

Senate Bill 386

February 4, 2020

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Support of Bill 386 with Amendments

Thank you for allowing me this opportunity to submit this written testimony to this committee on the important subject of Reserve Studies for Common Interest Communities. As a resident of Maryland, I am proud that the Maryland General Assembly is establishing their leadership role in this matter and will be one of only 7 or 8 States in the US that require that Community Associations conduct Reserve Studies. This important consumer protection legislation is vital for the financial protection of the owners in these community associations! It is also an important financial planning tool which allows the Board of Directors to protect, preserve and enhance the value of the homes in their communities!

Before I enter my testimony, please allow me to offer my credentials, included at the rear of this document. Hopefully this illustrates the depth of my experience and expertise in the Reserve Study field.

Also, please let me state for the record that, while I serve on the Board of Trustees for the Community Associations Institute, I am not offering this testimony on behalf of the Community Associations Institute. I am speaking as an individual who has experienced the financial successes and financial hardships of hundreds of community associations over 30 + years.

Testimony

I am writing in support of **SB 386**. Reserve Studies help community associations budget for the major repair and replacement of their common elements. They are also a financial planning tool that allows associations to spread those repair and replacement costs equitably to each owner over time. In concept, everyone pays for their share toward the replacement of the clubhouse roof whether they live in the community for three years or thirty years.

This Bill contains many sound articles to which I agree. However, there are a few articles with which I would suggest amending. Those are as follows:

Subsection 5-6B-26.1 (B) (and related Articles for Condominiums, and Homeowner Associations) which applies only to cooperative housing, condominiums, or HOAs (collectively referred to as "community associations") of more than 20 units. While this may be intended to protect smaller community associations from the costs and potential fee increases associated with Reserve Studies and Reserve Funding, unfortunately, it does just the opposite. We may be dooming many smaller associations to financial hardship and failure due to the lack of necessary funding to pay for future major projects. Frequently, these smaller associations do have the need for the major repair and replacement of common elements. While the cost of these repairs and replacement in a smaller community association may be less than a larger association, proportionally it may be the same cost per household as there are simply fewer households over which to divide those costs.

I am very concerned that exempting smaller community associations from this legislation would result in financial hardship when those coops that have 20, 30 or 40+ units can't pay for the replacement and major repair of their elevation systems, for example, or roofs, roads or other systems. These systems and components are not only vital for the safety and welfare of their owners, they are also essential in protecting, preserving, and enhancing the property values of the individual units.

Subsection 5-6B-21.1 (G) (and related Articles for Condominiums, and Homeowner Associations) required a funding level of "80% of the funding recommended in the most recent Reserve Study. There are two widely accepted methods of calculating the Reserve Funding Requirements. The concept of 80% funded or any % funded is only relevant to one of those methodologies, while totally ignoring the other, equally valid method of calculating Reserves. More to the point, one has no idea if 80% funding is adequate to cover the necessary expenditures over the time period of the Study. If large expenditures are required in the first several years of the Study, 80% may be woefully inadequate, and may lead to special

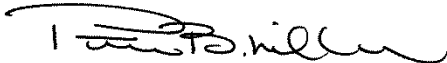
assessments. These Special Assessments are especially difficult on retirees living with fixed incomes in community associations throughout Maryland. I encourage the sponsor to change this language to state "Must fund the Reserves in accordance with the most recent Reserve Study and review it annually for adequacy." This language has been used in other States.

The Commonwealth of Virginia Statutes on Reserves would be another good source of language regarding Reserve Studies legislation. These Statutes have been very successfully applied since they were enacted in 1998. As I recently served on the Commonwealth of Virginia Reserves Review Panel for the Common Interest Community Board of the Department of Professional and Occupational Regulation, I would be happy to discuss this Statute Language with the Maryland House Committee.

In closing, I recommend a favorable reading of SB 386.

Thank you again for this opportunity to submit my comments regarding this important legislation.

Sincerely,



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Professional Bio

- Graduate from the College of Architecture and Urban Studies at Virginia Tech;
- Founded and operated a successful Architecture Practice in Maryland for many years;
- Conducted Reserve Studies (then called Engineering Studies) during condo conversion boom in the late 1970's - early 1980's;
- Conducted Reserve Studies full time since 1995;
- Established a Reserve Study practice in Maryland in 2002 which now conducts between 500 and 600 Reserve Studies annually;
- Our clients have included all types and sizes of community associations from a small 4 unit HOA along the NC Coast to large communities like Reston, in northern Virginia with 27,000 households, and Kiawah Island, SC with roughly 6,000 homes and over 50 miles of private roads.
- Have held a valid Reserve Specialist Designation from CAI since 1998.
- Testified before the Maryland Governors Task Force on Common Interest Communities in the late 1990's or early 2000's;
- Testified on Reserves and Reserve Studies before the Montgomery County Maryland Task Force on Common Interest Communities;
- Was asked by the Delaware Bar Association to review the Reserve Study articles of the proposed CIC legislation in 2010;
- Recently served on the Commonwealth of Virginia Governor's Advisory Taskforce on Reserves and Reserve Studies in 2019;
- Served on the Community Associations Institute's (CAI) National Reserve Study Standards Committee that developed and adopted the first national standards for Reserve Studies.
- Served on CAI's 2017 Reserve Study Ad Hoc Committee to review and update the Nations Reserve Study Standards;
- Each year teach between 12 and 18 seminars on Reserves and Reserve Studies throughout the US;
- Currently serve on CAI's National Board of Trustees;
- Also currently serve as the Chair of CAI's Business Partners' Council, one of three advisory councils to the CAI Board of Trustees;
- Currently serve as an Expert Witness in the Reserve Study industry in 6-8 cases each year pertaining to Reserves an Reserve Planning;
- Am considered an "Expert" by my colleagues in other Reserve Study Firms as they request my expert testimony when legal issue arise in the area of Reserve and Reserve Studies.

End of Qualifications