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Finance Committee
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Joint Committees

Children, Youth, and Families
Ending Homelessness
Fair Practices and State Personnel Oversight
Management of Public Funds

Chair, Prince George's County
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THE SENATE OF MARYLAND
ANNAPOLIS, MARYLAND 21401

**Testimony of Senator Joanne C. Benson
SB 386**

**SB 386- Cooperative Housing Corporations, Condominiums, and Homeowners
Associations- Reserve Studies**

Good afternoon Chairman Smith and members of the Judicial Proceedings Committee. More and more Marylanders are making the decision to reside in common ownership communities (COCs). These COCs act in the interest of each individual who purchases a single family home, condominium, or an interest in a cooperative housing corporation. According to the Community Associations Institute, in 2019 1,028,000 Marylanders lived in 524,000 homes in more than 6,700 community associations.¹ Thus, as a growing number of Marylanders chose to reside in these COCs it is imperative that the proper laws are in place to ensure the utmost protection for these residents. Herein lies the crux of this bill.

Senate Bill 386- Cooperative Housing Corporations, Condominiums, and Homeowners Associations- Reserve Studies seeks to require a study every five years of the reserves needed for future major repairs and replacements of the common elements of a cooperative housing corporation or condominium, or the common areas of a homeowners association (HOA). A reserve study:

- Identifies each structural, mechanical, electrical, and plumbing component of the common elements or common area and any other components that are the responsibility of the cooperative, condominium, or HOA to repair and replace;
- States the estimated remaining useful life of each identified component;
- States the estimated cost of repair or replacement of each identified component; and
- States the estimated annual reserve amount necessary to accomplish any identified future repair or replacement.

¹ Clark, W. & Freedman, M. (2019). The Rise and Effects of Homeowners Associations. *Journal of Urban Economics*, 112, 1-15.

Currently, Maryland does not mandate reserve studies to be conducted nor does it require that sufficient funds are allocated for reserves in COCs. This can be a detrimental practice to residents. For instance, if there are insufficient reserves and the roof on the community clubhouse needs to be replaced, the swimming pool needs to be refinished and a street in the community needs to be repaved residents are burdened with these unexpected costs. These costs can come in the form of precipitous increases in the normal assessment or as a special assessment. In either case, current residents pay an inordinate portion of the costs for major repair and replacement simply because prior homeowners did not pay their fair share. For many homeowners, especially those on a fixed income, these fee increases can be disastrous. In some cases, it can result in delinquencies and foreclosures.

Requiring reserve studies is a basic financial planning tool that leads to equitable practices for all residents. By mandating reserve studies, COCs can make the fiscally responsible choice by requiring residents pay an equitable amount into the reserve over time, and thus prevent rapid increases in normal assessments and unanticipated special assessments from unreasonably burdening families. Furthermore, residents shouldn't have to worry that lack of prudent financial planning by their community leaders will adversely impact their market values. This Bill gives the community leaders the tool that they need by requiring that Reserve Studies be conducted.

I also want to note that I am currently working with bill drafting and several of our stakeholders on crafting amendments that will address the requirements of having the Reserve Study reviewed annually as part of the annual budget and include reserve funds equal to the funding amount recommended in the reserve study. We also intend to amend the language in the bill to model the Virginia standard under Section 55-514.1 that mandates that all common interest community associations, regardless of size, must conduct reserve studies every five years.

Senate Bill 386 is crucial in the development of a system of regulation and consumer protection in our ever-growing common ownership communities. Thus, I respectfully urge a favorable committee report of SB 386.