

# **FISCAL ASPECTS OF CONSOLIDATING CHESTER BOROUGH AND CHESTER TOWNSHIP**

*A Report to the Joint Municipal Consolidation Study  
Commission of Chester Borough and Chester Township*

*Pursuant to N.J.S.A. 40:43-66.35 et seq. and  
N.J.S.A. 40A:65-25 et seq.*

**May 2010**

Prepared by:

**State of New Jersey**

Chris Christie, Governor  
Kim Guadagno, Lt. Governor

**Department of Community Affairs**

Lori Grifa, Commissioner

**Division of Local Government Services**

Marc Pfeiffer, Acting Director





# Fiscal Aspects of Consolidating Chester Borough and Chester Township

## Table of Contents

Introduction .....	1
Summary of Findings .....	1
Data Analysis Notes.....	2
Merging Municipalities and Property Taxes .....	3
Municipal Consolidation of the Chesters .....	4
Chester Borough Current Budget and Taxes.....	5
Chester Township Current Budget and Taxes.....	5
Combining Municipal Budget and Taxes.....	6
Estimate of Economies of Scale.....	7
Who Benefits from Consolidation? .....	8
Current Municipal Debt .....	8
The Open Space Tax .....	9
Debt Management Options for the Commission to Consider .....	10
What about Chester Borough Utilities? .....	12
The Impact of Consolidation on the School Systems.....	14
Impact on County Government.....	18
The Effect on Taxpayers and the State’s Responsibility.....	18
Conclusion.....	20
Appendix .....	21-34



**State of New Jersey**  
DEPARTMENT OF COMMUNITY AFFAIRS  
101 SOUTH BROAD STREET  
PO BOX 803  
TRENTON, NJ 08625-0803

**CHRIS CHRISTIE**  
*Governor*

**KIM GUADAGNO**  
*Lt. Governor*

**LORI GRIFA**  
*Commissioner*

May 2010

Joint Municipal Consolidation Study Commission  
of Chester Borough and Chester Township

Dear Commissioners:

I am very pleased to submit to you the accompanying objective study of the fiscal aspects of the proposed consolidation of Chester Borough and Chester Township, in fulfillment of the Department's obligation under the Municipal Consolidation Act and Local Option Municipal Consolidation Act.

Throughout the course of this study, our staff has had full cooperation of Borough and Township officials as well as other individuals who assisted with the information in this report. Being able to tap the knowledge and candor of these seasoned people has been most helpful.

Let me extend to you my best wishes as your deliberations lead you toward thoughtful conclusions on behalf of the people of your respective communities.

Sincerely,

A handwritten signature in black ink, appearing to read "Lori Grifa".

Lori Grifa, Commissioner

# **Fiscal Aspects of Consolidating Chester Borough and Chester Township**

## ***INTRODUCTION***

The Department of Community Affairs (Department) submits this report to the Joint Municipal Consolidation Study Commission (Commission) of Chester Borough (Borough) and Chester Township (Township) to help it understand the financial issues involved in the consolidation process. It is an objective study of the fiscal aspects of the proposed consolidation, examining current budgets, taxes, and debt service in the two municipalities. It is a snapshot of each community's existing financial picture and how these two pictures would be merged should the two governments become one. The picture this report paints does not take into account any changes or efficiencies that can result from consolidation.

This is not an assessment of costs, nor is it an evaluation of services. The Commission, with financial support from the Department, has hired the Center for Government Research to assist the Commission in evaluating, understanding, and projecting services needs and costs. Thus, this report will not make any recommendations for service changes, nor will it compare the two governments' service levels.

This report will demonstrate how existing budgets and tax levies can be merged, and how the State will provide financial assistance to allow the two municipalities to start the consolidation process on an equal footing. Savings and efficiencies that can come from combining two governments to one will result in added property tax savings and improved community finances.

## ***SUMMARY OF FINDINGS***

The task of the Commission is to study the potential merger of two municipal governments into one stronger, larger unit that can operate more effectively and efficiently than two can separately. The consolidation process will not involve the school or county government operations; therefore, any structural changes will affect the 24% of property taxes paid in the two municipalities for municipal government services. However, the formula used by the West Morris Regional High School District results in a cost shift between the Borough and the Township, as consolidation results in the merging of student populations.

The first step when considering consolidation is to merge the existing municipal budgets and tax rates. Calendar Year 2009 budget and tax rates are used to demonstrate the impact. If the voters approve consolidation, the actual consolidated budget and tax rate will be struck in the spring of 2012, when the budget of the new municipality is set.

Equalizing the tax base of two municipalities normally results in one tax rate increasing and the other decreasing. After equalizing values, then combining the 2009 budgets and tax levies of Chester Borough and Chester Township, *and without assuming any efficiency savings from consolidation*, the Township's municipal tax rate increases about 16% and the Borough's rate decreases proportionately. When the impact of consolidation is applied to the regional school tax apportionment, the **total tax rate** in the Township goes up 3.87% and the Borough's total tax rate reduces by 10.82%. To protect against residential property tax increases, State law provides an ongoing tax credit to residential taxpayers whose taxes go up in the first year of consolidation.

Both Chester Borough and Chester Township are small and fiscally sound communities. The population of the two municipalities together is less than 10,000. Both would benefit from the economies of scale and unified decision-making that are inherent with a larger size.

This report highlights several considerations that the Commission may want to address: the treatment of debt service and solid waste costs. The report also notes that the Borough's sewer and swimming pool utilities are self-supporting and their debt is self-liquidating, therefore, they will not affect the deliberations of consolidation.

---

## ***DATA ANALYSIS NOTES***

### **Property Tax Equalization:**

Throughout this report, the County equalization process has been described as the method used to merge the two budgets and tax rates. The first consolidated tax rate will be determined using this equalization method. It should be noted that these equalized values will be used to adjust each individual property value of the newly established municipality. These new values will be the municipal values going forward and will be used to distribute costs for the consolidated community until a reassessment of property is performed.

