

Local Finance Notice

LFN 2026-03

January 28, 2026

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Governor

Dr. Dale G. Caldwell
Lt. Governor

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Commissioner

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Director

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Distribution

Municipal Elected Officials

Municipal
Managers/Administrators

Municipal CFOs

Municipal Clerks

Transitional Aid Application Process

A. Notice of Intent to Apply

Any municipality that intends to apply for CY 2026/FY 2027 Transitional Aid to Localities (Transitional Aid) must notify the Division of Local Government Services (DLGS) by emailing the information set forth in the below "Notice of Intent to Apply" to dlgs-ta@dca.nj.gov no later than February 13, 2026 for CY 2026 applicants and no later than August 21, 2026 for FY 2026 applicants.

B. Application Deadline

The application deadline will be February 27, 2026, for CY 2026 applicants and September 25, 2026, for FY 2027 applicants.

C. New Applicants – Mandatory Orientation and Application Process

The Mayor and Chief Administrative Officer of each municipality not currently receiving Transitional Aid and applying for CY 2026 / FY 2027 aid will be required to attend a mandatory orientation meeting on a date and time as agreed to by the applicant and the Director of the DLGS to discuss the application process and conditions of the award.

All new applicants shall agree to State oversight that begins on the date the application is submitted – not on the date of Transitional Aid award, if any. State oversight pursuant to this condition of application will terminate if no award is provided or if the application is withdrawn. Oversight upon application will be consistent with standard conditions imposed on recipients of aid, as discussed in more detail below.

Transitional Aid is the only discretionary aid available for municipal budgets and will only be available to municipalities that have severe structural difficulties and anticipate problems making payments toward nondiscretionary or critical obligations, including, but not limited to, debt service, contractual obligations, and payroll.

The application, evaluation, and award process are rigorous and developed to apply solely to municipalities that have severe structural financial problems.

A Transitional Aid award is conditioned on the municipality meeting the following requirements:

- Submitting to broad State oversight of hiring, procurement, and other matters;
- Performing reasonable revaluations or reassessments of property as required by law; and
- Submitting to such additional fiscal control measures as may be directed by the DLGS.

Applicants who are awarded aid will be required to sign a Memorandum of Understanding (MOU) with the DLGS acknowledging State oversight and committing to compliance therewith. A sample of the current [MOU](#) is online.

The application and introduced budget should only reflect funding for essential services. Budgets must eliminate discretionary spending funded by property taxes, such as discretionary accounts for elected officials.

D. CY 2025/FY 2026 Transitional Aid Recipients Applying in CY 2026/FY 2027

Municipalities applying for CY 2026/ FY 2027 Transitional Aid must certify that they are in substantial compliance with the conditions and requirements of their 2025 MOU and Addendum. Lack of compliance with the 2025 MOU conditions will factor into CY 2026 awards.

Additionally, municipalities currently operating under a Transitional Aid MOU are reminded that Transitional Aid is designed as short-term gap financing to assist municipalities through temporary fiscal crises. It is not intended to provide long-term budgetary supplementation. Applicants seeking level or increased funding must include a letter from the mayor addressing why they failed to reduce their need for funding.

The DLGS will consider reducing oversight provisions in the MOU for those municipalities requesting an amount of Transitional Aid for CY 2026/FY 2027 that reflects a reduction of at least 15% of aid provided in CY 2025/FY 2026 or otherwise demonstrating sustainable structural improvements in their fiscal management practices.

Municipalities that received Transitional Aid in CY 2025 / FY 2026 and are operating under an MOU through the end of 2026 will be eligible for early termination of the terms of the MOU if they sign an agreement not to apply for additional aid for CY 2026 / FY 2027 and for the next two budget years. These municipalities are encouraged to contact the Director of the DLGS to make application for early termination.

E. Eligibility to Apply

Applicants must meet the minimum criteria listed below to be considered for the award of funds under the Transitional Aid program. Numbers 1 through 6 apply to all municipalities, while numbers 7 and 8 set forth additional eligibility criteria for municipalities that did not receive Transitional Aid during CY 2025/FY 2026.

