On August 4th, the finance subcommittee met to review and develop recommendations for the commission to consider in dealing with the expected transition costs, should voters approve consolidation and the state turn down the commission’s request for transition funding.

The first step of the committee was to review the "Anticipated Transition Costs for Consolidation" memorandum and review each anticipated expense.

First, the transition expenses identified by the commission are estimated to be approximately $1.7M. Of this amount, approximately $300,000 is for the first year of the annual cost for salary harmonization. The expected consolidation savings of $1.31M in the first year, rising to $3.16M annually beginning in the third year, is net of this salary harmonization expense. Therefore, while we are requesting it as a ‘transition cost’, it is accounted for in the net savings numbers for the first year. Thus, of the transition costs the commission has identified, the estimated one-time costs are approximately $1.4M ($1.7M – $300K).

Should consolidation be approved by the voters, it is possible but by no means certain that the consolidated municipality may incur additional costs as part of transitioning to the proposed staffing levels. Ultimately, any such decision would be made by the municipal governments in the transition year or by the new municipality’s government after consolidation.

Of the remaining $1.4M in transition costs currently estimated, the committee then reviewed each line item to classify the expenses that could be incurred as capital expenses and thus bonded for payoff over time and those that are operating expenses that would not be able to be capitalized. Of the total amount, we estimated that approximately $616,591 could be capitalized and paid for over a 5 year life. The remaining $787,000 would need to be paid for from the current operating budgets when the costs were incurred.

To that end, the subcommittee developed the following scenarios for the new governing body/transition committee to consider:

Option 1 – Fund all transition costs through surplus/reserve balances. This option would incur no current tax increase on residents based upon the current baseline scenario, but would have a reduction in the combined municipality’s surplus level.

Option 2 – Capitalize a portion of the transition costs and pay the remaining amounts from surplus. This would spread the impact of costs over time and limit the reduction of municipal surplus, allowing for more municipal flexibility.

Option 3 – Capitalize a portion of the costs, defer costs and utilize surplus/reserve balances. This option would allow the municipality to spread the impact of costs over time through capitalization (bonding), deferral (i.e. not immediately upgrading police vehicle signage, etc.), and only use a limited amount of surplus/reserve balance. It is likely that the costs incurred for vehicle signage and other police related expenses, would be incurred under a deferral cost scenario whether or not the municipalities consolidated.
All of these options warrant consideration. However, the subcommittee felt that regardless of the option selected, the cost impact to Borough and Township residents would be relatively minimal and could be controlled if the governing body/transition team decided to utilize capitalization or cost deferral.

Finally, the majority of transition expenses are related to the police departments. In the Borough, the transition expenses can be considered cost avoidance, because they are more than offset in the near term by expenses that would be incurred if the municipalities decided not to consolidate. If the municipalities maintain the status quo – that is if they do not consolidate or share police services – then the Princeton Borough Police Department expects to incur one time costs estimated at $1.17M in the near future, to update hardware systems and software licenses.