### **Rounding:**

This report involves data prepared by several government agencies. Each agency applies its own standards and protocols for their calculations, with specific regard to rounding of amounts and the number of decimals used in calculations such as tax rates, levies, and multipliers. As a result, there are occasions where there are minor variations between original sources and this document, particularly where the report makes projections regarding a consolidated Chester. This amounts are marginal in nature and do not detract from the overall conclusions.

## ***MERGING MUNICIPALITIES AND PROPERTY TAXES***

When comparing any two governments, they will never have the same budget, tax rate or debt service. Chester Township and Chester Borough are not exceptions to this rule. Although municipalities occasionally share services in certain functional areas, there is no fiscal relationship between the individual departments or between the budgets that fund them. The two governments have operated independently, and there is no correlation of costs, level of service, tax rate, or debt.

If these governments are combined, adjustments must be made to equalize the tax rates and combine budgets in a fair manner. This adjustment normally requires one tax rate to increase and the other to decrease. State government addressed the impact of this in the "Local Option Municipal Consolidation Act" (P.L.2007, c.62) enacted in 2007. The State wants to be sure that no residential taxpayer is financially penalized from consolidation. Therefore, State law provides a continuing tax credit to all residential taxpayers whose property tax payment increases as a result of consolidation. This tax credit stays with the property until the property changes ownership.

Under the N.J.S.A. 40A:65-28(b), the State's responsibility begins as soon as the new municipal government is established and a budget is adopted.

If the voters of Chester Borough and Chester Township approve consolidation in November of 2010, the new government will take office in January of 2012. The Department of Community Affairs will then review the budgets of each municipality for the year prior to consolidation to adjust the tax levy to reflect any revenues or expenditures that do not reflect routine operations ("normalize"). This procedure is to ensure that the budget reflects only normal operations, without consideration related to the consolidation, an unlikely, but possible, circumstance. The first year's budget of the newly consolidated municipality will be similarly reviewed to normalize for non-routine operations.

When new municipal government strikes the tax rate that year (subject to the normalization process above), the taxes paid by each property owner for municipal and school purposes will be compared to the 2011 payment.

A credit equal to the difference between the two years will be awarded to residential property owners who paid a lower amount in 2011 than in 2012. This credit will remain for as long as that owner owns the property. Tenants will receive a rent rebate pursuant to the Tenant Property Tax Rebate Program. The State will pay the municipality the amount of the credits quarterly.

Through this process, the State of New Jersey will provide the financial assistance necessary to allow residential taxpayers of the two municipalities to start the consolidation process on an equal footing.

**MUNICIPAL CONSOLIDATION OF THE CHESTERS**

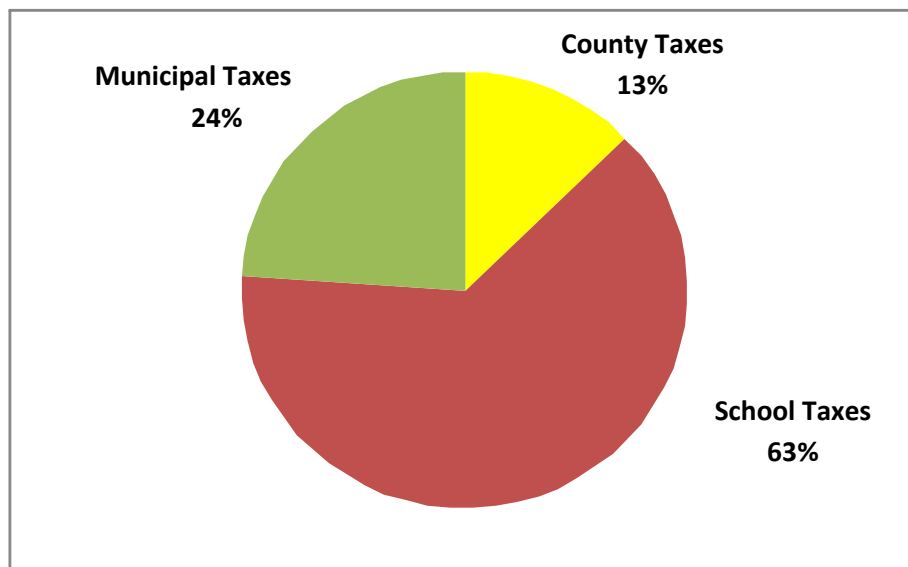
Consolidation, as considered by the Commission is the merging of two municipal governments to form one stronger, larger government that will be able to operate more effectively and efficiently. The proposed consolidation covers just the municipal government. It does not cover the Chester School District K-8 school system, membership in the West Morris Regional High School or county services.

Property owners in New Jersey pay taxes to support the municipal, school and county governments. Combined, Borough and Township school district levies make up 63.2% of taxes paid; 41.4% for the Chester School District and 21.8% for the West Morris Regional High School District. The county tax levy, including open space (1.8%), is 12.8%. Therefore, 76% of all property taxes paid by residents of the two municipalities are for school and county services. This consolidation will only change service delivery at the municipal, government level. Municipal government represents only 24% of the property tax dollar.

**PROPERTY TAX LEVIES IN THE CHESTERS**

Tax	Borough	Township	Combined	Percent
County Tax	\$928,048	\$4,254,964	\$5,183,012	11.0%
County Open Space Tax	155,659	712,149	867,808	1.8%
School Tax Local District	3,439,488	16,172,045	19,611,532	41.4%
School Tax West Morris	1,393,772	8,907,312	10,301,084	21.8%
Local Municipal Tax	2,996,172	7,815,207	10,811,379	22.8%
Municipal Open Space	90,761	454,000	544,761	1.2%
<b>Total Tax Levy</b>	<b>\$9,003,900</b>	<b>\$38,315,676</b>	<b>\$47,319,576</b>	<b>100.0%</b>

**CURRENT COMBINED CHESTER TOTAL PROPERTY TAX DISTRIBUTION**





***CHESTER BOROUGH CURRENT BUDGET AND TAXES***

The 2009 Borough budget (excludes the self-liquidating sewer, solid waste and pool utilities) was \$4,635,589. \$2,996,172 of this amount was raised by property taxes. The net taxable value in the Borough in 2009 was \$453,804,374. Therefore, to collect the \$2,996,172 tax levy, the tax rate was set at \$0.660 per \$100 of assessed value. The average residential property owner who owned a home valued at \$528,326 paid \$3,492 in property tax to support the local government. A tax point was \$45,380. This means that for every \$45,380 added to the budget, the tax rate increases by one penny for every \$100 of assessed value. The tax collection rate in Chester Borough in 2009 was an excellent 98.41%.

