

SUMMARY OF RESIDENTIAL TAX AND NON-TAX IMPACTS FROM CONSOLIDATION

Consolidation of the Borough and Township would impact property taxpayers in Princeton. There are two basic categories of impact:

- First, *direct property tax impacts* resulting from recommendations made by the Commission in its final consolidation plan.

At full implementation in approximately three years, the direct property tax impact of consolidation would result in annual savings of \$201 for the average Borough property, and \$240 for the average Township property.

- Second, *secondary impacts* – tax and non-tax – that indirectly result in part from the process of consolidating the Borough and Township into a single tax base. Among these are the distribution of the County tax, County open space tax, regional school tax and municipal open space tax, each of which would experience “equalization” impacts from bringing the two municipal tax bases into a uniform whole.

When the secondary impacts of consolidation are factored in, the average Borough property would see total savings (i.e. tax and non-tax) of \$591, while the average Township property would see total savings of \$416. This estimate is based on 2011 data and includes the impact of equalizing county and school taxes. The effect of equalization will change over time and cannot be predicted with reasonable certainty.

Note: The impacts presented in this summary are based on the *average valued property* in the Borough and Township. The actual impact on individual properties would differ based on whether the property is above or below the average value in either jurisdiction.

Longer-Term and Non-Tax Considerations

Although the following analysis looks explicitly at the financial impact of consolidation, it is important for the Commission to look at other potential long-term considerations beyond the immediate fiscal effects. A municipal consolidation could potentially offer additional budget flexibility; staffing/operational efficiencies (as detailed further in the Options Report); joint facility planning; cost avoidance; expansion of

improvement districts beyond the current municipal boundaries; and more. In sum, the financial impacts of consolidation are critical to evaluating its appropriateness, but these longer-term factors bear equal consideration.

Calculating the Financial Impact

Calculating the financial impact of consolidation is an iterative process based on current spending and tax levels and assumptions about future costs. It begins with a calculation of the “current state” in both municipalities, based on 2011 budget data and assessed valuations. Next, it builds in the impact of *direct property tax impacts* that result from recommendations made by the Commission in its final consolidation plan. Finally, it factors in a series of *secondary impacts*, both tax and non-tax in nature, that indirectly result from the consolidation of the Borough and Township into a single municipal tax base.

It is essential to note that the calculation of actual financial impacts resulting from consolidation is subject to a number of “moving parts,” and any variation – in municipal budget trends, county equalization ratios or other factors – could impact the end result. In the event consolidation is approved, the impact on taxpayers will also be subject to decisions made during the 2012 budget year in both the Borough and Township.

The following steps detail the calculation process.

Step 1: The Current State

At present, the average residential property owner in the Borough pays \$3,222 in municipal taxes, and the average residential property in the Township pays \$3,596. These figures are derived from two basic numbers: first, the 2011 property tax “levy” (*i.e.* the amount of money both governing bodies decide to generate through property taxes to fund their respective budgets), and second, the 2011 taxable assessed valuation (*i.e.* the assessed value of all taxable properties within each municipality). Dividing the levy into the assessed valuation determines a *tax rate*. In the Borough, the 2011 tax rate is 0.431 (per \$100 of assessed value); in the Township, it is 0.435. That rate is then applied to individual properties to determine the property tax bill for each.

Table 1: Current State	Borough	Township
Property Tax Levy	\$9,457,716	\$20,070,600
Taxable Assessed Value	\$2,196,649,214	\$4,617,801,381
Tax Rate	0.431	0.435
Average Property Value	\$747,665	\$826,636
Average Tax Bill (municipal tax only)	\$3,222	\$3,596

Step 2: Remove Borough Solid Waste Costs

One of the key service distinctions between the Borough and Township regards solid waste collection. In the Borough, residents pay for collection through their municipal taxes and the service is included in the municipal budget. By contrast, residents in the Township do not receive municipal collection nor pay for it in their taxes. In the event of a municipal consolidation, the Commission is recommending an extension of solid waste collection to the entirety of the merged community.

