

[First Reprint]

ASSEMBLY COMMITTEE SUBSTITUTE FOR
ASSEMBLY, Nos. 5205 and 5208

STATE OF NEW JERSEY
222nd LEGISLATURE

ADOPTED SEPTEMBER 14, 2026

Sponsored by:

Assemblywoman ROSAURA "ROSY" BAGOLIE

District 27 (Essex and Passaic)

Assemblyman CODY D. MILLER

District 4 (Atlantic, Camden and Gloucester)

Assemblywoman MARISA SWEENEY

District 25 (Morris and Passaic)

Co-Sponsored by:

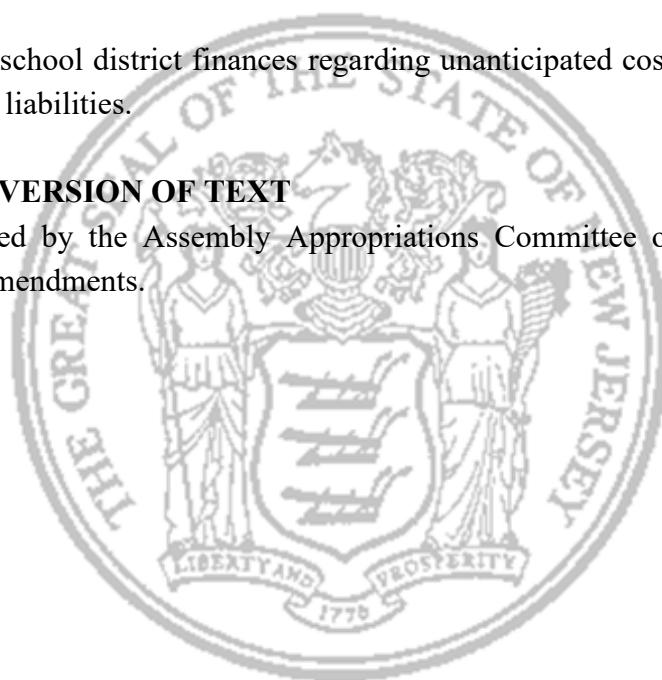
Assemblywomen Brennan and Lopez

SYNOPSIS

Concerns school district finances regarding unanticipated cost increases and unused leave liabilities.

CURRENT VERSION OF TEXT

As reported by the Assembly Appropriations Committee on October 22, 2026, with amendments.



(Sponsorship Updated As Of: 9/17/2026)

1 AN ACT concerning the fiscal condition of school districts,
2 amending P.L.2007, c.62, and supplementing chapters 22¹ [,]
3 and¹ 23¹ [, and 30¹] of Title 18A of the New Jersey Statutes.

4
5 **BE IT ENACTED** by the Senate and General Assembly of the State
6 of New Jersey:

7
8 1. Section 6 of P.L.2007, c.62 (C.18A:7F-41) is amended to read
9 as follows:

10 6. Notwithstanding the provisions of any law or regulation to
11 the contrary:

12 a. A board of education or board of school estimate, as
13 appropriate, may supplement a capital reserve account through a
14 transfer by board resolution at year end of any unanticipated
15 revenue or unexpended line-item appropriation amounts, or both,
16 for withdrawal in subsequent school years.

17 b. A board of education or board of school estimate, as
18 appropriate, may supplement a maintenance reserve account
19 through a transfer by board resolution at year end of any
20 unanticipated revenue or unexpended line-item appropriation
21 amounts, or both, for withdrawal in subsequent school years.

22 c. A board of education or a board of school estimate, as
23 appropriate, may through the adoption of a board resolution
24 establish the following reserve accounts:

25 (1) Current expense emergency reserve account. The funds in
26 the reserve shall be used to finance unanticipated general fund
27 current expense costs required for a thorough and efficient
28 education, or to finance school security improvements, including
29 improvements to school facilities. The account shall not exceed
30 \$250,000 or one percent of the district's general fund budget up to a
31 maximum of \$1,000,000, whichever is greater. A board of
32 education may appropriate funds to establish or supplement the
33 reserve in the district's annual budget or through a transfer by board
34 resolution at year end of any unanticipated revenue and unexpended
35 line-item appropriation amounts. Withdrawals from the reserve
36 may be made at any time and shall require the approval of the
37 commissioner unless the withdrawal is necessary to meet an
38 increase in total health care costs in excess of four percent, or the
39 withdrawal is included in the original budget certified for taxes to
40 finance school security improvements, including improvements to
41 school facilities.