**2009 CHESTER BOROUGH BUDGET AND TAXES**

Budget	\$4,635,589
Amount raised by taxes	\$2,996,172
Municipal tax rate	\$0.660
Net value taxable	\$453,804,374
Average residential property value	\$528,326
Municipal taxes on average residential property	\$3,492
Tax collection rate	98.41%
Tax point	\$45,380

***CHESTER TOWNSHIP CURRENT BUDGET AND TAXES***

The Chester Township municipal budget was \$10,985,095 in 2009. The amount raised by taxation to support the 2009 budget was \$7,815,207. The net taxable value in the Township was \$2,249,284,682 so that the tax rate was set at \$0.347 per \$100 of assessed value to collect the tax levy. The average residential property owner who owned a home valued at \$825,961 paid \$2,875 in property tax to support the municipal government. A tax point in Chester Township was \$224,928. This means that for every \$224,928 added to the budget, the tax rate increased by one penny for every \$100 of assessed value. This tax point value differs quite a bit from the Borough's tax point value (\$45,381) and the impact will be examined later in this report. Similar to the Borough's tax collection rate, the Township's tax collection rate was at an excellent 98.04%.

**2009 CHESTER TOWNSHIP BUDGET AND TAXES**

Budget	\$10,985,095
Amount raised by taxes	\$7,815,207
Municipal tax rate	\$0.347
Net value taxable	\$2,249,284,682
Average residential property value	\$825,961
Municipal taxes on average residential property	\$2,875
Tax collection rate	98.04%
Tax point	\$224,928

**COMBINING MUNICIPAL BUDGETS AND TAXES**

In order to combine the budgets and tax levies of the two municipalities, the assessed values of each community must be recalculated as “equalized,” “true,” or “market” value – 100% of value. The Morris County Board of Taxation calculates an equalization ratio that is used for this purpose.

In 2009 the County determined that Chester Borough's property value ratio was 95.71% of true value. This means that when the County looked at the sale of property across Morris County, the values currently established for Chester Borough were about 4.29% below market. The Board found Chester Township's values slightly higher than market, and its ratio was set at 102.58%.

Applying the ratios brings the values in each community to 100%. When the property values for the two municipalities are equalized the total falls from \$2,703,089,056 to \$2,671,619,108<sup>1</sup>, slightly lower than the value established locally. \$475,936,922, or 17.8%, of this amount is Borough property; while \$2,195,682,116, or 82.2%, is Township property. This study uses these percentages to make tax projections for a merged municipality.

To support their 2009 budgets, the two municipal governments raised \$10,811,379 through property taxation. The actual tax levies were \$2,996,172 for the Borough and \$7,815,207 for the Township. When applying the percentages developed above, Borough property owners are responsible for \$1,924,425, while the Township property owners would be taxed \$8,886,953, based on equalized values instead of the assessed value. This is a shift of \$1,071,747 between the two, from the Borough to the Township.

**INITIAL COMBINED AND EQUALIZED TAX LEVIES**

	Value	Ratio	Equalized Value	Percent	2009 Tax Levy	Equalized Levy	Consolidated Rate
Borough	\$453,804,374	95.71%	\$475,936,992	17.8%	\$2,996,172	\$1,925,999	0.405
Township	\$2,249,284,682	102.58%	\$2,195,682,116	82.2%	\$7,815,207	\$8,885,380	0.405
<b>Combined</b>	<b>\$2,703,089,056</b>	<b>101.18%</b>	<b>\$2,671,619,108</b>	<b>100.0%</b>	<b>\$10,811,379</b>	<b>\$10,811,379</b>	<b>0.405</b>

Under this initial calculation, in 2009, a Borough property owner, who owned a home valued at the average \$528,326, paid \$3,487 to support the municipal tax levy. This owner would only pay \$2,236 under the combined 2009 levy. The average Township taxpayer, who owns a home worth \$825,962, would pay \$3,261 or \$395 more than the current \$2,866 when the levies combine<sup>2</sup>.

These changes are not “final” calculations. This report recommends several adjustments to the change calculation. These changes are reviewed later in the report.

<sup>1</sup> See the *Initial Combined and Equalized Tax Levies* chart.

<sup>2</sup> See *The Effect of Consolidation on the Average Residential Taxpayer* chart.

**EFFECT OF CONSOLIDATION ON THE AVERAGE RESIDENTIAL TAXPAYER**

(Before levy adjustments and efficiency savings)

	<b>Average Property Value</b>	<b>Tax Rate</b>	<b>Taxes on Average residential property</b>	<b>Merged taxes on average residential property</b>	<b>Change</b>
Chester Borough	\$528,326	\$0.660	\$3,487	\$2,236	\$(1,251)
Chester Township	\$825,962	\$0.347	\$2,866	\$3,261	\$395

***ESTIMATE OF ECONOMIES OF SCALE***

The difference between the two tax rates makes a significant argument for economies of scale. Both municipalities are small and can benefit from a larger tax base. The Borough is considerably smaller than the Township and its size has a major impact on the cost of running its government. The comparisons are explained below and displayed in Appendix F, *Chester by the Numbers*.

The Borough's population is only 21% of the Township's population (1,640 to 7,795). The number of residential properties in the Borough, 466, is only 18% of the number in the Township, 2,616. Its physical size is 3.6% of the Township (1.063 sq. mi. to 29.3 sq. mi.). The budget, on the other hand, is 42.2% of the Township's budget and the tax rate is almost double the Township's tax rate.

