Reserve Funding Background

MD Law - Title 11b. Maryland Homeowners Association Act

§ 11B-112.3. Reserve studies

This section of HOA Act states an HOA must complete a reserve study every five years by a firm that holds a current license from the State Board of Architects or the State Board for Professional Engineers; or

(iv) Is currently designated as a reserve specialist by the Community Association Institute or as a professional reserve analyst by the Association of Professional Reserve Analysts;

The purpose of a Reserve Study is to estimate the amount of money that must be placed in to the reserve fund annually for future repair and replacement of major common-area assets. Reserve funds help ensure that large projects can be completed without relying solely on future supplemental assessments or loans.

Reserve Funding Background

MD Law - Title 11b. Maryland Homeowners Association Act

§ 11B-112.2. Homeowners association annual budget

This section of the HOA Act states reserves provided for in the annual budget shall be the funding amount recommended in the most recent reserve study or updated reserve study.

§ 11B-117. Responsibility of lot owners for assessments, charges, and liens

This section of the HOA Act states the governing body of a homeowners association has the authority to:

(i) Increase an assessment levied to cover the reserve funding amount required under § 11B-112

Reserve Funding
Background

Reserve Funding Background

How did we get here?

On October 23, 2024, a total of $319,141.00 was withdrawn from the Association's reserve account and transferred into the operating account to pave neighborhood trails and make repairs to the tennis courts.

Reserve Funding Background

How did we get here?

The Association had a Reserve Study completed in 2025.

The Reserve Study identified a fully funded balance of $1,070,072.

However, the study did not take into account a $35,000 withdraw used to replace all Community Center HVACs.

The Reserve Study recommended the HOA deposit $178,605 into the reserve account in 2025.

The Reserve Study provided a funding plan that required the HOA to come into compliance by December 31, 2027 (three years).

Reserve Funding Background

How did we get here?

To date, no funds have been deposited into the reserve account.

Our reserve account balance is approximately $734,867.72.

Reserve Study Findings

- Major components requiring future repair/replacement
- Recommended reserve contribution
- Funding gap

Capital Reserve Recommendations

Summit Creek Community Association has a total of 64 components in the reserve analysis with a current Replacement Cost of $1,988,537. Summit Creek Community Association has a total of $738,498 in the reserve fund. Using the Component Method, we have determined that the Basic Annual Contribution to the reserve fund should be $114,966. The fully funded balance required is $1,070,072. This leaves deficit of $331,574 in the reserve fund. The deficit will be offset on an annual basis, for each reserve component, based on the remaining lives. The total of the Contribution Adjustment is $63,640. This results in a Total Contribution to the reserve fund for the budget year of $178,605.

Reserve Study Findings

- The HOA should be making the required annual reserve contribution to ensure disbursements do not adversely affect the reserve fund balance and we remain at or above the funding requirement.

Project Name: Summit Creek Community Association
Project Location: Clinton, Maryland
Project Number: 24-1671
Date of Study: August 2025
Month Contributions Commence: June 2025

Calculation Method: Component

Interest Rate: 1.00%
Inflation Rate: 3.00%

Year	Opening Balance	Annual Contribution	Contribution Adjustment	Disbursements	Earned Interest	Closing Balance
2025	$738,498	$114,966	$63,640	$0	$8,352	$925,456
2026	$925,456	$118,415	$64,488	$4,120	$10,245	$1,114,484
2027	$1,114,484	$121,967	$42,120	$159,086	$12,034	$1,131,519
2028	$1,131,519	$125,626	$38,091	$59,444	$12,202	$1,247,993

Reserve Funding
Background

Section § 11B-112.2. Homeowners association annual budget of the HOA Act basically states reserves provided for in the annual budget shall be the funding amount recommended in the most recent reserve study or updated reserve study.

To comply with the reserve study and HOA Act, the HOA is required to contribute **$213,605** into the reserve account by **December 31, 2026.**

This amount includes the recommended $178,605 plus the $35,000 that was withdrawn from the reserve to replace all Community Center HVACs.

Reserve Funding Background

How does the HOA comply?

We comply by implementing a supplemental assessment of $350.00 per lot to address the reserve funding shortfall.

Factors considered in making this decision.

Compliance with Maryland law.

Two independent law firms have advised that the reserve funding requirements established under the 2022 Maryland HOA Act are straightforward. The Association's budget must provide sufficient funding to meet the reserve contribution recommended by its most recent qualified reserve study.

Sentry Management also highly suggested the HOA comply with the MD Law requirement.

Factors considered in making this decision.

Reducing potential liability. Both law firms expressed concern that if the Association fails to meet the required reserve funding and later experiences damage or deferred maintenance issues related to insufficient reserves, the Board could face claims that it failed to fulfill its fiduciary duties.

Potential insurance implications. Failure to comply with applicable state law could create the risk that the Association's insurance carrier may decline to defend certain claims or deny coverage for damages arising from noncompliance.

Factors considered in making this decision.

The completed 2025 Reserve study.

The Board also relied on the 2025 Reserve Study in evaluating the Association's reserve funding needs.

The Reserve study was completed by Becht Engineering, who is licensed in the state of MD.

QUESTIONS

Why doesn't the HOA put liens on properties to collect funds?

Why doesn’t the HOA go after those in collection instead of collecting $350 from homeowners?

Are you collecting $350 from homeowners because residents are not paying their assessments?

Why doesn’t the HOA collect the bad debt instead of asking me for $350?

The supplemental assessment is intended to address the Association's current reserve funding needs as identified by the 2025 Reserve Study.

The Attorney is actively and regularly pursuing debt.

QUESTIONS

Why didn't the Board see this problem sooner?

Why are we getting this revised budget so late?

Again, the Board sought legal advice from two attorney's and advice from the new accredited management company. Unfortunately, it took more time than expected to carefully review all options. We sincerely apologize for the delay. We wanted to ensure we exercised the appropriate due diligence before moving forward.

ADDITIONAL QUESTIONS

SUBMITTED BY HOMEOWNERS

Disclaimer.

This presentation is provided for informational and discussion purposes only. It is intended to facilitate discussion among homeowners and does not constitute legal advice, legal interpretation, or an official opinion regarding any federal, state, or local law, regulation, or the Association's governing documents.

Nothing in this presentation should be relied upon as a substitute for advice from qualified legal counsel. In the event of any conflict between this presentation and applicable law or the Association's governing documents, the applicable law and governing documents control.