COMMUNITY AFFAIRS

RULE ADOPTIONS

DIVISION OF CODES AND STANDARDS

Planned Real Estate Development Full Disclosure Act Regulations

Adopted Amendments: N.J.A.C. 5:26-1.3, 8.6, and 8.7

Proposed: June 15, 2020, at 52 N.J.R. 1257(a). (The notice of proposal would have expired on June 15, 2021, but was extended by Executive Order No. 127 (2020) and P.L. 2021, c. 104, to January 1, 2022.)

Adopted: June 3, 2021, by Lt. Governor Sheila Y. Oliver, Commissioner, Department of Community Affairs.

Filed: June 17, 2021, as R.2021 d.074, without change.


Effective Date: July 19, 2021.

Expiration Date: April 4, 2025.

Summary of Public Comments and Agency Responses

Comments were received from: Grant Lucking, Chief Operating Officer, New Jersey Building Association (NJBA) and George Greatrex, Chair, Community Associations Institute (CAI-NJ) Legislative Action Committee (joint comment); and Mitchell Malec, a retired former employee of the Department of Community Affairs (Department).

1. COMMENT: Commenters expressed general appreciation and support for the rulemaking on behalf of NJBA and CAI.

RESPONSE: The Department thanks the commenters for their support.

2. COMMENT: Commenters recommended a “phasing in” of the new regulations due to the impact on projects registered prior to the effective date of the final regulations. The commenters stated their belief that the regulations should not affect projects that have been fully registered, even if construction or sales are not yet complete, and suggested that a phase-in provision would generally ameliorate the potential confusion for projects in varying phases of registration and development.

RESPONSE: The Department disagrees that a phase-in of this rulemaking is necessary. Upon adoption, this rulemaking will apply to forthcoming budgets and assessments; it would not be applicable to projects that have received an Order of Registration pursuant to N.J.A.C. 5:26-2.6, unless the project is an expandable project, wherein the registration of additional units/phases would require compliance with this rulemaking.

3. COMMENT: One commenter questioned the proposed inclusion of a definition of “expandable project” on the grounds that no specific regulations appear to correspond to expandable projects.

RESPONSE: The definition of “expandable project” is included for overall clarity. This definition ensures that Administrative Code users understand when a project is considered expandable. Though it is not specific to the rest of the rulemaking, the definition was included to delineate the Planned Real Estate Development Full Disclosure Act Regulations as clearly as possible.

4. COMMENT: One commenter recommended that “the Department include an amount of time a developer can control delayed development based on the size and nature of the project,” and inquired into what protections are in place for individuals that purchase units in a development on the assurance that attractive features will be added in later phases, only for those features to never be constructed. The commenter advised the Department to review analogous court cases nationwide “to determine if expandable projects are adequately addressed in the regulations.”

RESPONSE: Thresholds for the time a developer can delay development are outside the scope of this rulemaking, which clarifies common expense assessments and budgeting procedures. In addition, because development timeframes can vary greatly between projects for a number of reasons, the Department disagrees that this is something that should be addressed by rule.

5. COMMENT: One commenter took issue with the rulemaking’s treatment of reserve studies, expressing perplexion at why licensed engineers and/or architects are required to perform reserve studies and not reserve analysts, who are specifically credentialed for the task. The commenter also inquired into the absence of a provision that would require reserve studies to be performed based on the Community Associations Institute of New Jersey’s (CAI) National Reserve Study Standards and suggested that the Department establish specifically what must be contained in the reserve study, including accompanying form(s).

RESPONSE: The Department notes that the requirements at N.J.A.C. 5:26-8.7(b) state that, when a new reserve study is undertaken, it must include a letter of adequacy prepared by an independent licensed architect or engineer. This ensures that the new reserve study appropriately addresses any new project or facilities. It does not require an architect or engineer to perform the new reserve study; it requires their approval. Therefore, this section is not in conflict with other sections of the rules that reference independent public accountants or other independent experts regarding reserves and stated that this is in conflict with the proposed amendments.

RESPONSE: The Department notes that the requirements at N.J.A.C. 5:26-8.7(b) state that, when a new reserve study is undertaken, it must include a letter of adequacy prepared by an independent licensed architect or engineer. This ensures that the new reserve study appropriately addresses any new project or facilities. It does not require an architect or engineer to perform the new reserve study; it requires their approval. Therefore, this section is not in conflict with other sections of the rules that reference independent public accountants or other independent experts regarding reserves.