Although the Township's tax rate is a little more than half that of the Borough's tax rate, it generates 61.7% more revenue. A tax point in the Borough is \$45,380; if Borough needs to purchase a new truck costing \$45,000, one tax point will be added to every taxpayer's bill to pay for it. If the Township wants that same truck, the cost in tax points is two tenths of a point (20%), or one fifth of what the Borough taxpayer pays to have that same truck added to the fleet.

The same phenomenon affects debt. The Borough's debt is 38.4% of the Township's debt (\$5,638,360 vs. \$14,701,636), yet the effect on the Borough taxpayer is 81% greater (1.21% vs. 0.67% of equalized values). Does this mean that Chester Borough benefits from consolidation at the expense of Chester Township? No, because the State property tax assistance program protects against that.

Moreover, any efficiency savings that might result from consolidation would benefit property taxpayers of both municipalities, on a proportionate basis. It also means that the Commission should look more closely at the positive effect of a larger tax base on the cost of providing services.

## ***WHO BENEFITS FROM CONSOLIDATION?***

Everyone. While Borough taxpayers benefit from consolidation with lower property taxes given the arguments above; the potential economies of scale and any resulting efficiency savings help both communities. The combined community will be larger, and the larger tax base will provide a positive effect on future costs for both taxpayer groups.

It is also important to understand the potential of "thinking as one." Thinking and acting as one larger community with one government presents new choices, choices not available for consideration in the two municipalities as separate entities. From a policy perspective, integrated planning and zoning will benefit the community; the scale and larger population will likely increase influence in county and regional decision-making.

There will be an opportunity to reevaluate service delivery systems, facility and equipment needs, infrastructure planning, and policy choices. Even the services currently shared will be more efficient when delivered under one government. Unified decision-making under one governing body, one municipal attorney, one Planning Board, one Board of Adjustment, and one administration will create a more effective and efficient direction for the entire Chester community that will eliminate duplication and provide opportunities to reduce operating costs.

The consultant hired by the Commission, the Center for Governmental Research (CGR), has separately analyzed potential efficiency savings that can be produced by consolidating the various functions and operations of the two existing municipalities. These savings are presented as a range, with the actual amount subject to the level of restructuring endorsed by the Commission in its final consolidation plan. At the most conservative level (i.e. fully merging both workforces and equalizing compensation levels upward with no restructuring), consolidation would produce no savings. Under more aggressive restructuring assumptions, consolidation could produce savings to the community of as high as \$877,000. With this information the Consolidation Commission now has the opportunity to consider the potential of a single, unified government serving the extended Chester community.

## ***CURRENT MUNICIPAL DEBT***

Each year, as a part of the budget process, municipalities are required to prepare an Annual Debt Statement (Statement) documenting the total accumulated debt within the municipality<sup>3</sup>. It lists the notes, bonds and loans acquired by the schools, the self-liquidating utilities (those that have dedicated revenues pledged to offset the debt), and the municipal government. The Statement then takes the gross (total) debt and deducts the amount for which the municipal government is not responsible (school and self-liquidating). This "net" debt, backed by the full

---

<sup>3</sup> See Appendix I.

faith and credit debt (pledged against the property taxing power of the municipal government) is what we compare in the *2009 Debt Statement Comparison* table. The “debt ratio” is displayed as the percent of the net debt of the average of the most recent three years equalized property value (this report uses 2007, 2008, and 2009 for the debt ratio calculation).

The net debt for Chester Township as of December 31, 2009 was \$14,701,636. This yields a debt ratio of 0.67%. The total net debt for Chester Borough as of December 31, 2009, was \$5,638,360. This yields a 1.21% debt ratio.

**2009 DEBT STATEMENT COMPARISON**

	<b>Township</b>	<b>Borough</b>	<b>Difference</b>	<b>% - B/T</b>
Net Debt as of 12/31/09	\$14,701,636	\$5,638,360	\$9,063,276	38.4%
Debt Ratio	0.67%	1.21%	(0.54)%	180.6%
3 Year Average Equalized Value*	\$2,190,737,552	\$466,488,147	\$1,724,249,405	21.3%

\*Three year average property values from Annual Debt Statements

Chester Borough’s debt at the end of 2009 was 38.4% of the Township debt (\$5,638,360 vs. \$14,701,636), but the burden on the taxpayer was 81% greater. This is due to the smaller property base in the Borough, 21.3% of the Township property value. Since debt service is paid by property taxation, Township taxpayers could conclude that they will be subsidizing Borough debt should consolidation go forward. The issue is further discussed below and the Commissioners must consider it as part of their deliberations.

***The Open Space Tax***

Much of the debt in both municipalities is due to the acquisition of property to protect open space. Both communities look at the protection of open space as a priority and each elected to establish a \$0.02 open space tax to pay for it. In Chester Township, 59.7% of its debt is for open space (\$8,770,160 of \$14,701,636). The Borough has incurred \$2,123,360 in debt for the acquisition of property, or 37.7%, of the \$5,638,360 it currently owes.

Since both governments pay this portion of debt from their open space tax fund and the burden on the taxpayers of both communities for that portion of the debt is equal, it is logical to exclude open space debt from the formula when examining debt service equity. If this is done, Township debt drops from \$14,701,636 to \$5,931,476. The debt ratio, the burden on the taxpayer for this non-open space debt, also drops dramatically from 0.67% to 0.27% of property value.

The Borough's debt, excluding open space, is \$3,515,000, or 62.3%, of the \$5,638,360 total. The debt ratio falls from 1.21% to 0.75%. The table below summarizes current debt in the two municipalities, excluding open space.

**MUNICIPAL DEBT EXCLUDING OPEN SPACE**

	<b>Township</b>	<b>Borough</b>	<b>Difference</b>	<b>%-B/T</b>
Debt as of 12/31/09	\$5,931,476	\$3,515,000	\$2,416,476	59.3%
Debt Ratio	0.27%	0.75%	-0.48%	278.3%
3 Yr Avg. Equalized Values*	\$2,190,737,552	\$466,488,147	\$1,724,249,405	21.3%

***DEBT MANAGEMENT OPTIONS FOR THE COMMISSION TO CONSIDER***

There are three recommendations the Commission could make to address the debt issue:

1. Establish separate taxing districts (tied to the current municipal boundaries) for the existing debt, so the two taxpayer groups would independently pay down the debt accumulated before consolidation (new debt would be borne by the full community).
2. Establish a taxing district for a portion of Borough debt only.
3. Shift the debt from the two municipalities to the new government.

