

Department of Legislative Services
Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 927

(Senator Smith)

Judicial Proceedings

**Corporations and Associations - Limited Equity Housing Cooperatives -
Establishment**

This bill authorizes a Maryland nonstock corporation to convert to a limited equity housing cooperative (LEHC) and establishes specified procedures and requirements for the conversion. The Department of Housing and Community Development (DHCD) may establish (1) additional rights and requirements for an LEHC, as specified and (2) a program to provide grants to Maryland nonstock corporations to promote the establishment of LEHCs. Property owned by an LEHC that complies with the bill's requirements is exempt from the State property tax for the first five taxable years; local governments are authorized to grant a local property tax credit, as specified. **The provisions of the bill related to the State property tax exemption and local property tax credit take effect June 1, 2026, and apply to taxable years beginning after June 30, 2026.**

Fiscal Summary

State Effect: General fund expenditures increase by \$2.5 million in FY 2026 only for one-time State Department of Assessments and Taxation (SDAT) programming costs, as discussed below. State expenditures potentially increase further for staff and grant awards, as discussed below. Potential minimal increase in filing fee revenues. Potential decrease in Annuity Bond Fund (ABF) revenues beginning in FY 2027 to the extent that nonstock corporations establish LEHCs.

Local Effect: Potential decrease in local property tax revenues beginning in FY 2027 to the extent that nonstock corporations establish LEHCs. Local government expenditures are not anticipated to be significantly affected.

Small Business Effect: None.

Analysis

Bill Summary:

Select Definitions

“Conversion” means the transition of a property from a residential rental facility to a property owned by a LEHC for use by members of the LEHC.

“Cooperative interest” means the ownership interest in a LEHC that is coupled with a possessory interest in real or personal property owned by the LEHC and evidenced by a membership certificate.

“Limited equity housing cooperative” means a Maryland nonstock corporation qualified in the State, having only one class of membership, in which each member, by virtue of the member’s membership, has a cooperative interest in the corporation.

“Low-income household” means a household with an income that does not exceed 80% of the area median income for a household of the same size.

“Residential rental facility” means property containing at least five dwelling units leased for residential purposes.

“Unit” means a portion of the cooperative project leased for exclusive occupancy by a member under a proprietary lease.

Conversion of a Maryland Nonstock Corporation

A Maryland nonstock corporation may be organized for the purpose of converting to an LEHC after acquiring ownership of a residential rental facility. On the acquisition of a residential rental facility, a nonstock corporation may adopt a resolution to apply for conversion to an LEHC. The resolution may be approved by an affirmative vote of a majority of either the board of directors or total members of the nonstock corporation. Notice of the outcome of the vote must be provided to each member of the nonstock corporation, and a vote must be conducted in accordance with the corporation’s governing documents.

Establishment of a Limited Equity Housing Cooperative

Following an affirmative vote to apply for conversion to an LEHC, a nonstock corporation must prepare and submit to SDAT the following documents and information for the establishment of an LEHC:

- articles of incorporation, including the name and location and statement of the purposes of the LEHC, and the name and address of the members of the nonstock corporation;
- a disclosure statement, including, among other things (1) a statement of the form of ownership of all real and personal property that is intended to be owned or leased by the LEHC; (2) a description of the voting and other rights in the LEHC; (3) a statement of any fees (or known or anticipated common charges) required, or that may be imposed, by the LEHC, as specified; (4) a statement of the ownership interest associated with each unit and the underlying debt responsibility associated with each unit on a *pro rata* basis, if applicable; and (5) copies of the proposed or final contract of sale for the resident rental facility;
- an annual operating budget, including insurance, maintenance, reserves, and general expenses;
- bylaws;
- a share agreement; and
- any other documents or information required by SDAT.

The bill specifies that required statements may be summarized or produced in a collection of documents that effectively conveys the required information. The disclosure statement must be filed no later than 90 days after the affirmative vote; SDAT may grant an extension beyond 90 days, if the nonstock corporation demonstrates a good faith effort to prepare the documents. A nonstock corporation may request a full or partial waiver of the disclosure statement requirements, which SDAT may grant if there are good faith efforts to satisfy the requirements.

Within 30 days after receipt of the documents and information, SDAT must (1) conditionally accept the documents for record subject to an affirmative vote by the nonstock corporation to convert to an LEHC or (2) if the documents and information do not meet the requirements, deny the documents for record and notify the nonstock corporation of the basis for the denial. If SDAT conditionally accepts the documents and information submitted, the nonstock corporation must promptly notify each member of the acceptance, as specified, and hold a vote to convert to an LEHC no later than 30 days after providing notice.

A vote to convert from a nonstock corporation to an LEHC must require an affirmative vote of at least two-thirds of the total members and be conducted in accordance with the governing documents of the nonstock corporation. If the vote is affirmative, the nonstock corporation must notify SDAT and be converted to and recognized by SDAT as an LEHC. If a vote to convert fails, the nonstock corporation may not attempt to convert to an LEHC for at least 12 months after the date of the failed vote. After conversion, votes must be assigned so that each unit has one vote.

Notice to Vacate

If a nonstock corporation votes to convert to an LEHC, the LEHC must provide written notice of the conversion to any household that will be required to vacate a portion of the residential rental facility used as a residence by the household.

Generally, an LEHC may not require a household to vacate earlier than 90 days after receipt of notice. A household may not be required to vacate a unit earlier than 12 months following receipt of the notice to vacate if, on the date of the notice, (1) a member of the household is a disabled person or a senior citizen who has been a member of the household for at least 12 months immediately preceding receipt of the notice to vacate and (2) the household is a low-income household; notifies the LEHC of the intent to remain in the unit for a period of more than 90 days; and submits the notice to the LEHC within 30 days after receiving the notice to vacate.

