January 12, 2022 Assigned to: Environment and Transportation

Committee Report: Favorable with amendments House action: Adopted Read second time: March 10, 2022

CHAPTER _____

1 AN ACT concerning

Cooperative Housing Corporations, Condominiums, and Homeowners Associations - Reserve Studies - Statewide

4 FOR the purpose of making statewide certain provisions relating to reserve studies; $\mathbf{5}$ requiring the governing body of certain cooperative housing corporations, 6 condominiums, or homeowners associations to have a reserve study conducted of the 7 common elements of the cooperative housing corporation, condominium, or 8 homeowners association and to update the study at certain intervals; imposing 9 certain requirements relating to the annual budget of a cooperative housing 10 corporation, condominium, or homeowners association; authorizing the governing 11 body of a cooperative housing corporation, condominium, or homeowners association 12to increase a certain assessment; and generally relating to reserve studies and 13 annual budgets of cooperative housing corporations, condominiums, and 14 homeowners associations.

- 15 BY repealing and reenacting, with amendments,
- 16 Article Corporations and Associations
- 17 Section 5–6B–26.1
- 18 Annotated Code of Maryland
- 19 (2014 Replacement Volume and 2021 Supplement)
- 20 BY repealing and reenacting, with amendments,
- 21 Article Real Property

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.

Underlining indicates amendments to bill.

Strike out indicates matter stricken from the bill by amendment or deleted from the law by amendment.



	2 HOUSE BILL 107
$ \begin{array}{c} 1 \\ 2 \\ 3 \\ 4 \end{array} $	Section 11–109(c)(16)(v), 11–109.2(c), 11–109.4, 11–110(b)(1)(ii), 11B–106.1(e), 11B–112.2(d), 11B–112.3, and 11B–117(a)(2) Annotated Code of Maryland (2015 Replacement Volume and 2021 Supplement)
$5 \\ 6$	SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF MARYLAND, That the Laws of Maryland read as follows:
7	Article – Corporations and Associations
8	5–6B–26.1.
9 10 11	(a) In this section, "reserve study" means a study of the reserves required for future major repairs and replacement of the common elements of a cooperative housing corporation that:
$12 \\ 13 \\ 14$	(1) Identifies each structural, mechanical, electrical, and plumbing component of the common elements and any other components that are the responsibility of the cooperative housing corporation to repair and replace;
15 16	(2) States the normal useful life and the estimated remaining useful life of each identified component;
17 18	(3) States the estimated cost of repair or replacement of each identified component; and
19 20	(4) States the estimated annual reserve amount necessary to accomplish any identified future repair or replacement.
$\begin{array}{c} 21 \\ 22 \end{array}$	(b) [This section applies only to a cooperative housing corporation in Prince George's County or Montgomery County.
$\frac{23}{24}$	(c)] (1) This subsection applies only to a cooperative housing corporation established in:
25	(i) Prince George's County on or after October 1, 2020; [or]
26	(ii) Montgomery County on or after October 1, 2021; OR
$\begin{array}{c} 27\\ 28 \end{array}$	(III) ANY COUNTY OTHER THAN PRINCE GEORGE'S COUNTY OR MONTGOMERY COUNTY ON OR AFTER OCTOBER 1, 2022.
29 30 31 32	(2) The governing body of the cooperative housing corporation shall have an independent reserve study completed not less than 30 calendar days before the first meeting of the cooperative housing corporation at which the members other than the owner have a majority of votes in the generative housing corporation

32 have a majority of votes in the cooperative housing corporation.

1 (3) [(i) In Prince George's County, the governing body shall have a 2 reserve study completed within 5 years after the date of the initial reserve study conducted 3 under paragraph (2) of this subsection and at least every 5 years thereafter.

4 (ii) In Montgomery County, the] **THE** governing body shall have an 5 updated reserve study completed within 5 years after the date of the initial reserve study 6 conducted under paragraph (2) of this subsection, which shall be updated at least every 5 7 years thereafter.