The options are examined below:

1. The first solution establishes separate taxing districts for all existing debt. Under this plan, debt service would continue to be paid following the same schedule; each “former” municipality’s taxpayers would be responsible for only its portion of the cost. A separate “debt” tax levy would be set each year according to the amount owed, and it would be added to the property tax until the obligations are retired. According to debt payment schedules and governing body policy, the Borough’s bond anticipation debt continues through 2020, and the Township taxing district would go on until the end of 2028<sup>4</sup>. Open space debt could be excluded from these districts. It should be understood that all new debt would be the responsibility of the entire community under the newly formed government.
2. The second solution is to “equalize” the debt burden brought by each municipality. This is done by establishing a taxing district for a portion of the Borough debt only. Since net debt in the Township, excluding open space, is currently 0.27% of the average equalized property value and net debt for Chester Borough, excluding open space, is 0.75% of the average equalized property value, the Borough would have to reduce its debt by 0.48% of equalized value in order to reach the same ration as in the Township (0.75% - 0.27% = 0.48%).

This means that \$2,251,972 of Chester Borough's debt would have to be paid by Borough taxpayers before debt costs could be shared. Therefore, a taxing district, made

---

<sup>4</sup> See Appendix M.

up of Borough taxpayers could be established to pay this \$2,251,972. This would offset the reduction in property taxes that Chester Borough residents will receive when the combined tax rate for a merged municipality is calculated. Using 2009 budget figures, the average Borough taxpayer would save \$1,251 annually, offset by the amount budgeted each year to reduce the outstanding debt.

3. The third alternative is to simply combine the debt, as the new municipality takes ownership of the facilities financed by the predecessor entities. That is, taxpayers from both communities will own and benefit from all of it under the new government. If it is found that the projects have value to all taxpayers equally, the Commission could justify accepting the projects and debt as something that better serves the expanded community. In this case, the Commission could recommend that all debt be absorbed by the new government.

**DEBT SERVICE ALLOCATION MODELS**

	Debt Amount		
	Alternative #1: Separate Districts	Alternative #2: Equalize Boro Debt	Alternative #3: Combine All Debt
Borough Taxing District	\$3,515,000	\$2,251,972	\$0
Township Taxing District	\$5,931,476	\$0	\$0
Open Space Tax Funds	\$10,893,520	\$10,893,520	\$10,893,520
Consolidated Government	\$0	\$7,194,504	\$9,446,476

### ***WHAT ABOUT CHESTER BOROUGH UTILITIES?***

The Borough has three self-supporting utilities that provide sewer, swimming, and solid waste services to residents. The Township does not have any utilities.

There are 223 households and businesses connected to the Borough's sewer system. This is 30% of the total number of developed properties in the Borough. The other developed properties in the Borough have septic systems with installation and maintenance of these systems paid by the individual property owners. Developed properties in the Township have septic systems with the individual property owners paying these costs.

The Borough's 2009 Sewer Utility budget of \$538,472 is paid by properties connected to the system through user fees. If the two municipalities are consolidated, the sewer utility will continue to serve the connected properties at their expense. The new municipality would then control the management and expansion of the sewer system going forward. Therefore, this utility should not affect the decision on whether to consolidate.

The 2009 Borough Swimming Pool Utility budget is \$535,112. Users of the pool pay this entire cost. Both Borough and Township residents are eligible for membership and pay the same fees. The Swimming Pool Utility, therefore, can easily be brought into a newly constituted municipality and should not affect the consolidation decision.

As of December 31, 2009, the Borough sewer and swimming pool utilities had accumulated a combined debt of \$1,609,057 (sewer \$734,057 and swimming pool \$875,000). The solid waste utility did not have any debt. All debt accumulated in these utilities is self-liquidating; that is, it is paid by the users of these utilities and has no effect on consolidation.

The Borough managed collection of solid waste through a utility whose 2009 budget is \$93,286. This budget covers the collection and disposal of solid waste and recycling for all Borough properties. Although managed as a separate utility, the collection, disposal and management process is very similar to the Township's process. Each municipality has contracted with a different vendor for solid waste collection. Both impose sticker fees to cover a portion of disposal costs. The only difference between the municipalities is the Borough's use of the utility to remove the cost for solid waste from the operating budget (and outside of the State's spending and tax levy cap laws).

Therefore, when comparing the budget and tax rate of the two municipalities the Borough's solid waste utility requires special attention. Since this utility provides the same service to citizens as the Township solid waste service, it could be argued that the cost should be added to the Borough municipal tax rate before a true comparison can be made. This calculation is shown in the *Bringing Borough Solid Waste Costs into the Tax Rate* table below.



As noted above, the 2009 solid waste utility budget is \$93,286. \$17,286 of this amount is raised through the sale of stickers to control the number of bags and type of garbage collected. If solid waste were a part of the municipal budget, this \$17,286 would be budgeted as a revenue to help off-set expenditures. \$76,000 of the utility budget, however, is a fee paid by property owners who use the service. This fee for service would no longer be charged if solid waste collection and disposal were a part of the property tax. To adjust this, the \$76,000 appropriation can be added to the Borough tax levy to make it equivalent to the Township tax calculation and the way the Township handles the same service. The effect on the 2009 Borough budget and tax rate follows:

**BRINGING BOROUGH SOLID WASTE COSTS INTO THE TAX RATE**

	Amount	Solid Waste	Combined
2009 Budget	\$4,635,589	\$93,286	\$4,728,875
Amount to be Raised by Taxation	\$2,996,172	\$76,000	\$3,072,172

Taxable Property	\$453,804,374
Amount to be Raised by Taxation	\$2,996,172
Tax needed with solid waste costs	\$3,072,172
Tax Rate per 100	\$0.660
Tax Rate with solid waste costs	\$0.677
Increase in Tax rate	\$0.017

With \$76,000 added to the amount raised by taxes, the revised Borough levy is \$3,072,172. The tax rate increases by 1.7 cents per \$100 of assessed evaluation from \$0.660 to \$0.677. The increased tax rate carries forward when the Borough levy combines with the Township levy for consolidation. The table below shows how the consolidated rate grows by a quarter of a point from \$0.405 to \$0.4075.

