

Department of Legislative Services
Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 787

(Senator Jennings)

Judicial Proceedings

Cooperative Housing Corporations and Condominiums - Funding of Reserve
Accounts and Timing of Reserve Studies

This bill makes numerous changes to statutory provisions that govern required reserve studies for cooperative housing corporations and residential condominiums. The provisions (1) limit the scope of components to be identified within a reserve study to those with a repair or replacement cost that exceeds \$10,000; (2) establish exceptions to the reserve study requirement; (3) extend, from 3 years to 10 years, the amount of time after an initial reserve study that such entities have to attain the annual reserve funding level as recommended in the study; (4) extend the amount of time within which an updated reserve study must be completed; and (5) expand the list of qualified persons that may prepare a reserve study.

Fiscal Summary

State Effect: The bill does not directly affect State finances or operations.

Local Effect: The bill does not directly affect local government finances or operations.

Small Business Effect: Potential Meaningful.

Analysis

Bill Summary/Current Law: Pursuant to legislation enacted over the last several years, subject to limited exception, cooperative housing corporations and condominiums (along with homeowners associations (HOA)) in the State are required to conduct reserve studies. Generally, once an initial reserve study has been completed, reserve studies must be updated every five years.

The bill (1) extends that period to allow cooperative housing corporations and condominiums to complete an updated reserve study every 10 years rather than 5 years and (2) limits existing reserve study requirements to cooperative housing corporations and condominiums that consist of a building with four or more stories used for residential habitation or contain four or more single-family units.

Definitions

Under current law, a “reserve study” means a study of the reserves required for future major repairs and replacement of the common elements of a cooperative or condominium, or the common areas of an HOA, that:

- identifies each structural, mechanical, electrical, and plumbing component of the common elements or common areas and any other components that are the responsibility of the cooperative housing corporation and condominium to repair and replace (the bill limits, for cooperatives and condominiums only, this identification to components with replacement or repair costs exceeding \$10,000);
- states the normal useful life (for cooperatives and condominiums) and 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.

Reserve Study and Funding Requirements

Under current law, a reserve study must:

- be available for inspection and copying by any unit owner or lot owner;
- be reviewed by the governing body of the cooperative housing corporation and condominium in connection with preparing the annual budget; and
- be summarized for submission with the annual proposed budget to the unit owners or lot owners.

A reserve study must also be prepared by a person who meets one of the following qualifications:

- has prepared at least 30 reserve studies within the prior three calendar years;
- has participated in the preparation of at least 30 reserve studies within the prior three calendar years while employed by a firm that prepares reserve studies;
- holds a current license from the State Board of Architects or the State Board for Professional Engineers; or

- 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.

The bill adds to the list of persons that may complete a reserve study a person that holds a current license from the (1) State Board of Electricians; (2) State Board of Plumbers; or (3) Maryland Home Improvement Commission.

Reserve Funding and Budgets

Under current law, the governing body of a cooperative housing corporation and condominium must generally provide funds to the reserve in accordance with the most recent reserve study and has the authority to increase an assessment levied to cover the reserve funding amount required – despite any provision of the articles of incorporation, declaration, bylaws, or proprietary lease, as applicable, restricting assessment increases or capping the assessment that may be levied in a fiscal year. If the most recent reserve study was an initial reserve study, the governing body must attain the annual reserve funding level recommended by the reserve study within 3 fiscal years following the fiscal year in which the initial reserve study was completed; under the bill, the recommended funding level must be attained within 10 years. Furthermore, under the bill, the reserves provided in the annual budget of a cooperative housing corporation must include replacement cost *if the estimated replacement cost is greater than \$10,000*, as determined by the most recent reserve study.

For more information on cooperative housing corporations and condominiums, see the **Appendix – Common Ownership Communities**.

Small Business Effect: Small business vendors with specified licensure may meaningfully benefit from being newly qualified to perform reserve studies under the bill.

Additional Information

Recent Prior Introductions: Similar legislation has not been introduced within the last three years.

Designated Cross File: None.

Information Source(s): Office of the Attorney General (Consumer Protection Division); Department of Legislative Services

Fiscal Note History: First Reader - February 23, 2025
km/jkb

Analysis by: Donovan A. Ham

Direct Inquiries to:
(410) 946-5510
(301) 970-5510

Appendix – Common Ownership Communities

When a person purchases a single-family home, condominium, or an interest in a cooperative housing corporation, the person may also be required to join an association of owners, which is intended to act in the common interests of all the homeowners, condominium unit owners, or cooperative owners in the community. Collectively, these associations are often referred to as common ownership communities (COC). In Maryland, a growing number of newly constructed or newly converted residences are located in some form of a COC. Because registration of the various COCs is not required statewide, the exact number of COCs in Maryland is unknown. However, the Foundation for Community Association Research estimated that there were 7,100 community associations with an estimated 1.0 million residents in these associations in the State in 2023.

The affairs of a condominium are governed by a council of unit owners, which comprises all unit owners. Among other powers, the council of unit owners has the power to impose assessments on the unit owners to pay common expenses. A council of unit owners may delegate its powers to a board of directors, officers, or a managing agent. Condominiums are governed under Title 11 of the Real Property Article.

Many new housing developments are subject to a homeowner's association (HOA) that is created by a governing document and has the authority to impose mandatory fees on lots in the development in connection with the provision of services or for the benefit of the lots, the lot owners, or the common areas. HOAs are governed under Title 11B of the Real Property Article.

A cooperative housing corporation or "cooperative" is a corporation that owns real property. A resident of a cooperative does not own an individual unit; instead, the person owns an interest in the corporation, which leases the unit to the person for residential use. Cooperatives are governed by the laws in Title 5, Subtitle 6B of the Corporations and Associations Article.

Condominiums and HOAs may be authorized by their governing documents to impose liens on units or lots to collect unpaid assessments or fees. In a cooperative, the governing documents usually provide for the collection of delinquent fees, and evictions for outstanding fees are generally pursued by way of a landlord-tenant action.

Task Force on Common Ownership Communities

With a growing number of Marylanders residing in COCs and evidence that some COCs had issues with governance, dispute resolution, and financial stability, the

General Assembly created the Task Force on Common Ownership Communities in 2005 (Chapter 469 of 2005). The issues addressed by the task force included the availability of alternative dispute resolution services, special considerations of aging COCs, collection of assessments, and resale of homes within COCs. The task force met 10 times, held five public hearings, and submitted its [final report](#) in December 2006. The report's findings and recommendations have served, in subsequent years, as the basis for numerous pieces of legislation intended to improve the operation of COCs.

The task force's report also featured findings and recommendations relating to the creation of an ombudsman in local governments. While a small number of local governments (Charles and Montgomery counties) created such offices before the report's publication, some local jurisdictions have since created programs to regulate or provide oversight of COCs. For example, Prince George's County created its Common Ownership Communities Program in 2007 to assist governing bodies, as well as owners and residents of HOAs, residential condominiums, and cooperative housing corporations, with education, training, and alternative dispute resolution.