8 [(d)] (C) (1) (i) This paragraph applies only to a cooperative housing 9 corporation established in Prince George's County before October 1, 2020.

10 (ii) If the governing body of a cooperative housing corporation has 11 had a reserve study conducted on or after October 1, 2016, the governing body shall have 12 [a] AN UPDATED reserve study conducted within 5 years after the date of that reserve 13 study and at least every 5 years thereafter.

(iii) If the governing body of a cooperative housing corporation has
not had a reserve study conducted on or after October 1, 2016, the governing body shall
have a reserve study conducted on or before October 1, 2021, and AN UPDATED RESERVE
STUDY at least every 5 years thereafter.

18 (2) (i) This paragraph applies only to a cooperative housing corporation 19 established in Montgomery County before October 1, 2021.

(ii) If the governing body of a cooperative housing corporation has
had a reserve study conducted on or after October 1, 2017, the governing body shall have
an updated reserve study conducted within 5 years after the date of that reserve study[,
which shall be updated] AND at least every 5 years thereafter.

(iii) If the governing body of a cooperative housing corporation has
not had a reserve study conducted on or after October 1, 2017, the governing body shall
have a reserve study conducted on or before October 1, 2022, [which shall be updated] AND
AN UPDATED RESERVE STUDY at least every 5 years thereafter.

(3) (I) THIS PARAGRAPH APPLIES TO A COOPERATIVE HOUSING
 CORPORATION ESTABLISHED IN ANY COUNTY OTHER THAN PRINCE GEORGE'S
 COUNTY OR MONTGOMERY COUNTY BEFORE OCTOBER 1, 2022.

(II) IF THE GOVERNING BODY OF A COOPERATIVE HOUSING
CORPORATION HAS HAD A RESERVE STUDY CONDUCTED ON OR AFTER OCTOBER 1,
2018, THE GOVERNING BODY SHALL HAVE AN UPDATED RESERVE STUDY
CONDUCTED WITHIN 5 YEARS AFTER THE DATE OF THAT RESERVE STUDY AND AT
LEAST EVERY 5 YEARS THEREAFTER.

1 (III) IF THE GOVERNING BODY OF A COOPERATIVE HOUSING 2 CORPORATION HAS NOT HAD A RESERVE STUDY CONDUCTED ON OR AFTER 3 OCTOBER 1, 2018, THE GOVERNING BODY SHALL HAVE A RESERVE STUDY 4 CONDUCTED ON OR BEFORE OCTOBER 1, 2023, AND AN UPDATED RESERVE STUDY 5 AT LEAST EVERY 5 YEARS THEREAFTER.

- 6 [(e)] (D) Each reserve study required under this section shall:
- 7 (1) Be prepared by a person who:

8 (i) Has prepared at least 30 reserve studies within the prior 3 9 calendar years;

(ii) <u>HAS PARTICIPATED IN THE PREPARATION OF AT LEAST 30</u>
 <u>RESERVE STUDIES WITHIN THE PRIOR 3 CALENDAR YEARS WHILE EMPLOYED BY A</u>
 <u>FIRM THAT PREPARES RESERVE STUDIES</u> <u>Holds a bachelor's degree in construction</u>
 management, architecture, or engineering or equivalent experience and education;

(iii) Holds a current license from the State Board of Architects or the
 State Board for Professional Engineers; or

(iv) Is currently designated as a reserve specialist by the Community
 Association Institute or as a professional reserve analyst by the Association of Professional
 Reserve Analysts;

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(2) Be available for inspection and copying by any unit owner;

20 (3) Be reviewed by the governing body of the cooperative housing 21 corporation in connection with the preparation of the annual proposed budget; and

22 (4) Be summarized for submission with the annual proposed budget to the 23 unit owners.