**MERGING TAX LEVIES WITH BOROUGH SOLID WASTE UTILITY INCLUDED**

	Value	Ratio	Equalized Value	Percent	Levy with Utility	Equalized Levy	Consolidated Rate
Borough	\$453,804,374	95.71%	\$475,936,992	17.8%	\$3,072,172	\$1,937,953	\$0.4075
Township	\$2,249,284,682	102.58%	\$2,195,682,116	82.2%	\$7,815,207	\$8,949,425	\$0.4075
Combined	\$2,703,089,056	101.18%	\$2,671,619,108	100.0%	\$10,887,379	\$10,887,379	\$0.4075

This change in consolidated tax rate affects the average residential taxpayer in each community. Using this 2009 budget example, the average residential taxpayer in the Borough will receive an additional \$76 reduction from the \$1,251 calculated earlier in this report. The total new savings for the average residential parcel will be \$1,327. The average property owner

in the Township, on the other hand, will absorb an additional \$20, so that the initial \$395 increase caused by consolidation will grow to \$415. Note that this calculation is subject to additional modification, given the outcome on how debt service is handled, as well as the impact of school taxes.

**AFFECT OF CONSOLIDATION ON THE AVERAGE RESIDENTIAL TAX PAYER  
With Borough Solid Waste Cost Modification**

	<b>Average Property Value</b>	<b>Tax Rate</b>	<b>Average Residential Taxes</b>	<b>Merged Tax</b>	<b>Change in Taxes</b>
Borough	\$528,326	\$0.677	\$3,577	\$2,250	\$1,327
Township	\$825,962	\$0.347	\$2,866	\$3,281	\$(415)

No matter which budget consolidating process is used, there are several adjustments related to solid waste management, that are needed should the two governments consolidate. The Borough's contract with Waste Management expires December 31, 2011. The Township's contract with Blue Diamond Disposal ends December 31, 2012. Therefore, the Borough will need to bid a one-year contract for solid waste services in order for the contracts to end simultaneously.

The consolidated government will then have to determine whether to expand the utility to cover the entire municipality or dissolve it. Once this is determined, this new government can then develop specifications and bid a new contract for the collection and disposal of solid waste for the consolidated community beginning in 2013.

***THE IMPACT OF CONSOLIDATION ON THE SCHOOL SYSTEMS***

The school systems servicing both communities are not affected by consolidation of the municipal governments. The formula used by the regional district, however, will shift some costs.

Chester Township and Chester Borough students attend schools together in two school districts. Those in kindergarten through eighth grade attend schools operated by the Chester Public School District. As a “consolidated district” under State law, it functions as a single district, as if the two municipalities were one with costs shared according to equalized property value. A single Board of Education with 9 members, elected at large from both jurisdictions, establishes policies, selects staff, and oversees district operations. There are 270 Borough students and 1,186 Township students attending the three schools in the district. According to the Morris County Superintendent, Dr. Kathleen C. Serafino, school district apportionment will not change should consolidation take place.

**CHESTER SCHOOL DISTRICT – K-8<sup>TH</sup> GRADE**

	<b>Equalized Value</b>	<b>Percent of Value</b>	<b>Operating Fund Tax Levy</b>	<b>Debt Service Levy</b>	<b>Total</b>
Chester Borough	\$475,654,657	17.78%	\$3,256,715	\$276,454	\$3,533,169
Chester Township	\$2,211,995,112	82.22%	\$15,062,382	\$1,278,605	\$16,340,987

Students attending ninth through twelfth grades are part of the West Morris Regional High School District. This district consists of two high schools: West Morris Central High School serving Washington Township, and West Morris Mendham High School serving Chester Borough, Chester Township, Mendham Borough, and Mendham Township. District costs are divided among the five municipalities by equalized property value and enrollment (See the two tables on page 18). This formula causes a significant shift in tax levies between the two municipalities if they consolidate.

The table on the top of Page 17 displays calculations showing the 2009 allocation of equalized value and enrollment among the five member municipalities. The lower table shows the 2009 allocation as if the Chesters had been consolidated. The formula to allocate the tax levy involves the following steps:

1. For each municipality, the regional high school enrollment is compared to the elementary enrollment to obtain a percentage of students attending the elementary district.
2. The equalized property value of the municipality is then multiplied by this percentage to determine the portion of value to be set aside for the elementary district.
3. The difference between the total property value and the elementary value then becomes the Regional Equalized Value and is then compared to the other participating municipalities to determine the percentage of costs for which each municipality is responsible.

With the number of students changing each year and the proportion of students shifting between the elementary and high school, the share of costs are somewhat volatile.

The impact on the individual Chester municipalities comes when consolidation equalizes property values and enrollment numbers from the two communities. At this point, the five communities making up the regional district will become four. School enrollment in the two communities will be added together and treated as one. Therefore, all regional school costs chargeable to the new Chester will be shared among its taxpayers proportionally, based on property value only.

From the tables on page 17, the percent of budgets for 2009 are as follows:

- Chester Borough taxpayers were responsible for 3.614%, or \$1,447,354, of the \$40,049,122.

- Township taxpayers were responsible for 22.45% of the cost, or \$8,990,934.

When the two municipalities merge, however, the enrollment part of the formula causes a \$402,318 shift in cost from the Township to the Borough.

If the two communities merge (using 2009 information), the new Chester is responsible for 26.097% of the regional school cost. This is only a slight change from what they were responsible for as two communities, 26.064% (3.614% + 22.45%).

