

Department of Legislative Services
Maryland General Assembly
2025 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

Senate Bill 927

(Senator Smith)

Judicial Proceedings

Environment and Transportation and
Ways and Means

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

This bill authorizes a Maryland nonstock corporation to convert to a cooperative limited equity housing corporation (CLEHC) and establishes specified procedures and requirements for the conversion. The bill prohibits a county or municipality from imposing restrictions on a CLEHC, including restricting the sale of residential rental facilities to a Maryland nonstock corporation that plans to convert to a CLEHC. The Department of Housing and Community Development (DHCD) may establish (1) additional rights and requirements for a CLEHC, as specified and (2) a program to provide grants to Maryland nonstock corporations to promote the establishment of CLEHCs. **The bill takes effect October 1, 2026.**

Fiscal Summary

State Effect: No effect in FY 2026. General fund expenditures increase by \$278,400 in FY 2027 only for one-time State Department of Assessments and Taxation (SDAT) programming costs. State expenditures potentially increase further for staff and grant awards, as discussed below. Potential minimal increase in filing fee revenues.

Local Effect: The bill is not anticipated to materially affect local government operations or finances.

Small Business Effect: None.

Analysis

Bill Summary:

Definitions

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

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

“Cooperative limited equity housing corporation” 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 a CLEHC after acquiring ownership of a residential rental facility. On the acquisition of a residential rental facility, a nonstock corporation may hold a vote to convert to a CLEHC after providing notice informing the members that an election to convert the nonstock corporation to a CLEHC will be held no later than 30 days after the delivery of the notice. A copy of the documents to be submitted to SDAT must be included with the notice. A vote to convert from a nonstock corporation to a CLEHC must require an affirmative vote of at least two-thirds of the total members, and a vote must be conducted in accordance with the corporation’s governing documents. If a vote to convert fails, the nonstock corporation may not attempt to convert to a CLEHC 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.

Establishment of a Cooperative Limited Equity Housing Corporation

Following an affirmative vote to apply for conversion to a CLEHC, a nonstock corporation must (1) prepare and submit to SDAT articles of incorporation, including the name and location and statement of the purposes of the CLEHC, and any other documents or information required by SDAT and (2) maintain the following:

- 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 CLEHC; (2) a description of the voting and other rights in the CLEHC; (3) a statement of any fees (or known or anticipated common charges) required, or that may be imposed, by the CLEHC, 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; and
- a share agreement.

The bill specifies that required statements may be summarized or produced in a collection of documents that effectively conveys the required information.

Within 30 days after receipt of the documents and information, SDAT must (1) accept the documents for record 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. Upon receipt of the denial, the nonstock corporation may resubmit the documents and information to meet the requirements to convert to a CLEHC.

Notice to Vacate

If a nonstock corporation votes to convert to a CLEHC, the CLEHC must offer the opportunity to become a member of the CLEHC to each household and provide written notice of the conversion to any household that does not accept the offer and that will be required to vacate a portion of the residential rental facility used as a residence by the household.

Generally, a CLEHC 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 CLEHC of the intent to remain in the unit for a period of more than 90 days; and submits the notice to the CLEHC 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 CLEHC 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 CLEHC. 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 a CLEHC 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 CLEHCs.

Required Regulations

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

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 constitutes 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 Expenditures: General fund expenditures increase by \$278,400 in fiscal 2027 only for one-time programming costs at SDAT, reflecting the bill's effective date of October 1, 2026. According to SDAT, the delayed effective date allows for planned programming changes at the agency to be completed prior to the bill's implementation, thereby negating the need for higher vendor costs that would otherwise be necessary (to implement the bill earlier).

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 CLEHCs. This analysis does not explicitly account for any specific 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.

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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