6. COMMENT: One commenter recommended that CAI’s “Preliminary, Community Not Yet Constructed” reserve study be required as part of the application for registration; that timelines for submittal of reserve studies should be clarified; that a “Final” or “Close Out” developer reserve study must be required when a developer is no longer in control; and that the Department should clarify that the funding plan goal must be a “fully” funded goal and not a “baseline” or “threshold” goal funded plan.

RESPONSE: The Department thanks the commenter for the recommendation. These amendments were drafted with input from CAI, as well as NJB, and it was agreed that there was no need for a specific form to be prescribed for reserve studies, as different entities will handle the study in different ways.

7. COMMENT: One commenter sought confirmation at N.J.A.C. 5:26-8.6(a) that when association members are required to make a working capital contribution, or pay an initiation fee, buy-in, or developer transfer fee, it is only applicable to the first owner (and not the second or future owners). The commenter further sought confirmation that these contributions cannot be utilized by developers in the service of operating expenses or developer financial obligations.

RESPONSE: The commenter is mostly correct in the interpretation of these sections. N.J.A.C. 5:26-8.6(a) states that the working capital contribution is a “one-time” contribution to be assessed “upon acquisition of a title to a unit.” This could apply to a future owner in the event the unit is sold prior to the association making common expense assessments while the developer is in control of the association. The commenter is also correct that these contributions cannot be utilized to pay operating expenses or developer financial obligations. N.J.A.C. 5:26-8.6(a2) states that the developer cannot use funds from the working capital to pay for budget line items, minimize assessments needed to operate the association, or lower the amount due from the developer to the association. It is intended to pay for unanticipated expenses in lieu of special assessments.

8. COMMENT: One commenter inquired into the basis of association fees/monthly common expense assessments relative to the working capital contribution and suggested that the proposed amendments might facilitate the collection of exorbitant sums by developers. The commenter specifically inquired, “Why is the maximum fee being based on the monthly common expense assessment and not a flat amount, or percentage of the sales price, or another basis?”, and requested dollar-cost examples from the Department.

RESPONSE: Tying the working capital contribution to monthly assessments is practical because the monthly assessment is a number that...
is tied to the budget, which ensures that assessments align with the necessary expenses of the association.

9. COMMENT: One commenter sought confirmation that there are no statutory requirements or regulations requiring an association-controlled development to perform reserve analyses or to fund reserves; in other words, that a reserve analysis is only required when an association is developer-controlled.

RESPONSE: The commenter is correct in the above interpretation. The reserve analysis is only an obligation of the developer during development; once the association is owner-controlled, new reserve studies are not required.

10. COMMENT: One commenter made the following remarks on terms used throughout the rule text: “I note that in the regulations, such as in N.J.A.C. 5:26-8.7, there are references to ‘association’s governing board,’ ‘association governing body,’ ‘board,’ ‘executive board.’ Assuming these entities are all the same (please confirm) and are references to the executive board, for clarity the Department may want to appropriately revise the text throughout the regulations or modify the definition of ‘executive board.’ Also Adequate reserve funds of N.J.A.C. 5:26-8.7(a)2 appears to be a definition that should be added to N.J.A.C. 5:26-1.3.”

RESPONSE: Because each of these terms are interchangeable and understood to refer to the same entity, the Department declines to make any revisions; the use of these words does not make the intent of the rules unclear. In addition, the definition included at N.J.A.C. 5:26-8.7(a)2 is codified appropriately, because the definition is applicable only to that section, rather than to the chapter as a whole.

Federal Standards Statement

No Federal standards analysis is required for the adopted amendments because the amendments are not being adopted in order to implement, comply with, or participate in any program established under Federal law or under a State law that incorporates or refers to Federal law, standards, or requirements.

Full text of the adoption follows:

SUBCHAPTER 1. GENERAL PROVISIONS

5:26-1.3 Definitions

The following words and terms, when used in this chapter, shall have the following meanings, unless the context clearly indicates otherwise:

“Expandable project” means a project that includes, at its time of registration under the Act, a certain defined number of units and common facilities, but that the developer anticipates, as indicated in its application for registration in accordance with the Act, that the project may ultimately be made larger by amendment, to include additional units, additional common facilities, or both.