However, the now consolidated Borough taxpayers, which had paid for only its portion of the student population, now must pick up a portion of the Township's students. The increase in cost is \$402,318. Former Township taxpayers, on the other hand, will have a reduction in cost as it shares the cost of its larger number of students with the former Borough taxpayers. The former Township allocation is reduced by \$389,179.

The chart below shows the shift in 2009 costs when the two communities are merged.

**REGIONAL SCHOOL LEVY DISTRIBUTION BETWEEN CHESTERS  
BEFORE AND AFTER MERGE**

	<b>Equalized Value</b>	<b>Percent</b>	<b>2009 Share Before Merge</b>	<b>Share after Merge</b>	<b>Difference</b>
Borough	\$475,654,657	17.7%	\$1,447,354	\$1,849,672	\$402,318
Township	\$2,211,995,112	82.3%	\$8,990,934	\$8,601,754	\$(389,179)
<b>Total</b>	<b>\$2,687,649,769</b>	<b>100.0%</b>	<b>\$10,438,287</b>	<b>\$10,451,426</b>	<b>\$13,139</b>

Two seats on the West Morris Regional High School District's Board of Education are allocated to Chester Borough and Chester Township. These seats are filled by board members elected at large by residents of both municipalities. The number of seats and the method of election will not change should consolidation take place.

State aid for schools will not be affected by consolidation. The formula is primarily based on enrollment. Therefore, changes in aid will depend on the number of students from the consolidated municipality, not that the governments have merged.

**West Morris Regional High School Cost Analysis**

**2009 WEST MORRIS REGIONAL SCHOOL COST ALLOCATION**

	Equalized Value	Elementary Enrollment	Regional Enrollment	Elementary Percent	Elementary Equalized Value	Regional Equalized Value	Percentage Share	General Fund Levy	Debt Service Levy	Total Levy
Chester Borough	\$475,654,657	270	81	76.923%	\$365,873,562	\$109,781,095	3.614%	\$1,361,401	\$85,896	\$1,447,354
Chester Township	\$2,211,995,112	1,186	528.50	69.175%	\$1,530,037,019	\$681,958,093	22.448%	\$8,456,726	\$533,568	\$8,990,934
Mendham Borough	\$1,572,214,282	664	295	69.239%	\$1,088,601,169	\$483,613,113	15.922%	\$5,998,287	\$378,455	\$6,376,742
Mendham township	\$2,235,337,651	917	392	70.053%	\$1,565,854,025	\$669,483,626	22.039%	\$8,302,550	\$523,840	\$8,826,390
Washington Township	\$3,347,231,640	2,877	1,394.50	67.353%	\$2,254,360,510	\$1,092,871,130	35.977%	\$13,553,340	\$855,133	\$14,408,473
West Morris Regional Total	\$9,842,433,342	5,914	2,691.00		\$6,804,726,285	\$3,037,707,057	100.00%	\$37,672,234	\$2,376,888	\$40,049,122

**2009 WEST MORRIS REGIONAL SCHOOL COST ALLOCATION IF CONSOLIDATED**

	Equalized Value	Elementary Enrollment	Regional Enrollment	Elementary Percent	Elementary Equalized Value	Regional Equalized Value	Percentage Share	General Fund Levy	Debt Service Levy	Total Levy*
Chester (Consolidated)	\$2,687,649,769	1,456	609.5	70.491%	\$1,894,562,122	\$793,087,647	26.097%	\$9,831,141	\$620,285	\$10,451,426
Mendham Borough	\$1,572,214,282	664	295	69.239%	\$1,088,601,169	\$483,613,113	15.913%	\$5,994,884	\$378,241	\$6,373,125
Mendham Township	\$2,235,337,651	917	392	70.053%	\$1,565,854,025	\$669,483,626	22.029%	\$8,298,941	\$523,613	\$8,822,554
Washington Township	\$3,347,231,640	2,877	1,394.50	67.343%	\$2,254,360,510	\$1,092,871,130	35.961%	\$13,547,267	\$854,750	\$14,402,017
West Morris Regional Total	\$9,842,433,342	5,914	2,691.00		\$6,803,377,826	\$3,039,055,516	100.00%	\$37,672,234	\$2,376,888	\$40,049,122

\*Based on 2009, \$13,138 would have shifted from Washington Township, Mendham Borough, and Mendham Township to the Chester Borough taxpayers when the regional school system moves from five to four municipalities. The \$13,834 shift on a budget of \$40,000,000 is de minimis (0.03454%), and exists because the formula uses weighted averages in the calculation of apportionment of the tax levy (enrollment and equalized value), and is marginally affected by rounding of decimals throughout the process..

**IMPACT ON COUNTY GOVERNMENT**

Morris County Government and the County Open Space Tax are supported by equalized property values and will not change if the Borough and Township consolidate.

**THE EFFECT ON TAXPAYERS AND THE STATE'S RESPONSIBILITY**

This report used 2009 budget information to demonstrate the fiscal impact of consolidating the two governments before any changes or efficiencies are implemented. This section studies how combining levies and values affect tax rates as individual municipalities and as a consolidated one.

Below are two tables listing the 2009 tax levies and tax rates of the two communities, along with the levies and tax rates tabulated when the modifications are made. To show the potential impact of consolidation, the “Modified” columns shows the tax levy and tax rate for each municipality by anticipating the following actions: Borough solid waste is equalized, Borough debt service is equalized (Option2 on page 10 – debt district), and regional school adjustments.