42 As used in this paragraph, "school security improvements"
43 means school security improvements, including improvements to
44 school facilities, which are limited to safety and security measures
45 involving building monitoring and communication technology

EXPLANATION – Matter enclosed in bold-faced brackets **[thus]** in the above bill is
not enacted and is intended to be omitted in the law.

Matter underlined thus is new matter.

Matter enclosed in superscript numerals has been adopted as follows:

¹ Assembly AAP committee amendments adopted October 22, 2026.

1 designed to address school crime and the safety of students, staff,
2 and visitors to school facilities. School security improvements may
3 include, but need not be limited to: security cameras to monitor the
4 school; an electronic notification system that automatically notifies
5 parents in case of a school-wide emergency; an automatic door
6 locking system for access control; and a badge system for school
7 employees.

8 (2) Debt service reserve account in the debt service fund for
9 proceeds from the sale of district property. The funds in the reserve
10 shall be used to retire outstanding debt service obligations of the
11 district. The reserve shall be liquidated within the lesser of five
12 years from its inception or the remaining term on the obligations.
13 Any remaining balance shall be used for tax relief.

14 (3) Federal impact aid reserve account in the case of a school
15 district that receives federal impact aid pursuant to section 8002,
16 8003, 8007, or 8008 of the Elementary and Secondary Education
17 Act of 1965 (20 U.S.C. s.7702, 7703, 7707, or 7708). A board of
18 education may appropriate federal impact aid funds to establish or
19 supplement the reserve account in the district's annual budget, or
20 through a transfer by a two-thirds affirmative vote of the authorized
21 membership of the board between June 1 and June 30, for
22 withdrawal in any subsequent school year. Any transfer to the
23 reserve account shall not exceed the total amount of federal impact
24 aid received in the fiscal year. The board, at its discretion, may use
25 the funds in the reserve account to finance the district's general fund
26 or to finance school facilities projects, in a manner consistent with
27 federal law. The total amount of funds on deposit in the reserve
28 account shall not be limited.

29 (4) (a) Cost stabilization reserve account. The funds in the
30 reserve account shall be used to finance general fund expenses,
31 excluding staff salary costs, that during the school year cost
32 significantly more than initially anticipated in the budget certified
33 for taxes, including significant unanticipated increases in total
34 health care costs to the extent that those costs are not supported by
35 withdrawals made from the current expense emergency reserve
36 account, student transportation expenses, special education and
37 related services expenses, and other eligible categories of general
38 fund expenses that may be established by rules and regulations
39 promulgated pursuant to subparagraph (b) of this paragraph. A
40 board of education may appropriate funds to establish or
41 supplement the reserve in the district's annual budget.
42 Notwithstanding the provisions of section 2 of P.L.1979, c.294
43 (C.18A:22-8.1) or any other law, rule, or regulation to the contrary,
44 a board of education may also establish or supplement the reserve
45 account through a transfer by board resolution of any unanticipated
46 revenue and unexpended line-item appropriation amounts, which
47 transfer resolution may be adopted at any point during the school
48 year. A withdrawal from the reserve account may be made at any

1 time and only after the adoption of a board resolution detailing the
2 specific unanticipated cost increases to be supported by the
3 withdrawal and justifying that the withdrawal is necessary for the
4 provision of a thorough and efficient education; except that the
5 withdrawal may require additional approval of the commissioner
6 pursuant to rules and regulations promulgated pursuant to
7 subparagraph (b) of this paragraph.

8 (b) The commissioner shall promulgate, pursuant to the
9 "Administrative Procedure Act," P.L.1968, c.410 (C.52:14B-1 et
10 seq.), rules and regulations as necessary related to the establishment
11 and maintenance of a cost stabilization reserve account. The rules
12 and regulations shall include, but not be limited to:

13 (i) limits on balances that may exist in the reserve account;

14 (ii) the conditions under which a board of education is required
15 to seek the additional approval of the commissioner prior to
16 withdrawing funds from the reserve account;

17 (iii) criteria for cost increases that would be considered
18 significant and unanticipated and for which withdrawals from the
19 reserve account may be used;

20 (iv) the establishment of eligible categories of expenses for
21 which withdrawals from the reserve account may be used, in
22 addition to those expressly enumerated in subparagraph (a) of this
23 paragraph.