24 [(f)] (E) To the extent that a reserve study conducted in accordance with this 25 section indicates a need to budget for reserves, the budget shall include:

- 26 (1) For the capital components, the current estimated:
- 27 (i) Replacement cost;
- 28 (ii) Remaining life; and
- 29 (iii) Useful life;

1 (2) The amount of accumulated cash reserves set aside for the repair, 2 replacement, or restoration of capital components as of the beginning of the fiscal year in 3 which the reserve study is conducted and the amount of the expected contribution to the 4 reserve fund for the fiscal year;

5 (3) A statement describing the procedures used for estimation and 6 accumulation of cash reserves in accordance with this section; and

7 (4) A statement of the amount of reserves recommended in the study and 8 the amount of current cash for replacement reserves.

9 [(g)] (F) (1) (I) The <u>SUBJECT TO SUBPARAGRAPH (II) OF THIS</u> 10 <u>PARAGRAPH, THE</u> governing body of a cooperative housing corporation shall provide funds 11 to the reserve in accordance with the most recent reserve study and shall review the reserve 12 study annually for accuracy.

13(II)THE GOVERNING BODY MAY FUND THE RESERVE REQUIRED14BY THE INITIAL RESERVE STUDY OVER THREE IMMEDIATELY SUCCESSIVE BUDGET15CYCLES FOLLOWING THE FISCAL YEAR IN WHICH THE INITIAL RESERVE STUDY IS16CONDUCTED.

17 (2) The governing body of a cooperative housing corporation has the 18 authority to increase an assessment levied to cover the reserve funding amount required 19 under this section, notwithstanding any provision of the articles of incorporation, bylaws, 20 or proprietary lease restricting assessment increases or capping the assessment that may 21 be levied in a fiscal year.

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Article – Real Property

(c) (16) (v) [In Prince George's County and Montgomery County, the] THE
 replacement reserves delivered under subparagraph (iv)2 of this paragraph <u>FOR A</u>
 <u>RESIDENTIAL CONDOMINIUM</u> shall be equal to at least the reserve funding amount
 recommended in the reserve study completed under § 11–109.4 of this title as of the date of
 the meeting.

29 11-109.2.

30 (c) (1) [In Prince George's County and Montgomery County, the] THE 31 SUBJECT TO PARAGRAPH (2) OF THIS SUBSECTION, THE reserves provided for in the 32 annual budget under subsection (b) of this section FOR A RESIDENTIAL CONDOMINIUM 33 shall be the funding amount recommended in the most recent reserve study completed 34 under § 11–109.4 of this title.

^{23 11–109.}

1(2)THE GOVERNING BODY MAY FUND THE RESERVES REQUIRED BY2THE INITIAL RESERVE STUDY OVER THREE IMMEDIATELY SUCCESSIVE BUDGET3CYCLES FOLLOWING THE FISCAL YEAR IN WHICH THE INITIAL RESERVE STUDY IS4CONDUCTED.

5 11-109.4.

6 (a) In this section, "reserve study" means a study of the reserves required for 7 future major repairs and replacement of the common elements of a condominium [in Prince 8 George's County or Montgomery County] that:

9 (1) Identifies each structural, mechanical, electrical, and plumbing 10 component of the common elements and any other components that are the responsibility 11 of the council of unit owners to repair and replace;

12 (2) States the normal useful life and the estimated remaining useful life of 13 each identified component;

14 (3) States the estimated cost of repair or replacement of each identified 15 component; and

16 (4) States the estimated annual reserve amount necessary to accomplish17 any identified future repair or replacement.

(b) **[**This section applies only to a <u>RESIDENTIAL</u> condominium in Prince George's
 County or Montgomery County.

- 20 (c)] (1) This subsection applies only to a condominium established in:
- 21 (i) Prince George's County on or after October 1, 2020; [or]
- 22 (ii) Montgomery County on or after October 1, 2021; OR

(III) ANY COUNTY OTHER THAN PRINCE GEORGE'S COUNTY OR MONTGOMERY COUNTY ON OR AFTER OCTOBER 1, 2022.

