

ASSEMBLY EDUCATION COMMITTEE

STATEMENT TO

ASSEMBLY COMMITTEE SUBSTITUTE FOR

ASSEMBLY, Nos. 5205 and 5208

STATE OF NEW JERSEY

DATED: SEPTEMBER 14, 2026

The Assembly Education Committee reports favorably an Assembly Committee Substitute for Assembly Bill Nos. 5205 and 5208.

This committee substitute concerns school district finances regarding unanticipated cost increases and unused leave liabilities.

This bill establishes certain valuation and reporting mechanisms related to school district liabilities for accumulated unused leave and authorizes a board of education to: establish a cost stabilization reserve account; apply to the Commissioner of Education for mid-year budget adjustments for significant unanticipated cost increases; and establish a leave liability reserve account.

Under the bill, funds in a cost stabilization reserve account would be used to finance general fund expenses, excluding staff salary costs, that, during the school year, cost significantly more than initially anticipated in the budget adopted for the school year. Costs for which withdrawals from the account may be used include unanticipated increases in total health care costs, student transportation expenses, special education and related services, and other eligible categories of general fund expenses that may be established by rules and regulations of the Commissioner of Education. A board of education may appropriate funds to establish or supplement the reserve in the district's annual budget or through a transfer by board resolution of any unanticipated revenue and unexpended line-item appropriation amounts. A withdrawal from the reserve account may be made at any time and only after the adoption of a board resolution detailing the specific unanticipated cost increases to be supported by the withdrawal and justifying that the withdrawal is necessary for the provision of a thorough and efficient education.

Under the bill, funds in a leave liability reserve account may only be used to finance the payment of accumulated unused sick leave, accumulated unused vacation leave, and any other liabilities for accumulated unused absences for which an employee may be compensated.

The bill requires the commissioner to promulgate rules and regulations as necessary related to the establishment and maintenance

of a cost stabilization reserve account and a leave liability reserve account.

The bill permits a board of education to apply to the Commissioner of Education for approval to make mid-year budget adjustments to address significant unanticipated cost increases in general fund expenses, including increases in health care costs and in tuition payments for resident students attending approved private schools for students with disabilities. The commissioner is directed to establish application procedures, timelines, and evaluation criteria in a manner that ensures boards of education are not unduly delayed in addressing the cost increases and to integrate the application procedures into existing processes for ongoing school budget review. Boards of education are required to provide various materials to justify the need for a mid-year budget adjustment.

The commissioner is required to review applications for mid-year budget adjustments and determine the appropriate scope of adjustments to be made, including: advising the board on the implementation of all adjustments to the budget that may be made pursuant to current law, including the authority to transfer amounts among line items and program categories and to make withdrawals from reserve accounts; and directing budgetary reallocations and programmatic adjustments as necessary to support the cost increases of the school district.

The bill requires a school district, in its annual audit conducted pursuant to current law, to calculate the total value of accrued liabilities for compensated absences of district employees. Under the bill, the annual audit would also include test measures to ensure that a district is maintaining proper documentation with regards to the tracking of the value of accrued liabilities for compensated absences of district employees. As defined by the Governmental Accounting Standards Board, a compensated absence is leave for which employees may receive compensation in the form of cash payments when the leave is used for time off; other cash payments, such as payment for unused leave upon termination of employment; or noncash settlements, such as conversion to defined benefit postemployment benefits.

The bill also requires a school district to maintain a current schedule of accrued liabilities for compensated absences that details: various information on total liabilities; year-over-year changes in the total liabilities; and projected future payments for compensated absences based on employee retirement schedules, turnover rates, and the terms of collective bargaining agreements. Under the bill, the superintendent, or a designee, is required to provide the board of education with quarterly financial reports containing this information.

The bill further requires the Commissioner of Education, or the executive county superintendent as the commissioner's designee, to examine a school district's level of liabilities for compensated

absences, and whether the district is sufficiently prepared for the fiscal impact of making future payments of the liabilities, as part of certain existing review processes.

The bill requires a collective bargaining agreement or other contract that includes provisions related to payments for liabilities for compensated absences to incorporate: a clear statement of the district's obligations to make payments related to liabilities for compensated absences; and an analysis of the fiscal impact of the district's obligation to make payments related to liabilities for compensated absences at the time of approval of the contract or agreement.