24 (5) (a) Leave liability reserve account. The funds in the reserve
25 account shall only be used to finance the payment of accumulated
26 unused sick leave, accumulated unused vacation leave, and any
27 other liabilities for accumulated unused absences for which an
28 employee may be compensated, upon the employee's retirement
29 from a State-administered or locally-administered retirement system
30 or upon separation from employment, as applicable. A board of
31 education may appropriate funds to establish or supplement the
32 reserve in the district's annual budget. Notwithstanding the
33 provisions of section 2 of P.L.1979, c.294 (C.18A:22-8.1) or any
34 other law, rule, or regulation to the contrary, a board of education
35 may also establish or supplement the reserve account through a
36 transfer by board resolution of any unanticipated revenue and
37 unexpended line-item appropriation amounts, which transfer
38 resolution may be adopted at any point during the school year. A
39 withdrawal from the reserve account may be made at any time and
40 only after the adoption of a board resolution detailing the specific
41 costs to be supported by the withdrawal.

42 (b) The commissioner shall promulgate, pursuant to the
43 "Administrative Procedure Act," P.L.1968, c.410 (C.52:14B-1 et
44 seq.), rules and regulations as necessary related to the establishment
45 and maintenance of a leave liability reserve account. The rules and
46 regulations shall, at a minimum, establish limits on balances that
47 may exist in the reserve account.

1 d. (1) All reserve accounts shall be established and held in
2 accordance with GAAP and shall be subject to annual audit. Any
3 capital gains or interest earned shall become part of the reserve
4 account. A separate bank account is not required, however, a
5 separate identity for each reserve account shall be maintained.

6 (2) A board of education that establishes a federal impact aid
7 reserve account shall:

8 (a) report the amount of federal impact aid received, expended,
9 and on deposit in the federal impact aid reserve account in its
10 annual audit pursuant to N.J.S.18A:23-1, and in the budget made
11 available in a "user-friendly" format using plain language pursuant
12 to N.J.S.18A:22-8;

13 (b) report the amount of federal impact aid received, expended,
14 and on deposit in the federal impact aid reserve account at each
15 board of education meeting, and shall include the information in the
16 board secretary's monthly report in a format to be determined by the
17 commissioner; and

18 (c) provide any additional supporting documentation that may
19 be required by the commissioner pursuant to subsection c. of
20 section 5 of P.L.1996, c.138 (C.18A:7F-5).

21 (3) A board of education that establishes a cost stabilization
22 reserve account shall:

23 (a) report the total balance in the reserve account, as well as
24 deposits into and withdrawals from the reserve account, in its
25 annual audit pursuant to N.J.S.18A:23-1;

26 (b) report the current total balance in the reserve account, as
27 well as deposits into and withdrawals from the reserve account to
28 date, as part of the board secretary's monthly report presented at the
29 board of education meeting in which a board resolution is adopted
30 to transfer funds into the account or to withdraw funds from the
31 account; and

32 (c) provide any additional supporting documentation that may
33 be required by the commissioner pursuant to subsection c. of
34 section 5 of P.L.1996, c.138 (C.18A:7F-5).

35 (cf: P.L.2016, c.100, s.1)

36
37 2. (New section) a. (1) As part of the ongoing budget review
38 process established pursuant to regulations of the State Board of
39 Education, a board of education may apply to the Commissioner of
40 Education for approval to make mid-year budget adjustments,
41 following the adoption of a board resolution certifying the intention
42 to apply for commissioner approval of a mid-year budget
43 adjustment. The board resolution shall be adopted by a board no
44 later than January 31 and confirm that actual costs of certain
45 eligible general fund expenses of the school district are significantly
46 higher than the amount that was able to be reasonably anticipated in
47 the budget certified for taxes, including an explanation of any
48 identifiable factors leading to the increase in actual costs compared

1 to anticipated costs, and that the expenses are required for the
2 provision of a thorough and efficient education.

3 (2) In addition to other eligible categories of general fund
4 expenses that may be established by the commissioner, general fund
5 expenses for which a board of education may apply for a mid-year
6 budget adjustment pursuant to this section shall include significant
7 unanticipated increases in health care costs and in tuition payments
8 for resident students attending approved private schools for students
9 with disabilities.

10 (3) The commissioner shall establish application procedures,
11 timelines, and evaluation criteria in a manner to ensure that boards
12 of education are not unduly delayed in addressing significant
13 unanticipated cost increases and to integrate the application
14 procedures into existing processes for ongoing school budget
15 review.

