



**DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
COMMISSION ON COMMON OWNERSHIP COMMUNITIES
1401 Rockville Pike, 4th Floor, Rockville, Maryland 20852**

Marc Elrich
County Executive

Aseem K. Nigam
Director

January 11, 2022

Honorable Kumar P. Barve
Chair, Environment and Transportation Committee
251 Taylor House Office Building
6 Bladen Street
Annapolis, Maryland 21401

Honorable Dana Stein
Vice Chair, Environment and Transportation Committee
251 Taylor House Office Building
6 Bladen Street
Annapolis, Maryland 21401

Re: HB 0107 Cooperative Housing Corporations, Condominiums, and Homeowners Associations - Reserve Studies - Statewide

Dear Delegate Barve and Delegate Stein,

Our home is by far our biggest investment, in Maryland there are 6,700 Common Ownership Communities representing over 515,000 homes. In Montgomery County, the Montgomery County Commission on Common Ownership Communities (CCOC) oversees approximately 1,100¹ Common Ownership Communities representing over 142,000 homes or approximately 36% of the homes in Montgomery County. The CCOC has implemented HB-567 this past October, in an effort to strengthen the home values within Montgomery County and avert possible ramifications from failure to maintain these homes.

Of these 1,100 communities, approximately 46% of those communities have less than 50 homes. Some Boards are reluctant to raise assessments even to cover the yearly increase in expenses. Many even borrow from the reserve fund to cover operational expenses. Many do not make contributions to the reserve fund on a regular basis.

Generally, a reserve study consists of two parts:

· **Physical Analysis.** This portion of the study assesses the physical condition of community areas that an Association is responsible for maintaining and repairing. It also includes an analysis of the cost of repair or replacement.

¹ On July 1, 2022 the City of Gaithersburg Maryland will join the CCOC, this represents over 100 additional associations with approximately 14,000 additional homes under our jurisdiction. This will increase the representation to over 1,200 associations with approximately 156,000 homes.

such as its revenues, expenses, and reserve fund balance.

Reserve studies are critical in helping the board avoid financial emergencies within the ASSOCIATION. When that large expense finally happens, the ASSOCIATION will have planned accordingly and will avoid the need to secure special financing to fix the problem. Instead, they will utilize the reserve fund to cover large expenses. Ultimately, a little financial pain up front translates to fewer costs in the future. That will mean either scrapping projects or calling for a special assessment. These unexpected fees can be disruptive to communities.

They embitter association members and are difficult to get passed. The numbers are clear: after switching to annual reserve studies, associations that updated their reserve studies every five years' experience a 35.1% decrease in special assessments.

The reserve fund is essentially a savings account for the ASSOCIATION. Funds in this account are used to offset the association's ongoing disrepair and projected future costs. When an ASSOCIATION has less than 70% of a funded reserve, they risk having to implement special assessments or raise Association fees to cover costs; this puts undue burden on homeowners by forcing them to come up with money on short notice. It is the board's obligation to properly plan and prepare for unforeseen emergencies and expenses to avoid such a scenario.

Ideally, the association will have a fully funded reserve in which to draw from when future unplanned expenses occur. This begs the question: how does one differentiate between a **maintenance expense** and a **reserve expense**?

Maintenance expenses should be paid for from the association's operating budget because, in general, a maintenance project is considered as an ongoing, or normal, cost of having a particular asset.

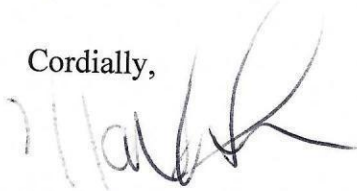
Reserve expenses, coming from the reserve funds, should be used to extend the life of an asset, rather than for normal maintenance of said asset.

The Reserve Study has three main purposes:

1. To establish a complete list of common area components, along with how long it will be until each will need to be repaired or replaced and the cost of those projects.
2. The second result is an assessment of the strength of the current reserve fund, relative to all the deterioration identified in the component list. Unfortunately, most properties are under-funded, meaning there will not be enough money available at the estimated time when those resources will be needed to do the required repairs or replacements.
3. The third and most important result is the Funding Plan. This is a plan of recommended reserve contributions required to make all necessary repairs and replacements in a timely manner, without reliance on outside sources of funding, like Special Assessments or loans.

In closing, we ask you, Delegate Barve, Delegate Stein and the Honorable Committee to protect the 6,700 Common Ownership Communities representing over 515,000 homes in Maryland. That includes the approximately 1,100² Common Ownership Communities representing over 142,000 homes or approximately 36% of the homes in Montgomery County. Vote yes on HB-107.

Cordially,



Mark Fine
Outgoing Chair,
Montgomery County
Commission on Common Ownership Communities



Cheryl Walker
Incoming Chair,
Montgomery County
Commission on Common Ownership Communities

² On July 1, 2022 the City of Gaithersburg Maryland will join the CCOC, this represents over 100 additional associations with approximately 14,000 additional homes under our jurisdiction. This will increase the representation to over 1,200 associations with approximately 156,000 homes.