SUBCHAPTER 8. COMMUNITY ASSOCIATIONS

5:26-8.6 Assessments for common expenses

(a) Until such time as the association shall make an assessment for common expenses, the developer, while in control of the association, shall pay all of the expenses of the common elements and facilities, except as provided at (a)(1) below. Upon acquisition of title to a unit, each new association member may be required to make a one-time, non-refundable and non-transferable, working capital contribution. The working capital contribution shall be assessed in accordance with the governing documents of the association, but in no event shall the working capital contribution exceed nine times the amount of the monthly common expense assessment for that unit at the time of closing. During developer control of the association’s governing board, working capital funds shall be held in a separate account located in a bank that is FDIC-insured and authorized to do business in the State of New Jersey.

1. The intent of the working capital assessment is to provide the association with cash flow until the association begins receiving common expense assessments. Working capital assessment funds shall be used for one-time expenses limited to association startup operations. Startup operations may include on-site office equipment, utility deposits, and similar one-time expenses needed to establish an association, but shall not include any costs related to construction of a management office, or any expenses for off-site equipment.

i. Working capital assessment funds may be used to pay for unforeseen, unanticipated expenses in lieu of a special assessment. The term “unforeseen or unanticipated expenses” means those expenses that could not be reasonably anticipated at the time the annual budget was adopted by the association board. Unforeseen or unanticipated expenses shall not include: expenses that are normal or customary for the association and are the purpose for which the budget was adopted; expenses for capital improvements, reserves, or repairs to items of defective construction; or a budget deficit or a deficit in the association funds resulting from a difference between the number of units, pursuant to N.J.A.C. 5:26-8.7, that the developer calculated would be closed during the year or the date by which such closings would occur and the number of units actually conveyed or the actual dates when closed.

2. While the developer maintains a majority of the association board, it shall not use funds from the working capital assessments to pay for budget line items, to minimize the assessments needed to operate the association, or to lower the amount due from the developer to the association.

(b) This subsection shall govern the assessment of common expenses. When the association has made a common expense assessment, the assessment shall be assessed against:

i. Units that have been conveyed to the developer to owners (hereafter referred to as “unit owners”).

ii. Units that have been conveyed to the developer to owners (hereafter referred to as “unit owners”).

2. While the developer maintains a majority of the association board, it shall not use funds from the working capital assessments to pay for budget line items, to minimize the assessments needed to operate the association, or to lower the amount due from the developer to the association.

3. The association’s governing documents shall provide for the manner of payment of common expenses in common

i. When the developer elects to subsidize the association common expenses for any given budget year, the developer shall be responsible for the payment of that portion of the common expenses that is the difference between the total common expenses and the Owners’ Share. The Developer’s Share of the common expense payments shall be paid no less frequently than the common expense payments due from unit owners.

ii. When the association board is controlled by unit owners, if the developer does not pay its share when due, the association shall have the same remedies as it does in connection with the collection of common expenses from the unit owners, as set forth in the governing documents.

iii. Except as provided in (b)(5) below, when the association board is controlled by the developer, if the developer does not pay its share when due, the developer shall be required to make a lump sum payment for any unpaid budgeted common expenses before the start of the next budget year.

4. In the event that the assessment of common expenses results in a deficit in the operating fund of the association at the end of any budget year, the developer shall be responsible for satisfying such deficit. The developer shall make such payment within 60 days of the start of the new budget year.
i. The developer shall not be responsible for satisfying the deficit when it is the result of unforeseen, unanticipated expenses caused by conditions reasonably beyond the control of the developer, including, but not limited to, the situation in which the total amount of assessments unpaid by unit owners exceed three percent of the budget. In such event, the developer-controlled board may use working capital to satisfy the deficit in accordance with the association’s governing documents. Prior to using working capital, the developer-controlled board shall approve such use in a meeting open to the unit owners pursuant to N.J.A.C. 5:26-8.12. The basis for the working capital being used under this subparagraph shall be set forth in the minutes of the board meeting.

5. In the event that the assessment of common expenses results in an operation fund surplus at the end of the budget year, the board shall recalculate the amount of assessments actually due from the owners and the developer based on their respective shares. The surplus shall be allocated among the unit owners and the developer in the same manner that the common expenses were assessed, either as a refund or a credit against future assessments. The decision to issue a credit or refund shall be determined by a vote of the unit owners, other than developer. If a quorum of unit owners cannot be reached, the association board shall be entitled to make the final determination whether to issue a refund or apply the surplus as a credit to future assessments.