**2009 TAX LEVIES**

Levies	Borough		Township		Combined	
	Actual	Modified	Actual	Modified	Actual	Modified
County Tax	\$928,048	\$928,048	\$4,254,964	\$4,254,964	\$5,183,012	\$5,183,012
County Open Space Tax	155,659	155,659	712,149	712,149	867,808	867,808
School Tax Local District	3,439,488	3,439,488	16,172,045	16,172,045	19,611,532	19,611,532
School Tax West Morris	1,393,772	1,796,090	8,907,312	8,518,132	10,301,084	10,314,222
Municipal Purposes Tax	2,996,172	2,846,975	7,815,207	7,815,207	10,811,379	10,662,182
Municipal Open Space	90,761	90,761	454,000	454,000	544,761	544,761
<b>Total Tax Levy</b>	<b>\$9,003,900</b>	<b>\$9,257,021</b>	<b>\$38,315,676</b>	<b>\$37,926,497</b>	<b>\$47,319,576</b>	<b>\$47,183,518</b>

**2009 TAX RATES**

Levies	Borough		Township		Combined	
	Actual	Modified	Actual	Modified	Actual	Modified
County Tax	\$0.205	\$0.205	\$0.190	\$0.190	\$0.195	\$0.195
County Open Space Tax	0.035	0.035	0.032	0.032	0.033	0.033
School Tax Local District	0.758	0.758	0.719	0.719	0.735	0.735
School Tax West Morris	0.308	0.396	0.397	0.379	0.386	0.387
Municipal Purposes Tax	0.660	0.628	0.347	0.347	0.405	0.399
Municipal Open Space	0.021	0.021	0.021	0.021	0.021	0.021
<b>Total Tax Levy</b>	<b>\$1.987</b>	<b>\$2.043</b>	<b>\$1.706</b>	<b>\$1.688</b>	<b>\$1.775</b>	<b>\$1.770</b>

The most important question is “How will these merged tax rates and modifications affect the average taxpayer?” The following table shows the difference between the 2009 actual tax and what the consolidated (merged) tax for municipal services and for the municipal, school and county services (excluding the Borough debt district). Items #1 and #2 show the conversion of the 2009 tax without alterations. Items #3 and #4 show that same conversion using projected tax rates to provide for: the addition of Borough solid waste cost to the tax levy; the equalizing of Borough debt by moving a portion of the debt to a taxing district; and the swing in regional school costs.

**CONSOLIDATED TAX ALLOCATION SCENARIOS**

**ACTUAL 2009 TAXES**

<b>1. Municipal Tax</b>	<b>Average Value</b>	<b>Equalized Value</b>	<b>Tax Rate</b>	<b>Merged Tax Rate</b>	<b>Tax Amount</b>	<b>Merged Tax</b>	<b>Change in Tax</b>
Chester Boro	\$528,326	\$552,007	\$0.660	\$0.405	\$3,487	\$2,236	<b>\$(1,251)</b>
Chester Township	\$825,962	\$805,188	\$0.347	\$0.405	\$2,866	\$3,261	<b>\$395</b>

**2. County, School and Municipal Tax**

Chester Boro	\$528,326	\$552,007	\$1.987	\$1.772	\$10,498	\$9,782	<b>\$(716)</b>
Chester Township	\$825,962	\$805,188	\$1.706	\$1.772	\$14,091	\$14,268	<b>\$177</b>

**MODIFIED TAX ALTERNATIVES - modified with Borough solid waste and Borough debt service**

**3. Municipal Tax**

Chester Boro	\$528,326	\$552,007	\$0.627	\$0.399	\$3,313	\$2,201	<b>\$(1,111)</b>
Chester Township	\$825,962	\$805,188	\$0.347	\$0.399	\$2,866	\$3,214	<b>\$348</b>

**4. County, School and Municipal**

Chester Boro	\$528,326	\$552,007	\$1.953	\$1.766	\$10,318	\$9,748	<b>\$(570)</b>
Chester Township	\$825,962	\$805,188	\$1.706	\$1.766	\$14,091	\$14,219	<b>\$128</b>

**Notes:**

1. The initial significant shift in municipal tax obligation from the Borough to the Township shown in #1, is now mitigated by the shift in regional school cost from the Township to the Borough shown in #2.
2. Under the Modification model shown in #3 and #4, the shift in cost is reduced, bringing the difference in taxes closer together. The added costs of the Borough debt district are expected to reduce, but not negate the Borough savings.

3. In any case, under the tax credit law [N.J.S.A. 40A:65-28(b)], the State of New Jersey has responsibility to provide a continuing tax credit to all taxpayers whose tax rate increases as a result of the consolidation process.

Therefore, if taxpayers of Chester Borough and Chester Township approve consolidation in a referendum this November, and a single new government is formed and a tax rate is struck for January of 2012 covering municipal, school and county services, the taxes paid by each property owner will be compared to the 2011 payment.

Using the 2009 example above: if the 2011 payment is \$14,091 (as it was in 2009 for the average Township property owner (see #2 Tax, above), and the tax for 2012 is higher (\$14,268 as in the merged tax under item #2), that property owner will be entitled to a tax credit of \$177. This tax credit, once established, will stay with the property owner for as long as he or she owns the property. Thus, the State will provide the financial assistance necessary to allow residential taxpayers of the two municipalities to start the consolidation process on an equal footing.

### ***CONCLUSION***

The Commission and the people of Chester Borough and Chester Township have an opportunity to carefully examine all the facts and consider the long-range benefits and liabilities of becoming one larger community. The financial analysis is one part of the evaluation. Services, community programs, social groups, and other factors play a role in determining if one government can meet the government needs of the combined population. The rewards found in the economies of scale and efficiency savings, and the possibility of forming one unified, stronger government that can operate more effectively and efficiently, must be considered.



## **Appendix Table of Contents**

<b>Appendix</b>	<b>Title</b>	<b>Page</b>
A	Ten Year History of Tax Rates and Property Values	17
B	Merged Municipal Tax Rate Calculation - 2009 Values	18
C	West Morris Regional School Cost Allocation	19
D	Equalized Assessed Value and Combined Tax Levies	20
E	Actual 2009 Tax Rates Compared to Combined Rates	21
F	Chester by the Numbers	22
G	2009 Budget Fact Sheet (Chester Borough)	23
H	2009 Budget Fact Sheet (Chester Township)	24
I	Annual Debt Statement (Chester Borough & Township)	25
J	Levy Reduction Options – 2009	26
K	Levy Reduction Options – 2010	27
L	Chester Borough 2010 Debt Service	28
M	Township of Chester (General Bonds - Maturity Schedule)	29