

Local Finance Notice

LFN 2025-14

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Calendar Year 2026 Municipal & County Budget Cap Information

This Local Finance Notice addresses issues related to CY 2026 Municipal and County Budgets and the 1977 and 2010 cap laws. It includes information on the 1977 cap law Cost of Living Adjustment (COLA, formerly called Index Rate) and the use of the COLA ordinance (resolution) and Group Health Insurance increase thresholds.

Cost of Living Cap Adjustment

An annual COLA is authorized under the original 1977 budget cap law, currently reflected as N.J.S.A. 40A:4-45.1a. Current law affecting municipal and county budgets requires compliance with both the 1977 cap law and the 2010 levy cap law.

Under the 1977 cap law, the Director of the Division of Local Government Services must promulgate the COLA, which is based on the Implicit Price Deflator for State and Local Governments calculated by the U.S. Department of Commerce, Bureau of Economic Analysis.

The COLA for CY 2026 budgets is **two percent (2%)**. Pursuant to N.J.S.A. 40A:4-45.2, “municipalities and counties shall be prohibited from increasing their final appropriations by more than 2.5%...” unless action is taken by the governing body to increase their final appropriations, subject to the cap to the statutorily permitted three and a half percent (3.5%). In the case of counties, the increase applies to the property tax levy, not final appropriations.

The automatic increase to the 1977 cap law base is 2%, which is the statutory maximum, except that the governing body may pass a COLA ordinance increasing the cap base by 3.5%.

A municipality may, by ordinance, or a county, by resolution, increase the COLA percentage up to 3.5% [N.J.S.A. 40A:4-45.14(b)] or bank (for up to two years) the difference between its final appropriation, subject to the cap, and 3.5%. Cap banking is not automatic. A single ordinance or resolution can be used to accomplish both activities: increasing appropriations and banking any unappropriated balance. Cap bank balances from 2024 and 2025 are available for use in 2026. Once complete, the cap calculations for 2026 will be posted in FAST under the 2026 Introduced Budget in your portal, as well as the 2025 levy cap master file.

Using the Allowable Percentage Increase

If a governing body wants to increase its allowable percentage increase in its budget, up to 3.5%, the following steps must be taken:

1. After January 1st, and prior to the introduction and approval of the budget, an ordinance (resolution for counties) must be introduced that details the following:
 - a. The new rate (increased percentage) to be adopted; and,
 - b. The additional amount of appropriations to be added by the increase.
2. The ordinance (resolution) must be approved by a majority of the full membership of the governing body, published, and a public hearing held at least 10 days after the publication date. A certified copy of the introduced action must be filed with the Director of the Division of Local Government Services within five (5) days of its introduction.
3. The governing body may take a final vote on the action any time after the public hearing and prior to adoption of the budget. Depending on the form of government, the chief executive may veto the action in accordance with local procedures.
4. The ordinance (resolution) takes effect immediately upon passage, and a certified copy of the adopted action must be filed with the Director within five (5) days.
5. Cap increase referendums are not permitted if this option is chosen.

Group Health Insurance Exclusion

The 1977 cap law includes a cap exception for Group Health Insurance (N.J.S.A. 40A:4-45.3e). This exception is limited to the amount appropriated that is over 4% of the previous year's expenditures, but that does not exceed the State Health Benefits percentage increase. The State Health Benefits percentage increase for CY 2026 calculations is 36.2%, so the 1977 cap exception for Group Health Insurance for CY 2026 is 32.2%. The amount that is excluded from the 1977 cap will be appropriated on sheet 20.

The 2010 levy cap Group Health Insurance exclusion is for increases over 2%. Thus, for the 2010 levy cap calculation, the Group Health Insurance exclusion is based on the same 36.2% increase; therefore, the increase will be 34.2% for the CY 2026 levy cap calculation.

Both amounts are calculated in the levy cap workbook. Please use the amount from the correct workbook line for the **appropriation** cap exclusion - featured on the Health Care tab. The amount

is listed on line 34, Item 5, under Section C. The levy cap exclusion is automatically added to the workbook summary page.

One year appropriation cap exclusions approved by the Local Finance Board in 2025: The one-year cap exclusions for the following appropriations: Garbage and Trash Removal and Disposal, Liability Insurance, and Worker's Compensation Insurance will be added to the appropriation cap base for 2026. Municipalities that appropriated correct amounts outside the cap for the aforementioned purposes on sheet 20 of the budget will be allowed to add the 2025 appropriation to the 2026 cap base.

If you have any questions regarding this information, please [e-mail](#) or call the Bureau of Financial Regulation and Assistance at (609) 930-1994.

Approved: Michael F. Rogers, Director

Document	Internet Address
Municipal Budget COLA Increase Ordinance	https://www.nj.gov/dca/dlgs/resources/fiscal_docs/2026/CY_2026_COLA_Ordinance.docx

**MODEL ORDINANCE TO EXCEED THE MUNICIPAL BUDGET APPROPRIATION LIMITS
AND TO ESTABLISH A CAP BANK
(N.J.S.A. 40A: 4-45.14)**

WHEREAS, the Local Government Cap Law, N.J.S. 40A: 4-45.1 et seq., provides that in the preparation of its annual budget, a municipality shall limit any increase in said budget up to 2% unless authorized by ordinance to increase it to 3.5% over the previous year's final appropriations, subject to certain exceptions; and,

WHEREAS, N.J.S.A. 40A: 4-45.15a provides that a municipality may, when authorized by ordinance, appropriate the difference between the amount of its actual final appropriation and the 3.5% percentage rate as an exception to its final appropriations in either of the next two succeeding years; and,

WHEREAS, the (*insert the name of the governing body*) of the (*insert the name of the municipality*) in the County of (*insert the name of the county*) finds it advisable and necessary to increase its CY 2026 budget by up to 3.5% over the previous year's final appropriations, in the interest of promoting the health, safety and welfare of the citizens; and,

WHEREAS, the (*insert the name of the governing body*) hereby determines that a (*insert the rate of increase*) % increase in the budget for said year, amounting to \$ (*insert the dollar amount increase*) in excess of the increase in final appropriations otherwise permitted by the Local Government Cap Law, is advisable and necessary; and,

WHEREAS the (*insert the name of the governing body*) hereby determines that any amount authorized hereinabove that is not appropriated as part of the final budget shall be retained as an exception to final appropriation in either of the next two succeeding years.

NOW THEREFORE BE IT ORDAINED, by the (*insert the name of the governing body*) of the (*insert the name of the municipality*), in the County of (*insert the name of the county*), a majority of the full authorized membership of this governing body affirmatively concurring, that, in the CY 2026 budget year, the final appropriations of the (*insert the name of the municipality*) shall, in accordance with this ordinance and N.J.S.A. 40A: 4-45.14, be increased by (*insert the rate increase*) %, amounting to \$ (*insert the dollar amount increase*), and that the CY 2026 municipal budget for the (*insert the name of the municipality*) be approved and adopted in accordance with this ordinance; and,

BE IT FURTHER ORDAINED, that any amount authorized hereinabove that is not appropriated as part of the final budget shall be retained as an exception to final appropriation in either of the next two succeeding years; and,

BE IT FURTHER ORDAINED, that a certified copy of this ordinance, as introduced, be filed with the Director of the Division of Local Government Services within 5 days of introduction; and,

BE IT FURTHER ORDAINED, that a certified copy of this ordinance, upon adoption, with the recorded vote included thereon, be filed with said Director within 5 days after such adoption.