To account for this service cost accurately, we have to remove that portion of Borough taxes attributable to solid waste collection (totaling \$468,528) and spread the new total cost proportionally across all properties in the consolidated community. The following table shows the removal of the Borough costs; the addition of the new community-wide cost is addressed in a later step.

Table 2. Adjustment for Borough Solid Waste	Borough	Township
Remove Borough Solid Waste	(\$468,528)	-
Revised Borough Tax Levy	\$8,989,188	-
Revised Borough Tax Rate	0.409	-
Revised Borough Tax Bill	\$3,058	-
Net Reduction Attributable to Solid Waste	(\$164)	-

Step 3: Current Combined State, Minus Borough Solid Waste Costs

With the Borough's solid waste costs netted out, we can now show a combined current state that assumes merger of the Borough and Township without any changes attributable to consolidation. The following table combines the property tax levies of the two municipalities; combines their taxable assessed value; and derives a combined tax rate.

Table 3. Current State, Combined (Minus Solid Waste)	Combined
Combined Tax Levy	\$29,059,788
Combined Taxable Assessed Value	\$6,814,450,595
Subtotal: Revised Combined Tax Rate	0.427

Step 4: Direct Tax Impacts of Consolidation

As part of its study and plan, the Commission has recommended a series of changes to be implemented in the event of a municipal consolidation of the Borough and Township. Regarding recommendations that yield *direct impacts on the property tax levy*, there are two key items:

- First, the Commission has recommended changes that have potential savings associated with them (*i.e.* efficiency savings). Those savings are attributable to a variety of factors: the elimination of certain duplicate positions; the repurposing of certain duplicate high-level administrative positions into lower-paying support staff positions; the reduction of certain outsourced services; and certain other workforce consolidations due to efficiencies from consolidation. At full implementation in approximately three years, the total estimated value of these savings is \$3.1 million.
- Second, the Commission has recommended solid waste collection (currently provided as a municipal service only in the Borough) be extended townwide. The estimated full cost of providing townwide solid waste collection to the entire merged community is \$1.6 million. This estimate was generated based on data provided by the Borough’s current vendor.

Table 4a: Direct Tax Impacts of Consolidation	Combined
Starting Combined Tax Levy (from Table 3)	\$29,059,788
<i>Apply Efficiency Savings from Consolidation</i>	(\$3,161,000)
<i>Apply Cost of Townwide Solid Waste Collection</i>	\$1,648,528
Revised Combined Tax Levy	\$27,547,316
Subtotal: Revised Combined Tax Rate	0.405

Using the “Revised Combined Tax Rate” derived in Table 4a, we can determine the *direct impact of consolidation* on the average property tax payer in the former Borough and Township. Note that one additional adjustment is made regarding a slight shift in the distribution of the library tax. As shown in Table 4b, based *only* on the direct tax impacts of consolidation, at full implementation the direct impacts of consolidation would result in savings of \$201 for the average Borough property, and \$240 for the average Township property.

Table 4b: Direct Tax Impacts of Consolidation	Former Borough	Former Township
Average Tax Bill (Start)	\$3,222	\$3,596
Average Tax Bill (End)	\$3,028	\$3,348
<i>Adjustment: Distribution of Library Tax</i>	(\$7)	\$8
DIRECT MUNICIPAL TAX IMPACT OF CONSOLIDATION	(\$201)	(\$240)

Step 5: Secondary Impacts of Consolidation

Beyond the direct impacts of consolidation discussed in Step 4, there are a series of secondary impacts – both tax *and* non-tax in nature – that indirectly result in part from the process of consolidating the Borough and

Township into a single, uniform municipal tax base. Among these are the distribution of the County tax, County open space tax and regional school tax, municipal tax and municipal open space tax, each of which would experience “equalization” impacts from bringing the two municipal tax bases into a uniform whole. The adjustment on municipal open space tax recognizes that the Borough and Township currently have different rates (0.010 and 0.020, respectively), with the Commission recommending a “revenue neutral” rate (0.017) for the consolidated municipality. In addition to the equalization impacts, Township taxpayers would also realize a non-tax savings on their private vendor solid waste costs, since those costs would now be allocated through the municipal budget.

