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February 25, 2025

To: The Honorable William C. Smith, Jr.
Chair, Judicial Proceedings Committee

From: Karen S. Straughn
Consumer Protection Division

Re: Senate Bill 787 – Cooperative Housing Corporations and Condominiums – Funding of Reserve Accounts and Timing of Reserve Studies (OPPOSE)

The Consumer Protection Division of the Office of the Attorney General submits the following written testimony in opposition to Senate Bill 787 submitted by Senator J. B. Jennings. This bill would increase the types of persons eligible to complete reserve studies for Common Ownership Communities and would extend the period of time to fund the study to 10 years. In addition, it would exclude buildings under four stories tall from the requirement to complete a reserve study.

Reserve studies review the common elements of a Common Ownership Community to determine the major repairs and replacements that may be needed in the future and ensure that the association is properly planning for these estimated costs. Such studies not only help to secure the financial stability of the association and address problems that could impact the structural soundness of the buildings and other common elements, they are also needed to enable members to buy and sell their homes, since most banks and mortgage companies will not lend money to owners who reside in associations that do not have current reserve studies.

This bill attempts to limit the associations that would be required to comply with the reserve study law, exempting those cooperative and condominium associations that are less than 4 stories in height. However, reserve studies are intended to protect against damage to all common elements and the height of the building is not the only factor to be considered. By exempting buildings under a certain height, an arbitrary measure is used to determine whether sidewalks, roads, pools, elevators and tennis courts in the associations may be in need of serious repairs. In

fact, the need to reserve funds is equally as great for a smaller community as there are fewer owners to meet the financial demands at the time repairs or replacements are needed. The reserve studies law helps to ensure that maintenance and repairs are addressed in a comprehensive manner and that the costs of maintenance and repairs are addressed in a more orderly fashion.

The bill further expands the type of individuals who can complete a reserve study analysis to include persons licensed by the State Board of Electricians, the State Board of Plumbers or the Maryland Home Improvement Commission. However, merely being a licensed contractor in a particular field does not necessarily qualify an individual to determine the useful life of common elements and their replacement costs.

Finally, the bill expands the period of time to fund in accordance with the reserve study to 10 years. While additional time may be needed by many associations to come into compliance, 10 years is simply too long a period of time.

For these reasons, we ask that the Judicial Proceedings Committee return an unfavorable report on this bill.

cc: The Honorable J. B. Jennings
Members, Judicial Proceedings Committee