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NEVADA COMMISSION FOR
COMMON INTEREST COMMUNITIES
AND CONDOMINIUM HOTELS

Via Email
August 20, 2026

Commission for Common-Interest Communities and Condominium Hotels
c/o Nevada Real Estate Division
3300 W. Sahara Avenue, Suite 350
Las Vegas, Nevada 89102

Re: LCB File No. R091-25 — Section 6, Reserve Funding- Support in part

Chair and Members of the Commission:

I support Section 6's elimination of baseline funding.

But the change also affects how the Commission should view the annual reserve budget. It raises a few important implementation questions that require answers:

1) What is an executive board expected to do when its annual review shows that the funding necessary to meet the adequate-reserve standard is not reasonably achievable in a single budget year without creating substantial financial hardship for owners?
2) How would the association disclose?

The regulation must answer these questions without creating an exception so broad that inadequate funding simply continues indefinitely.

The Hard Case Is an Association That Cannot Get There Immediately

For an adequately funded association, the application of Section 6 should be relatively straightforward. The board reviews the study, makes necessary adjustments and adopts a funding plan that continues to satisfy the required standard.

The harder problem is an association that begins the process materially underfunded. An association may discover that achieving adequate funding immediately would require a very substantial increase in assessments. Depending upon the size of the existing deficiency, years of prior funding decisions could not realistically be reversed in a single budget cycle without imposing significant hardship on owners.

Section 6 should not be interpreted to make inadequate funding acceptable merely because correcting it is difficult. At the same time, a regulation that effectively requires an association to cure a large accumulated deficiency immediately may be unrealistic and potentially counterproductive.

What is needed is a defined path from existing underfunding to compliance.

Second Issue- The Disclosure Must Be Identifiable and Enforceable

There is a second issue. Current law clearly contemplates reserve budgeting. NRS 116.31151 expressly refers to a budget to provide adequate funding for reserves, and NAC 116.415

expressly regulates the *"budget to maintain reserve."* Current Nevada law does not <u>expressly</u> require every association to produce a separately titled document called a "Reserve Budget."

I recommend that the Commission now require one. That is not merely a matter of terminology. If Section 6 establishes a more meaningful reserve-funding obligation and NAC 116.415 provides a corrective mechanism for associations unable to meet it immediately, owners and NRED need to be able to determine readily what the board actually decided. They should not have to reconstruct that decision from a reserve study, an operating budget, a one-page reserve summary, meeting minutes and other scattered records. Each association should annually prepare and approve a clearly identifiable document titled **Reserve Budget**.

It need not be lengthy or unnecessarily complicated. But it should show the association's current reserve-funding plan and provide one place where compliance can be evaluated.

At a minimum, the Reserve Budget should identify:

- the beginning reserve balance;
- planned reserve contributions;
- planned reserve expenditures for the year (and preferrable for owner ease, identify changes from the approved reserve plan);
- projected ending reserve balance;
- the funding necessary under the current reserve plan; and
- when applicable, the corrective funding plan required by NAC 116.415.

A "summary" could still be distributed to owners where Nevada law permits a summary. But there should be an identifiable underlying Reserve Budget that the *summary* represents.

Compliance should be capable of being determined from the face of that budget. That would make the requirement understandable to boards, visible to owners and enforceable by NRED.

NAC 116.415 Provides the Starting Point — But Not Yet an Adequate Solution

NAC 116.415 already recognizes the problem. It provides that when the projected reserve balance at the end of the budgeted fiscal year is less than the amount required to adequately fund reserves on a reasonable basis, the budget must state both the reason for the difference and how the executive board proposes to resolve it. That provision could provide the foundation for addressing associations that cannot reasonably achieve the Section 6 standard immediately.

But in its present form, it is not enough. "Explain the difference" and state how it is "proposed to be resolved" can mean almost anything. The regulation does not establish a timetable, measurable funding milestones, a required date for achieving compliance, or even a sufficiently identifiable disclosure that owners and NRED can readily evaluate.

Under Section 6, that ambiguity risks becoming a substantial loophole. A board should not be able to acknowledge inadequate funding, state generally that assessments will be increased in future years, and then continue that condition indefinitely.

NAC 116.415 Should Become a Corrective Funding Requirement

If immediate compliance with the new funding standard is genuinely not reasonably practicable, NAC 116.415 should require a **specific corrective funding plan**.