6. If unforeseen or unanticipated conditions reasonably beyond the control of the developer (that is, force majeure), the board may impose a special assessment. The unit owners and the developer shall be obligated to pay their respective shares of the special assessment. 6.1 “Special assessment” are those monies specifically dedicated for repair or replacement of common elements and facilities that have reached the end of the established useful life, based on the most recent reserve study, of each common element or facility, or one or more components of that element or facility, without the need for special assessments or loans. Contributions shall be established for common elements and facilities with useful lives, or remaining years of use, up to and including 30 years, and for roofs regardless of their useful lives.

7. In the event of an immediate need for additional funds to meet the association’s financial obligations due to unforeseen, unanticipated conditions reasonably beyond the control of the developer (that is, force majeure), the board may impose a special assessment. The unit owners and the developer shall be obligated to pay their respective shares of the special assessment.

5:26-8.7 Budgets for developer-controlled boards

(a) During developer control of the association’s governing board, the association shall, prior to making an annual assessment, prepare and adopt an operating budget, which shall provide, for any and all common expenses to be incurred during the fiscal year, as well as adequate reserve funds for repair and replacement of the common elements and facilities.

1. Replacement of the common elements may include repair or replacement of a component of a mechanical system or facility necessary for the proper maintenance or operation of such system or facility.

2. “Adequate reserve funds” are those monies specifically dedicated for repair or replacement of common elements and facilities that have reached the end of the established useful life, based on the most recent reserve study, of each common element or facility, or one or more components of that element or facility, without the need for special assessments or loans. Contributions shall be established for common elements and facilities with useful lives, or remaining years of use, up to and including 30 years, and for roofs regardless of their useful lives.

3. The amount to be maintained in the reserve funds account shall be determined by an independent licensed engineer or architect as part of the reserve study.

4. During developer control of the association’s governing board the following requirements shall apply:

i. Reserve funds shall be maintained in a segregated account in the name of the association and not to be mingled with other common expenses or capital contribution accounts.

ii. The account shall be located in a bank that is FDIC-insured and authorized to do business in the State of New Jersey.

iii. Following the election of the first unit owner to the board, and continuing following control of the association governing body is transferred to the unit owners, withdrawals from the reserve funds account shall require one signatory from the developer and one signatory from the owner-elected board members.

5. Reserve funds shall be used for repair and replacement costs for which they are collected. A developer-controlled association board may not utilize reserve funds to repair or replace any common element unless:

i. The item that is sought to be repaired or replaced was included in the reserve study.

ii. The common element component to be repaired or replaced has exhausted not less than 90 percent of the useful life specified in the reserve study. In the event the common element component to be repaired or replaced has not exhausted 90 percent or more of its expected life, then a majority vote of a quorum of unit owners, other than the developer, as defined by the association governing documents, is required to utilize the reserve funds dedicated and maintained for the specific common element component’s repair or replacement; and

iii. The reserve account has been fully funded in accordance with the association documents.

(b) A new reserve study shall be prepared in the following situations:

1. When a developer submits an application for an expandable project for registration in accordance with N.J.A.C. 5:26-2.4. Each addition shall require an update to the reserve study to account for all new common elements and facilities to be constructed in each expansion phase and all common elements and facilities constructed in prior phases where repair and replacement costs were not previously accounted for in the most current reserve study.

i. The developer shall bear the expense of the reserve study for common elements in any new phase; and

ii. The association shall bear the expense of any new common element added to a phase that is built out and sold out at the time of submission of the application to add a new phase.

2. Where the common elements and facilities differ from the common elements and facilities shown on the building plans or described in the public offering statement, a new reserve study shall be conducted. The public offering statement shall be amended, filed, and registered in accordance with N.J.A.C. 5:26-4.5 to reflect the updated as-built common elements and facilities.

3. Based on the findings set forth in the most recent reserve study, the repair or replacement cost of those items classified as common elements and facilities in the governing documents shall be a good faith estimate of the cost to the association to repair or replace each item identified in the reserve study including demolition, removal, and other costs related to the repair or replacement of these items in current dollars.

4. The reserve study shall be accompanied by a letter of adequacy prepared by an independent licensed architect or engineer.

5. While the developer maintains control of the association board, the cost of any reserve study shall be the responsibility of the developer and shall not be classified as a common expense.

