



# Montgomery County Office of Intergovernmental Relations

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HB 567

DATE: February 12, 2021

SPONSOR: Montgomery County Delegation

ASSIGNED TO: Environment and Transportation

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POSITION: Support with Amendments

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## **Montgomery County – Cooperative Housing Corporations, Condominiums, and Homeowners Associations – Reserve Studies** MC 3-21

This bill requires the governing body of a common ownership community (COC) to commission a study of the COC's reserves every five years. The study would include an analysis of the amount of reserve funds needed to support future major repairs and replacement of the COC's common elements and common areas. House Bill 567 reflects a recommendation made by the County's Covid-19 COC Distress Workgroup, based on concerns that members of COC governing bodies often lack the knowledge and expertise necessary to identify the improvements that need to be made to common elements and common areas and a timeline for making those improvements. This may result in those improvements not being budgeted for in advance, requiring the need for unanticipated resident special assessments, or the loss of use of common elements and common areas altogether. The bill applies to cooperative housing corporations, condominiums, and homeowners associations.

House Bill 567 requires that the study be prepared by a person with specified experience who would: (1) identify 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, condominium, or homeowners association to repair and replace; (2) state the normal useful life and estimated remaining useful life of each identified component; (3) state the estimated cost of repair or replacement of each identified component; and (4) state the estimated annual reserve amount necessary to accomplish any identified future repair or replacement.

If the reserve study indicates a need to budget for reserves, the budget must include: (1) the current estimated replacement cost, remaining life and useful life for capital components; (2) the amount of accumulated cash reserves set aside for the repair, replacement or restoration

of capital components as of the beginning of the fiscal year in which the reserve study is conducted and the amount of expected contribution to the reserve fund for the fiscal year; (3) a statement describing the procedures used for estimation and accumulation of cash reserves; and (4) a statement of the amount of reserves recommended in the study and the amount of current cash for replacement reserves.

Additionally, the governing body of the COC is required to “provide funds to the reserve in accordance with the most recent reserve study” and review the reserve study annually for accuracy. The bill authorizes the governing body of the COC to increase an assessment levied to cover the reserve funding required by the study regardless of any restrictions capping assessments found in the articles of incorporation, bylaws, or proprietary leases.

This bill would only apply to a COC responsible under its declaration for maintaining and repairing common areas. COCs will have until October 1, 2022 to complete a reserve study if they had not conducted a study on or after October 1, 2017. If the COC conducted a reserve study on or after October 1, 2017, then a reserve study is required within five years of the date of the last study.

Montgomery County supports House Bill 567 with the amendments approved by the House Delegation. These amendments require a common ownership housing entity (co-op, condo, or HOA) in Montgomery County to update a reserve study periodically following an initial study rather than undertaking an entirely new study.

Montgomery County believes this bill will assist governing bodies in determining the appropriate level of reserve funding necessary to avoid burdening residents with frequent special assessments which may help these communities maintain financial solvency.

For the foregoing reasons Montgomery County respectfully requests a favorable with amendments Committee report on House Bill 567.