- 25 (2) The governing body of the condominium shall have an independent 26 reserve study completed not less than 30 calendar days before the meeting of the council of 27 unit owners required under § 11–109(c)(16) of this title.
- (3) [(i) In Prince George's County, the governing body shall have a
 reserve study completed within 5 years after the date of the initial reserve study conducted
 under paragraph (2) of this subsection and at least every 5 years thereafter.
- (ii) In Montgomery County, the] **THE** governing body shall have an
 updated reserve study completed within 5 years after the date of the initial reserve study

1 conducted under paragraph (2) of this subsection[, which shall be updated] AND at least 2 every 5 years thereafter.

3 **f**(d)**f** (C) (1) (i) This paragraph applies only to a condominium established 4 in Prince George's County before October 1, 2020.

5 (ii) If the governing body of a condominium has had a reserve study 6 conducted on or after October 1, 2016, the governing body shall have [a] AN UPDATED 7 reserve study conducted within 5 years after the date of that reserve study and at least 8 every 5 years thereafter.

9 (iii) If the governing body of a condominium has not had a reserve 10 study conducted on or after October 1, 2016, the governing body shall have a reserve study 11 conducted on or before October 1, 2021, and **AN UPDATED RESERVE STUDY** at least every 12 5 years thereafter.

13 (2) (i) This paragraph applies only to a condominium established in 14 Montgomery County before October 1, 2021.

15 (ii) If the governing body of a condominium has had a reserve study 16 conducted on or after October 1, 2017, the governing body shall have an updated reserve 17 study conducted within 5 years after the date of that reserve study[, which shall be 18 updated] AND at least every 5 years thereafter.

(iii) If the governing body of a condominium has not had a reserve
study conducted on or after October 1, 2017, the governing body shall have a reserve study
conducted on or before October 1, 2022, [which shall be] AND AN updated RESERVE STUDY
at least every 5 years thereafter.

(3) (I) THIS PARAGRAPH APPLIES ONLY TO A CONDOMINIUM
 ESTABLISHED IN ANY COUNTY OTHER THAN PRINCE GEORGE'S COUNTY OR
 MONTGOMERY COUNTY BEFORE OCTOBER 1, 2022.

(II) IF THE GOVERNING BODY OF A CONDOMINIUM HAS HAD A
RESERVE STUDY CONDUCTED ON OR AFTER OCTOBER 1, 2018, THE GOVERNING
BODY SHALL HAVE AN UPDATED RESERVE STUDY CONDUCTED WITHIN 5 YEARS
AFTER THE DATE OF THAT RESERVE STUDY AND AT LEAST EVERY 5 YEARS
THEREAFTER.

(III) IF THE GOVERNING BODY OF A CONDOMINIUM HAS NOT HAD
 A RESERVE STUDY CONDUCTED ON OR AFTER OCTOBER 1, 2018, THE GOVERNING
 BODY SHALL HAVE A RESERVE STUDY CONDUCTED ON OR BEFORE OCTOBER 1, 2023,
 AND AN UPDATED RESERVE STUDY AT LEAST EVERY 5 YEARS THEREAFTER.

35 f(e) Each reserve study required under this section shall:

(1)1 Be prepared by a person who: $\mathbf{2}$ (i) Has prepared at least 30 reserve studies within the prior 3 3 calendar years; 4 HAS PARTICIPATED IN THE PREPARATION OF AT LEAST 30 (ii) $\mathbf{5}$ **RESERVE STUDIES WITHIN THE PRIOR 3 CALENDAR YEARS WHILE EMPLOYED BY A** 6 FIRM THAT PREPARES RESERVE STUDIES Holds a bachelor's degree in construction 7 management, architecture, or engineering, or equivalent experience and education; 8 Holds a current license from the State Board of Architects or the (iii) 9 State Board for Professional Engineers; or 10 (iv) Is currently designated as a reserve specialist by the Community 11 Association Institute or as a professional reserve analyst by the Association of Professional 12Reserve Analysts; 13(2)Be available for inspection and copying by any unit owner; 14(3)Be reviewed by the governing body of the condominium in connection with the preparation of the annual proposed budget; and 1516 (4)Be summarized for submission with the annual proposed budget to the 17unit owners. 18 11 - 110.19 The board of directors of a **<u>RESIDENTIAL</u>** condominium [in (b)(1)(ii) 20Prince George's County or Montgomery County] has the authority to increase the 21assessment levied to cover the reserve funding amount required under § 11–109.4 of this 22title, notwithstanding any provision of the declaration, articles of incorporation, or bylaws 23restricting assessment increases or capping the assessment that may be levied in a fiscal 24year. 2511B-106.1. 26[In Prince George's County and Montgomery County, the] **THE** replacement (e) 27reserves delivered under subsection (d)(13) of this section shall be equal to at least the 28reserve funding amount recommended in the reserve study completed under § 11B-112.3 29of this title as of the date of the meeting.