6. In the event the annual audit of the association determines a different deficit than originally calculated, the following shall govern:

i. When the application to add a new phase is approved, the association shall reimburse the developer the difference between the amount paid by the developer and the actual deficit amount.

ii. When the annual budget being used is other than the full occupancy budget, it shall be amended accordingly, and a copy of the revised budget shall be provided to the unit owners and the developer no later than 30 days prior to the start of the next budget year.

iii. When the developer is in control of the association board and still selling units in the ordinary course of business, the amended budget shall also be filed with the Agency as an amendment to the registration within 30 days of adoption of the budget.

2. In the event the annual audit of the association determines a different deficit than originally calculated, the following shall govern:

i. When the association’s final audit reveals that the deficit for the preceding budget year was greater than the amount previously calculated as of the year end, the developer shall pay to satisfy the additional deficit within 30 days following adoption of the final audit, except that portion attributable to unit owners’ delinquency or unforeseen, unanticipated circumstances as set forth in the governing documents.

ii. When the deficit is less than the amount previously calculated, the association shall reimburse the developer the difference between the amount paid by the developer and the actual deficit amount.
COMMUNITY AFFAIRS

EDUCATION

STATE BOARD OF EDUCATION

Programs to Support Student Development

Readoption with Amendments: N.J.A.C. 6A:16

Adopted: June 17, 2021, by the New Jersey State Board of Education, Angelica Allen-McMillan, Ed.D., Acting Commissioner, Department of Education, and Acting Secretary, State Board of Education.

Filed: June 17, 2021, as R.2021 d.073, with non-substantial changes not requiring additional public notice and comment (see N.J.A.C. 1:30-6.5).


Expiration Date: June 17, 2028.

Summary of Public Comments and Agency Responses:

The following is a summary of the comments received from members of the public and the Department of Education’s (Department) responses.

1. Diana MTK Austin, Executive Co-Director, and Lauren Agoratus, New Jersey Coordinator - Family Voices, Statewide Parent Advocacy Network (SPAN)
   - COMMENT: The commenter requested that N.J.A.C. 6A:16 be amended to address P.L. 2015, c. 13, which concerns the emergency administration of epinephrine to students for anaphylaxis.
   - RESPONSE: The Department disagrees that N.J.A.C. 6A:16 needs to be amended to effectuate P.L. 2015, c. 13. The State law requires the Department to establish guidelines for the development of a policy by a school district, charter school, renaissance school project, or nonpublic school for the emergency administration of epinephrine to a student for anaphylaxis through a pre-filled auto-injector mechanism. In March 2015, the Department issued a memorandum to notify school districts and nonpublic schools of the additional requirements for their policies for the emergency administration of epinephrine to students. The Department will continue to provide guidance and resources concerning the emergency administration of epinephrine in the future.

2. Robin Cogan, Chair, Legislative Committee, New Jersey State School Nurses Association
   - COMMENT: The commenter suggested an amendment at N.J.A.C. 6A:16-2.3(c)1 to clarify that a noncertified school nurse shall be assigned to the same school building or school complex as the certified school nurse. The commenter also requested an amendment to the regulation to require the school building or complex to be under a single building-level administrator or school principal.
   - RESPONSE: The Department agrees that the noncertified school nurse must be assigned to the same school building or school complex as the certified school nurse, which is required pursuant to existing N.J.A.C. 6A:16-2.3(c)1 and the authorizing statute at N.J.S.A. 18A:40-3.3a. The Department declines to propose the second requested amendment. N.J.S.A. 18A:40-3.3a does not specify that a non-certified school nurse must be assigned to a building under a single building-level administrator or school principal’s supervision.

3. Shots for Schools Network (SPAN)
   - COMMENT: The commenter expressed support for the proposed amendments at N.J.A.C. 6A:16-5.3 and 5.5, which govern the reporting of violence, vandalism, and alcohol and other drug abuse and the removal of students for firearms offenses, respectively. The commenter stated the amendments will better align the rules at N.J.S.A. 18A:37-2a, Conditions for suspension, and expulsion of certain students, and the Elementary and Secondary Education Act of 1965 (ESSA), as amended by the Every Student Succeeds Act of 2015 (ESSA), which includes the Federal Gun Free School Act.
   - RESPONSE: The Department thanks the commenter for the support.

4. Robin Cogan, Chair, Legislative Committee, New Jersey State School Nurses Association
   - COMMENT: The commenter expressed support for the proposed amendments at N.J.A.C. 6A:16-5.3(g) to replace “the disabled” with...