16 b. A board of education's application for a mid-year budget
17 adjustment pursuant to this section shall include:

18 (1) the board resolution certifying the board's desire to apply for
19 commissioner approval of a mid-year budget adjustment as required
20 pursuant to subsection a. of this section;

21 (2) documentation detailing the specific categories of general
22 fund expenses for which actual costs are significantly higher than
23 the amount that was able to be reasonably anticipated in the budget
24 certified for taxes, the magnitude and nature of the cost increases,
25 and that the cost increases were not able to be reasonably
26 anticipated at the time of budget approval. The commissioner shall
27 provide guidance on the forms of acceptable documentation to be
28 submitted as part of the application process;

29 (3) an explanation of any identifiable factors that prevented the
30 district from anticipating the cost increase upon adoption of the
31 budget and an affirmation that the request for a mid-year budget
32 adjustment is not the result of poor planning or error;

33 (4) an explanation of the impact that the cost increase will have
34 on the district's financial position and whether the board is
35 projecting a year-end deficit in the general fund as a result of the
36 significant unanticipated cost increase; and

37 (5) actions that the board has taken to date to mitigate the
38 significant unanticipated cost increases.

39 c. The commissioner shall review applications for mid-year
40 budget adjustments submitted pursuant to this section and
41 determine the appropriate scope of adjustments to be made,
42 including:

43 (1) advising the board on the implementation of all adjustments
44 to the budget that may be made pursuant to other sections of law,
45 including the authority to transfer amounts among line items and
46 program categories in accordance with section 2 of P.L.1979, c.294
47 (C.18A:22-8.1) and section 3 of P.L.1979, c.294 (C.18A:22-8.2)

1 and to make withdrawals from reserve accounts established
2 pursuant to section 6 of P.L.2007, c.62 (C.18A:7F-41); and

3 (2) directing such budgetary reallocations and programmatic
4 adjustments as necessary to support the significant unanticipated
5 cost increases of the school district, provided that the budgetary
6 reallocations and programmatic adjustments do not hinder the
7 provision of a thorough and efficient education.

8 d. Mid-year budget adjustments determined necessary by the
9 commissioner pursuant to subsection c. of this section shall be
10 presented to the board of education and subsequently approved by a
11 recorded roll call majority vote of the board's full membership.
12 Any adjustments approved by the board of education shall be
13 reported to the executive county superintendent.

14

15 3. (New section) a. (1) A school district shall, in the annual
16 audit required pursuant to N.J.S.18A:23-1, calculate and report the
17 total value of accrued liabilities for compensated absences of
18 district employees. The reporting required pursuant to this
19 paragraph shall be consistent with the generally accepted
20 accounting principles established by the Governmental Accounting
21 Standards Board. The annual audit shall also include test measures
22 to ensure that a district is maintaining proper documentation with
23 regards to the tracking of the value of accrued liabilities for
24 compensated absences of district employees.

25 (2) A school district shall maintain a current schedule of accrued
26 liabilities for compensated absences that details:

27 (a) total liabilities for compensated absences to date;

28 (b) year-over-year change in the total liability for compensated
29 absences; and

30 (c) projected future payments for compensated absences based
31 on employee retirement schedules, turnover rates, and the terms of
32 collective bargaining agreements.

33 b. The superintendent, or a designee, shall provide the board of
34 education with quarterly financial reports containing the
35 information maintained pursuant to paragraph (2) of subsection a.
36 of this section.

37 c. The Commissioner of Education, or the executive county
38 superintendent as the commissioner's designee, shall examine a
39 school district's level of liabilities for compensated absences, and
40 whether the district is sufficiently prepared for the fiscal impact of
41 making future payments of the liabilities, as part of the ongoing
42 budget review process established pursuant to regulations of the
43 State Board of Education and as part of the comprehensive review
44 under the New Jersey Quality Single Accountability Continuum
45 pursuant to section 11 of P.L.1975, c.212 (C.18A:7A-11).

46 d. As used in this section, "liabilities for compensated absences"
47 means leave time that is required to be recognized under
48 Governmental Accounting Standards Board Statement No. 101,

1 Compensated Absences, or any subsequent statement on
2 compensated absences published by the Governmental Accounting
3 Standards Board.

4

5 ¹**[4.** (New section) Notwithstanding any law, rule, or regulation
6 to the contrary, a collective bargaining agreement or other contract
7 that includes provisions related to payments for liabilities for
8 compensated absences shall incorporate:

9 a. a clear statement of the district's obligations to make
10 payments related to liabilities for compensated absences; and

11 b. an analysis of the fiscal impact of the district's obligation to
12 make payments related to liabilities for compensated absences at the
13 time of approval of the contract or agreement.]¹

14

15 ¹**[5.] 4.**¹ This act shall take effect immediately and shall first
16 apply to the first full school year next following the date of
17 enactment.