1. All financial documents shall be received by the DLGS on or before February 27, 2026 for calendar year municipalities and on or before September 25, 2026, for state fiscal year municipalities. The introduced budget should include Transitional Aid at 15% less than the prior year's allotment but in no case shall it be more than the amount received in the previous year. This level of funding is not guaranteed and is only permitted for the limited purposes of advancing a budget for introduction. The budget shall be subject to DLGS review (no local examination). Municipalities that have adopted their budgets are not eligible for aid.
2. The municipality must demonstrate reductions or limited increases in Salary and Wage (S&W) costs. The DLGS expects that the municipality shall have engaged with its unions and non-union employees to effectuate savings through reduced salary costs, reduced staffing levels, modified work rules, modified controllable benefits costs, or other efforts to mitigate S&W costs.
3. The introduced budget must contain a 2% increase over the prior year's tax levy if it doesn't exceed the tax levy cap workbook maximum allowed by the Local Budget Law, N.J.S.A. 40A:4-1 et seq.
4. The municipality must demonstrate severe fiscal distress that will result in a constrained ability to raise sufficient revenues to meet budgetary requirements. If such fiscal distress was created by the municipality (i.e., deliberately deferring costs, issuing debt with "balloon payments," overspending budgets without basis, forgoing tax levy increases, or imprudently using one-time resources without taking steps to plan for the loss of the revenue), the applicant's chance of success will be diminished substantially.
 - Severe fiscal distress can be demonstrated by the presence of substantial structural or accumulated deficits and/or limited ability to raise supplemental non-property tax revenues.
 - The "constrained ability" criteria must document why existing local revenues, including utility and other fees, municipal court revenues, and property taxes, cannot be raised to cover increased costs or offset reduced revenues. If available, other local revenue-raising options must be implemented as part of the application.
 - Documented extraordinary demands for public safety appropriations can be used to supplement the lack of ability to raise revenues.
5. The budget must show spending restraint from CY 2025 / FY 2026. This must include documented efforts to share municipal services, including public safety dispatch, code enforcement, public health services, and other services offered by neighboring municipalities, area boards of education, local authorities, or the county, if those costs are less than the current full cost of providing equivalent service. Municipalities should document demonstrated efforts to reduce energy costs, including bidding (individually

or through a cooperative) for electricity and natural gas and implementation of renewable energy systems.

The application must also include an explanation and documentation of all cost reduction efforts, including attempts explored but not implemented and why they were not achieved.

6. The municipality must provide an assessment of existing local revenues, including whether rates or collections can be increased, and a plan to implement potential changes. Please note that the municipality must demonstrate that user fees have been established where reasonable and practicable for discretionary services to avoid taxpayer subsidy of nonessential programs.
7. For applicants not currently receiving Transitional Aid, the municipal governing body shall adopt a resolution authorizing application to the DLGS and acknowledging that upon submission of the application, State oversight shall begin immediately and will be terminated only upon one of the following conditions: (1) the application for aid is withdrawn; (2) notice is received that no award of funds will be provided in CY 2026 / FY 2027. If a grant is awarded, then supervision is memorialized pursuant to the terms of an MOU executed as a condition of award.
8. Applicants not currently receiving Transitional Aid may apply if they meet criteria #1 through #7 above AND must have suffered an extraordinary revenue loss or extraordinary appropriation increase (other than appropriation increases common to other municipalities).

D. Other Application Requirements

Together with the application, the municipality shall provide DLGS with other documents and reports in electronic format as listed in Appendix A of the Transitional Aid Application. These include but are not limited to:

- Draft/final introduced budget, Annual Financial Statement (AFS), and supporting budget documentation.
- Current organizational charts showing budgeted positions and titles.
- Copies of current labor contracts.
- Debt service schedules for all municipal obligations, including municipally operated utilities, listed by payment date.
- **For new applicants**, in Excel format, separate files for each of the last four years showing the name of each officer and employee of the municipality as of the first payroll period of the calendar year together with their annual salary, title, department, and date of hire.

- **For new applicants**, a governing body resolution authorizing the application and agreeing to State supervision immediately upon filing the application. (See #7 under “Eligibility to Apply”).

E. Other Conditions

The DLGS reserves the right to request additional information during the application review process. By submitting the application, the municipality acknowledges that pursuant to law, the Director’s discretionary decision regarding aid awards is final and not subject to appeal.

No applicant should assume the receipt of any aid. Municipal governing bodies applying for aid should act and plan accordingly, including advancing a levy referendum, if appropriate, to prepare for the possibility of not receiving aid.

Award decisions are expected to be made as soon as possible thereafter so that municipalities can plan for a levy cap referendum if necessary.

The [application](#) can be downloaded from the DLGS website. Please email any questions to dlgs-ta@dca.nj.gov with the subject heading “Transitional Aid Question.”

Approved: Michael F. Rogers, Director

Document	Internet Address
Online Model MOU	Model MOU Final.pdf
Downloadable Application	CY 2026/SFY 2026 Transitional Aid Application

Notice of Intent to Apply - Transitional Aid Program

CY 2026 / FY 2027 Transitional Aid to Localities (Transitional Aid)

Division of Local Government Services

New Jersey Department of Community Affairs

Complete this form if the municipality is considering applying for financial assistance under the Transitional Aid program in CY2026 / FY2027. Submission of the form is non-binding and does not require a municipality to submit a formal application. It is for informational and planning purposes only.

File the Notice no later than February 13, 2026 for CY2026 applicants and no later than August 21, 2026 for FY 2027 applicants.

In addition, the Mayor and/or Chief Administrative Officer of potential CY 2026 / FY 2027 applicants (provided they are not currently recipients of Transitional Aid) **must attend an orientation meeting** as agreed to by the applicant and the Director of the Division of Local Government Services.

Name of Municipality:		County:	
Contact Person:		Title:	
Phone:		Fax:	
		E-mail:	
Anticipated financial request (can change in final application):			

Submit the Notice by email (dlgs-ta@dca.nj.gov) with the subject line: "TA Notice of Intent" or mailing it to:

Transitional Aid Program
Division of Local Government Services
PO Box 803
Trenton, NJ 08625-0803