A household may be required to vacate the premises before the expiration of any minimum time period specified above if the household (1) breaches a covenant in the lease occurring before or after the notice to vacate is given or (2) fails to pay rent before or after the notice to vacate is given.

A low-income household required to vacate a unit must receive reimbursement from the LEHC for moving expenses that are actually and reasonably incurred and are at least \$375 but less than \$751.

Sale of Cooperative Interest

The appreciation and resale of a cooperative interest may not exceed the cost paid by the member for the initial cooperative interest, adjusted for inflation plus the cost of improvements to the cooperative interest made by the member that were approved by the LEHC. A cooperative interest may be sold only to a low-income household.

Department of Housing and Community Development

DHCD may (1) to the extent applicable to and not inconsistent with the bill's provisions, and using a standardized methodology, establish additional rights and requirements for an LEHC and its members based on an individualized assessment of the cooperative; (2) base the determination on the rights and requirements for cooperative housing corporations and their members under applicable State law; and (3) establish a program to provide grants to Maryland nonstock corporations to promote the establishment of LEHCs.

Required Regulations

SDAT and DHCD must adopt regulations to carry out the bill's provisions.

Local Law – Prohibitions

A county or municipality may not impose restrictions on an LEHC, including requirements through local law or ordinance that restrict the sale of residential rental facilities to a nonstock corporation that plans to convert to an LEHC.

Property Tax Exemption and Tax Credit

Property owned by an LEHC that complies with the bill's requirements is exempt from State property tax for the first five taxable years that the LEHC owns the property. The Mayor and City Council of Baltimore City or the governing body of a county or municipal corporation *may* grant a property tax credit against the county or municipal corporation property tax imposed on real property owned by an LEHC that complies with the bill's provisions; the entities are also authorized to establish additional requirements and procedures related to the tax credit.

Current Law:

Maryland Nonstock Corporation

Under the Corporations and Associations Article, the charter of a nonstock corporation must provide that the corporation has no authority to issue capital stock. Statute specifies that if the charter or bylaws of a nonstock corporation do not provide for members or the nonstock corporation has no members, the board of directors constitute the members of the nonstock corporation, and when meeting as directors, may exercise the rights and powers of members.

A Maryland nonstock corporation may convert only into a foreign corporation that does not have authority to issue stock. The conversion must be completed in accordance with requirements under Title 3 of the Corporations and Associations Article.

SDAT's filing fee for articles of incorporation for a nonstock corporation is \$120; the filing fee for articles of conversion is \$100.

Maryland Cooperative Housing Corporation Act

A cooperative housing corporation or "cooperative" is a corporation (stock or nonstock) that owns real property. A resident of a cooperative does not own his or her unit; rather, 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.

Under the applicable statute, a conversion is the creation of a cooperative housing corporation from a property that was immediately previously a “residential rental facility” (a property containing at least 10 dwelling units leased for residential purposes). Statute includes extensive requirements for such conversions.

State Fiscal Effect:

State Department of Assessments and Taxation

Staff

SDAT advises that five additional charter specialists are required to review documents anticipated to be filed under the bill; the estimate is based on its assumption of 50 filings annually (and 300 pages per filing). SDAT advises that reviewing the extensive documentation and information required under the bill is beyond the scope of the regular duties of a charter specialist, necessitating the need for additional staff. While acknowledging the bill may create additional work for SDAT that is not absorbable, the Department of Legislative Services does not have sufficient information to determine how many nonstock corporations may seek conversion to an LEHC. Thus, the magnitude of any potential staffing required cannot be reliably estimated without experience under the bill. *For illustrative purposes only*, for each additional charter specialist that is required, State expenditures increase by approximately \$70,000 in fiscal 2026, which accounts for the bill’s October 1, 2025 effective date (for applicable provisions) and by approximately \$88,000 annually thereafter.

Programming Costs

SDAT advises that due to planned programming changes, the Maryland Business Express Service (MBES) is unable to be further altered in the manner needed to implement the bill on the October 1, 2025 effective date. Thus, to make the required changes, a new system (separate from MBES) must be developed by an outside vendor, incurring a cost of \$2.5 million in fiscal 2026. Under standard operating circumstances, which SDAT anticipates by spring 2026, SDAT programming costs are approximately \$278,400.

Department of Housing and Community Development

While DHCD can promulgate regulations using existing resources, general fund expenditures increase to the extent DHCD uses its authorization under the bill to create a program to provide grants to nonstock corporations to establish LEHCs. This analysis does

not explicitly account for any expenditures associated with the grant program, as sufficient information is not available at this time to reliably estimate an appropriate level of funding for the program. To the extent the grant program is implemented, general fund expenditures for DHCD increase to make grant awards and for additional administrative staff potentially needed to oversee the program.

State Revenues: ABF revenues decrease to the extent nonstock corporations establish LEHCs and thereby receive the property tax exemption under the bill. Sufficient information is not available to reliably estimate a precise impact.

Local Revenues: Local property tax revenues may decrease to the extent local jurisdictions use their authorization under the bill to provide a tax credit for property owned by LEHCs. The impact for any jurisdiction that elects to provide a tax credit depends on the number of eligible LEHCs in a particular jurisdiction, the value of property owned, and local property tax rates.

Additional Information

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

Designated Cross File: HB 1052 (Delegate Charkoudian) - Environment and Transportation and Ways and Means.

Information Source(s): Kent, Montgomery, and Worcester counties; Department of Housing and Community Development; State Department of Assessments and Taxation; Department of Legislative Services

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Analysis by: Joanne E. Tetlow

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