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30 11B–112.2.

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31 (d) (1) [In Prince George's County and Montgomery County, reserves]
 32 RESERVES SUBJECT TO PARAGRAPH (2) OF THIS SUBSECTION, RESERVES provided

1 for in the annual budget under subsection (c) of this section shall be the funding amount 2 recommended in the most recent reserve study completed under § 11B–112.3 of this title.

3(2)THE GOVERNING BODY MAY FUND THE RESERVES REQUIRED BY4THE INITIAL RESERVE STUDY OVER THREE IMMEDIATELY SUCCESSIVE BUDGET5CYCLES FOLLOWING THE FISCAL YEAR IN WHICH THE INITIAL RESERVE STUDY IS6CONDUCTED.

7 11B–112.3.

(2)

8 (a) In this section, "reserve study" means a study of the reserves required for 9 future major repairs and replacement of the common areas of a homeowners association 10 [in Prince George's County or Montgomery County] that:

11 (1) Identifies each structural, mechanical, electrical, and plumbing 12 component of the common areas and any other components that are the responsibility of 13 the homeowners association to repair and replace;

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States the estimated remaining useful life of each identified component;

15 (3) States the estimated cost of repair or replacement of each identified16 component; and

17 (4) States the estimated annual reserve amount necessary to accomplish18 any identified future repair or replacement.

19 (b) (1) This section applies only to a homeowners association [in Prince 20 George's County or Montgomery County that]:

21 (I) THAT has responsibility under its declaration for maintaining 22 and repairing common areas; AND

23(II) FOR WHICH THE TOTAL INITIAL PURCHASE AND24INSTALLATION COSTS FOR ALL COMPONENTS IDENTIFIED IN SUBSECTION (A)(1) OF25THIS SECTION IS AT LEAST \$10,000.

26 (2) This section does not apply to a homeowners association that issues 27 bonds for the purpose of meeting capital expenditures.

(c) (1) This subsection applies only to a homeowners association establishedin:

- 30 (i) Prince George's County on or after October 1, 2020; [or]
- 31 (ii) Montgomery County on or after October 1, 2021; OR

1(III) ANY COUNTY OTHER THAN PRINCE GEORGE'S COUNTY OR2MONTGOMERY COUNTY ON OR AFTER OCTOBER 1, 2022.

3 (2) The governing body of the homeowners association shall have an 4 independent reserve study completed not more than 90 calendar days and not less than 30 5 calendar days before the meeting of the homeowners association required under § 6 11B-106.1(a) of this title.

7 (3) [(i) In Prince George's County, the governing body shall have a 8 reserve study completed within 5 years after the date of the initial reserve study conducted 9 under paragraph (2) of this subsection and at least every 5 years thereafter.

10 (ii) In Montgomery County, the] **THE** governing body shall have an 11 updated reserve study completed within 5 years after the date of the initial reserve study 12 conducted under paragraph (2) of this subsection[, which shall be updated] **AND** at least 13 every 5 years thereafter.

14 (d) (1) (i) This paragraph applies only to a homeowners association 15 established in Prince George's County before October 1, 2020.

