

# Budget Ratification

## UNDERSTANDING THE BUDGET RATIFICATION PROCESS



Budget ratification is a critical process for homeowner associations (HOAs) in Nevada. It ensures transparency, accountability, and reflects the financial health of the community. Below, we address common questions and concerns received by the Ombudsman's office and provide guidance for unit owners to be informed participants in their HOA's decision-making process.

### **Ratifying the Association's Budget: Why It Matters**

No matter what your personal feelings are regarding budgets, they are an integral part of Common Interest Communities (CICs).

Budget ratification has a direct impact on assessments, reserves, and shows the financial health of a community. Each year, the board has a legal obligation (NRS 116.31151) to draft a proposed budget that outlines expected revenue and expenses. As the year winds down with some preparing budgets, a summary is provided into how the budget ratification process unfolds:

1. Proposed Budget – After preparing the proposed budget, the budget is put on the agenda of a properly noticed executive board meeting at which the board votes to adopt the proposed budget.
2. Presentation to the Unit Owners - The board provides a summary of the proposed budget to the unit owners and a date is set for a unit owners' meeting to ratify the budget.
3. Ratification of the Budget - During a unit owners' meeting, unless the majority of the unit owners or larger vote required by the CC&Rs vote to reject the budget, the budget is ratified.
4. Implementation – Once ratified, the budget sets the framework for the association's financial operations in the coming fiscal year, guiding decisions about upkeep and other expenses.

Understanding the budget ratification process allows homeowners to vote regarding the board's decision pertaining to the adopted budget, as it pertains to both current needs and long-term goals.

If you need help navigating the budget ratification process, please visit our website at [https://red.nv.gov/Content/CIC/Program\\_Training/Presentations/](https://red.nv.gov/Content/CIC/Program_Training/Presentations/) for our Budgeting in a CICCH/HOA class.



# Be Informed

## WHAT UNIT OWNERS NEED TO KNOW

- 1. Delayed or Deferred Maintenance:**  
Putting off necessary maintenance can lead to significant increases in assessments down the line. A well-planned budget helps mitigate this risk and ensures the long-term health of the community.
- 2. Rejection of Budgets:**  
Unit owners have the power to reject a proposed budget. However, proactive engagement is essential to ensure that concerns are addressed constructively.
- 3. Reserve Funding:**  
"Adequately funded" reserves mean that the association has sufficient funds to cover the repair or replacement of common elements without the need for special or reserve assessments. While there is no mandate to reach a specific reserve level, underfunded reserves can lead to special assessments and financial strain.
- 4. Proactive Participation:**  
Budgeting season is not the only time unit owners should be involved. Regular attendance at meetings and active engagement with the board ensures that your voice is heard and your interests are represented.
- 5. Assessment Caps and Increases:**  
Nevada law does not impose a cap on annual assessment increases as it is determined in the governing documents. Boards must ensure that increases are justified, transparent, and aligned with the community's needs.

## RECOMMENDATIONS FOR UNIT OWNERS FOR A SUCCESSFUL BUDGET RATIFICATION

### Stay Informed:

- Review the proposed budget thoroughly before the meeting. Pay attention to changes in assessments, reserve funding, and planned expenditures.

### Attend Meetings:

- Participation in the budget ratification meeting is crucial. It's an opportunity to ask questions, express concerns, and collaborate with other unit owners and the board.

### Communicate with the Board:

- Reach out to the board before the meeting to clarify any questions or provide input. Constructive feedback can lead to adjustments that benefit the entire community.

### Understand Reserve Funding:

- Familiarize yourself with the reserve study and ensure the proposed budget adequately funds the reserve account. This may reduce the risk of special assessments in the future.

### Collaborate :

- Work together with other unit owners to identify shared concerns or priorities. A united approach can lead to meaningful discussions and resolutions.

### Plan for the Long Term:

- Consider becoming a board member as prioritizing long-term planning, including reserve funding and maintenance schedules affects the value of properties in communities

# FREQUENTLY ASKED QUESTIONS (FAQ)

**1. Could the board notify the community that they chose not to increase the assessments even if the board continues to spend money the same way in the future as they have in the past?**

As fiduciaries, the board acts on behalf of the association on an informed basis, in good faith and in the honest belief that their actions are in the best interest of the association. The board is required to exercise ordinary and reasonable care, subject to the business-judgement rule. Additionally, the board adopts a proposed budget that should reflect whether an increase in assessment is needed, the proposed budget is then required to be ratified by the unit owners that reflects the anticipated financial spending for the fiscal year. Unit owners have an opportunity to split the proposed budget, should the majority of the unit owners disagree with the board's financial decisions.

**2. Is it ethical for an HOA to raise assessments while demonstrating wasteful spending?**

While NRS 116 does not address ethics, reviewing the governing documents may reflect the authority, if any, the board has to increase the assessments annually. While it may be an unpopular initiative to raise assessments, the costs of services, supplies, utilities, etc. continue to increase. A board's decision to increase assessments in small increments to keep up with such cost may be beneficial in comparison to a potential large special assessment.

**3. What happens if unit owners vote to reject the proposed budget?**

The HOA will continue to operate under the prior year's budget until a new budget is approved. This can impact financial planning and the association's ability to address maintenance and other needs.

**The Ombudsman's Office has resumed Live Online Classes.**

These classes are designed to educate homeowners, board members, and CAMs on important topics relevant to common-interest communities. We encourage and invite stakeholders in CICs to attend classes.

**For more information and to register please visit:**

**[https://hal.nv.gov/form/RED/CICCH\\_Class\\_Registration](https://hal.nv.gov/form/RED/CICCH_Class_Registration)**

**Email: [CICEd@red.nv.gov](mailto:CICEd@red.nv.gov)**

