

Numbers Offered as Evidence That Total Tax Savings Are Not Found Through Consolidation

To the Editor:

The State of New Jersey has authorized a Princeton consolidation study. No surprise there, the State has been urging, one might even say coercing, municipalities to consolidate recently. Princeton municipal officials, both Township and Borough, appear to be enthusiastic about consolidation. Township Mayor Miller was quoted as referring to "... recognizing the benefits and economies that could be found through consolidation". What economies and whose benefits? Using tax data from the two municipalities over the years 2003 through 2009 I have examined this.

The quantities reported are based on tax dollars raised, not tax rates. First the economies:

Municipal taxes raised for the Township per year over the period 2003 to 2009 inclusive ranged from twenty to twenty five percent of the total tax of the Township. The other parts of the total over that period were County 30–28 percent, Schools 49–47, Open Space 0.7–0.6. For the Borough the same figures were Municipal 24–24 percent, County 28–28, Schools 48–47 and Open Space 0.0–0.2. Thus seeking tax reductions through municipal consolidation means seeking them through only about 20–25 percent of the total tax (Township) or 24 percent of the total (Borough). Roughly speaking if consolidation reduces municipal taxes by 10 percent (An unrealistically high number) the savings are only about 2.5 percent of the total tax. However, the average annualized rate of growth of taxes is for the Township: Total 5 percent, Municipal 8.5, County 4.1, and Schools 4.5. For the Borough the figures are Total 5.8 percent, Municipal 6.1, County 5.8, and Schools 5.8. Thus the large hypothesized tax saving through consolidation, 2.5 percent, is wiped out in less than one year. These growth rates should be compared with the annual U.S. inflation rate for the years 2003 through 2008, which was from 2.27–3.85 percent. For 2009 thru November it was -0.62 percent. Municipal, County and State costs do not exist in isolation from national trends although they all did exceed them and this leaves room for improvement. The growth rates are the important quantities: a five percent growth rate yields a fourteen year doubling time, i.e. takes doubled by year 2024. Next, who benefits:

If during the period in question the total taxes raised and the total valuations of the two municipalities had been combined (as if consolidated) the tax rate for Township residents would have been 2.7–5.3 percent higher and that for Borough residents would have been 6.4–11.0 percent lower. Over that period the combined tax rate would have grown at an average annualized rate of 4.9 percent. Even the large advantage for the Borough would be wiped out in a little over two years.

Total tax savings are not to be found through consolidation, they are to be found through carefully examining and controlling the factors that drive the rate of growth of taxes. Alternatively, the pain might be shifted by revising the tax code. Both of these approaches will be politically painful and therefore are unlikely.

For the Princetons, municipal consolidation will not affect the serious problem of growth rates, and it will therefore not provide tax relief.

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