(ii) If the governing body of a homeowners association has had a
reserve study conducted on or after October 1, 2016, the governing body shall have [a] AN **UPDATED** reserve study conducted within 5 years after the date of that reserve study and
at least every 5 years thereafter.

(iii) If the governing body of a homeowners association has not had a
reserve study conducted on or after October 1, 2016, the governing body shall have a reserve
study conducted on or before October 1, 2021, and AN UPDATED RESERVE STUDY at least
every 5 years thereafter.

24 (2) (i) This paragraph applies only to a homeowners association 25 established in Montgomery County before October 1, 2021.

(ii) If the governing body of a homeowners association has had a
reserve study conducted on or after October 1, 2017, the governing body shall have an
updated reserve study conducted within 5 years after the date of that reserve study [, which
shall be updated] AND at least every 5 years thereafter.

30 (iii) If the governing body of a homeowners association has not had a
31 reserve study conducted on or after October 1, 2017, the governing body shall have a reserve
32 study conducted on or before October 1, 2022, [which shall be updated] AND AN UPDATED
33 RESERVE STUDY at least every 5 years thereafter.

34 (3) (I) THIS PARAGRAPH APPLIES ONLY TO A HOMEOWNERS
 35 ASSOCIATION ESTABLISHED IN ANY COUNTY OTHER THAN PRINCE GEORGE'S
 36 COUNTY OR MONTGOMERY COUNTY BEFORE OCTOBER 1, 2022.

(II)

1

IF THE GOVERNING BODY OF A HOMEOWNERS ASSOCIATION

 $\mathbf{2}$ HAS HAD A RESERVE STUDY CONDUCTED ON OR AFTER OCTOBER 1, 2017 2018, THE GOVERNING BODY SHALL HAVE AN UPDATED RESERVE STUDY CONDUCTED WITHIN 3 4 **5** YEARS AFTER THE DATE OF THAT RESERVE STUDY AND AT LEAST EVERY **5** YEARS $\mathbf{5}$ THEREAFTER. 6 (III) IF THE GOVERNING BODY OF A HOMEOWNERS ASSOCIATION HAS NOT HAD A RESERVE STUDY CONDUCTED ON OR AFTER OCTOBER 1, 2017 2018, 7 THE GOVERNING BODY SHALL HAVE A RESERVE STUDY CONDUCTED ON OR BEFORE 8 9 OCTOBER 1, 2022 2023, AND AN UPDATED RESERVE STUDY AT LEAST EVERY 5 YEARS THEREAFTER. 10 11 (e) Each reserve study required under this section shall: 12(1)Be prepared by a person who: Has prepared at least 30 reserve studies within the prior 3 13(i) 14calendar years; 15(ii) HAS PARTICIPATED IN THE PREPARATION OF AT LEAST 30 16 RESERVE STUDIES WITHIN THE PRIOR 3 CALENDAR YEARS WHILE EMPLOYED BY A FIRM THAT PREPARES RESERVE STUDIES Holds a bachelor's degree in construction 1718 management, architecture, or engineering or equivalent experience and education; 19 Holds a current license from the State Board of Architects or the (iii) 20State Board for Professional Engineers; or 21 (iv) Is currently designated as a reserve specialist by the Community 22Association Institute or as a professional reserve analyst by the Association of Professional 23Reserve Analysts; 24(2)Be available for inspection and copying by any lot owner; 25(3)Be reviewed by the governing body of the homeowners association in 26connection with the preparation of the annual proposed budget; and 27(4) Be summarized for submission with the annual proposed budget to the 28lot owners. 2911B-117. 30 The governing body of a homeowners association [in Prince George's (a)(2)County or Montgomery County] has the authority to increase an assessment levied to cover 31

32 the reserve funding amount required under § 11B–112.3 of this title, notwithstanding any

1 provision of the declaration, articles of incorporation, or bylaws restricting assessment 2 increases or capping the assessment that may be levied in a fiscal year.

3 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect 4 October 1, 2022.

Approved:

Governor.

Speaker of the House of Delegates.

President of the Senate.