That plan should identify at least:

- the amount of the funding deficiency;
- the reason the association cannot reasonably achieve full compliance during the coming budget year;
- the funding or capital-program changes the board will make;
- the reserve contributions projected during the corrective period;
- measurable progress toward adequate funding;
- the fiscal year in which the association expects to satisfy the required funding standard; and
- the material assumptions upon which the plan depends.

The board should be required to review that corrective plan at least once a quarter and disclose whether the association is meeting the milestones it previously adopted. This would give genuinely underfunded associations a realistic route to compliance without turning financial hardship into a permanent exception. Section 6 should establish the standard. NAC 116.415 should provide the controlled path to compliance when an association cannot reasonably reach that standard immediately.

Preserve Board Judgment Without Creating a Hardship Loophole

The corrective mechanism should not automatically make the reserve-study specialist's recommended annual contribution controlling. NRS 116.31152 expressly assigns the board the annual responsibility to review the reserve study and make adjustments to the funding plan it deems necessary to provide adequate funding. That board role matters.

Actual component conditions change. Project timing may appropriately be accelerated or deferred. Scope can change. Costs change. Maintenance may extend useful life. Those are legitimate matters for board judgment. But board discretion should not become discretion to remain indefinitely below the required funding standard.

Likewise, "owner hardship" cannot become a new version of baseline funding. If hardship justifies a corrective period, the board should have to document why immediate compliance is not reasonably practicable and establish a defined schedule for reaching compliance.

The Commission can preserve both principles: **reasonable board discretion in determining how to achieve adequate funding, and a firm obligation ultimately to achieve it.**

Fannie Mae Reinforces Both Points

Recent Fannie Mae changes provide useful context. In March 2026, Fannie Mae announced that lenders relying on a reserve study under the applicable condominium review process must verify that the project budget includes the reserve study's highest recommended reserve allocation. Fannie Mae also eliminated baseline funding for that purpose, effective for applicable loan applications beginning August 3, 2026. Beginning January 4, 2027, Fannie Mae also increases the minimum replacement-reserve allocation under its Full Review process from 10 percent to 15 percent of annual budgeted assessment income.

Those changes support Nevada's decision to move away from baseline funding. They also provide a caution. One way to deal with unreliable reserve funding is to impose increasingly prescriptive outside standards that effectively make the reserve specialist's funding recommendation controlling.

Nevada has an opportunity to take a better approach: retain appropriate board judgment, but require the board to document its annual reserve-funding decision and, when immediate compliance is genuinely impracticable, establish a specific and enforceable corrective path.

Recommendation

I therefore urge the Commission to adopt Section 6, but address its annual budgeting consequences at the same time.

Specifically, the Commission should:

1. Adopt Section 6's elimination of baseline funding.
2. Revise NAC 116.415 so that an association unable to meet the adequate-funding standard immediately must adopt a defined corrective funding plan rather than merely explain the deficiency.
3. Require the corrective plan to state the amount of the deficiency, why immediate compliance is not reasonably practicable, the actions the board will take, measurable annual funding milestones and a defined expected date for compliance.
4. Require regular review of progress under that plan, consistent with the board's existing duties under NRS 116.31152.
5. Require every association to prepare and approve a <u>separately identified</u> annual document titled "Reserve Budget." Current law contemplates reserve budgeting but does not expressly require this clearly identifiable form.
6. Require any corrective funding plan to appear in that Reserve Budget, so owners and NRED can readily determine both the association's funding position and its path to compliance.

Conclusion

Section 6 is an important improvement, but the difficult issue is not defining adequate funding. It is what happens when an association discovers that it is not there and cannot reasonably get there in one year.

The answer should be neither "The standard does not matter because immediate compliance is difficult," nor "Correct years of accumulated underfunding immediately regardless of the consequences."

Nevada needs a disciplined middle course.

Section 6 should establish the funding standard. NAC 116.415 should establish a narrow, transparent and enforceable corrective path when immediate compliance is not reasonably achievable. And an annual Reserve Budget should show owners and NRED exactly where the association stands and how it intends to get there.

That would preserve legitimate board judgment without allowing hardship, vague disclosures or indefinite promises to become a new loophole in Nevada's reserve-funding requirements.

Respectfully submitted,

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