Table 5: Secondary Impacts/Adjustments of Consolidation	Former Borough	Former Township
<i>Subcategory 1 (Equalization Impacts)</i>		
Adjustment: Distribution of County Tax	(\$157)	\$99
Adjustment: Distribution of County Open Space Tax	(\$8)	\$8
Adjustment: Distribution of Regional School Tax	(\$277)	\$141
<i>Subcategory 2 (Municipal Open Space)</i>		
Adjustment: Distribution of Municipal Open Space Tax	\$52	(\$24)
<i>Subcategory 3 (Solid Waste Savings)</i>		
Township Savings on Private Solid Waste (non-tax)	-	(\$400)
Subtotal	(\$390)	(\$176)

Step 6: Final Calculation – Direct and Indirect Impacts

When the final direct and indirect impacts of consolidation are accounted for, the full (*i.e.* tax and non-tax) impact on the average Borough property is a savings of \$591. On the average Township property, it is a savings of \$416.

Table 6: Final Calculation, Direct and Secondary Impacts	Former Borough	Former Township
Direct Impact (<i>i.e.</i> average municipal property tax savings)	(\$201)	(\$240)
Secondary Impact (<i>i.e.</i> all other adjustments)	(\$390)	(\$176)
Net Impact on Total Taxes and Costs	(\$591)	(\$416)

	Borough	Township
Current State		
Property Tax Levy	\$9,457,716	\$20,070,600
Taxable Assessed Value	\$2,196,649,214	\$4,617,801,381
Tax Rate	0.431	0.435
Average Property Value	\$747,665	\$826,636
Average Tax Bill (municipal tax only)	\$3,222	\$3,596
Adjustment for Borough Solid Waste		
Remove Borough Solid Waste	(\$468,528)	-
Revised Borough Tax Levy	\$8,989,188	-
Revised Borough Tax Rate	0.409	-
Revised Borough Tax Bill	\$3,058	-
Net Reduction Attributable to Solid Waste	(\$164)	-
Current State, Combined (Minus Borough Solid Waste)		
Combined Tax Levy	\$29,059,788	
Combined Taxable Assessed Value	\$6,814,450,595	
Subtotal: Revised Combined Tax Rate	0.427	
Direct Tax Impacts of Consolidation		
Combined Tax Levy	\$29,059,788	
<i>Apply Efficiency Savings from Consolidation</i>	(\$3,161,000)	
<i>Apply Cost of Townwide Solid Waste Collection</i>	\$1,648,528	
Revised Combined Tax Levy	\$27,547,316	
Subtotal: Revised Combined Tax Rate	0.405	
Average Tax Bill (Start)	\$3,222	\$3,596
Average Tax Bill (End)	\$3,028	\$3,348
<i>Adjustment: Distribution of Library Tax</i>	(\$7)	\$8
DIRECT MUNICIPAL TAX IMPACTS OF CONSOLIDATION	(\$201)	(\$240)
Secondary Impacts/Adjustments from Consolidation		
<i>Subcategory 1 (Equalization Impacts)</i>		
Adjustment: Distribution of County Tax	(\$157)	\$99
Adjustment: Distribution of County Open Space Tax	(\$8)	\$8
Adjustment: Distribution of Regional School Tax	(\$277)	\$141
<i>Subcategory 2 (Municipal Open Space)</i>		
Adjustment: Distribution of Municipal Open Space Tax	\$52	(\$24)
<i>Subcategory 3 (Solid Waste Savings)</i>		
Adjustment: Township Savings on Private Solid Waste (non-tax)	-	(\$400)
Subtotal	(\$390)	(\$176)
Final Calculation, Direct and Secondary Impacts		
Direct Impact (<i>i.e.</i> average municipal property tax savings)	(\$201)	(\$240)
Secondary Impact (<i>i.e.</i> all other adjustments)	(\$390)	(\$176)
Net Impact on Total Taxes and Costs	(\$591)	(\$416)