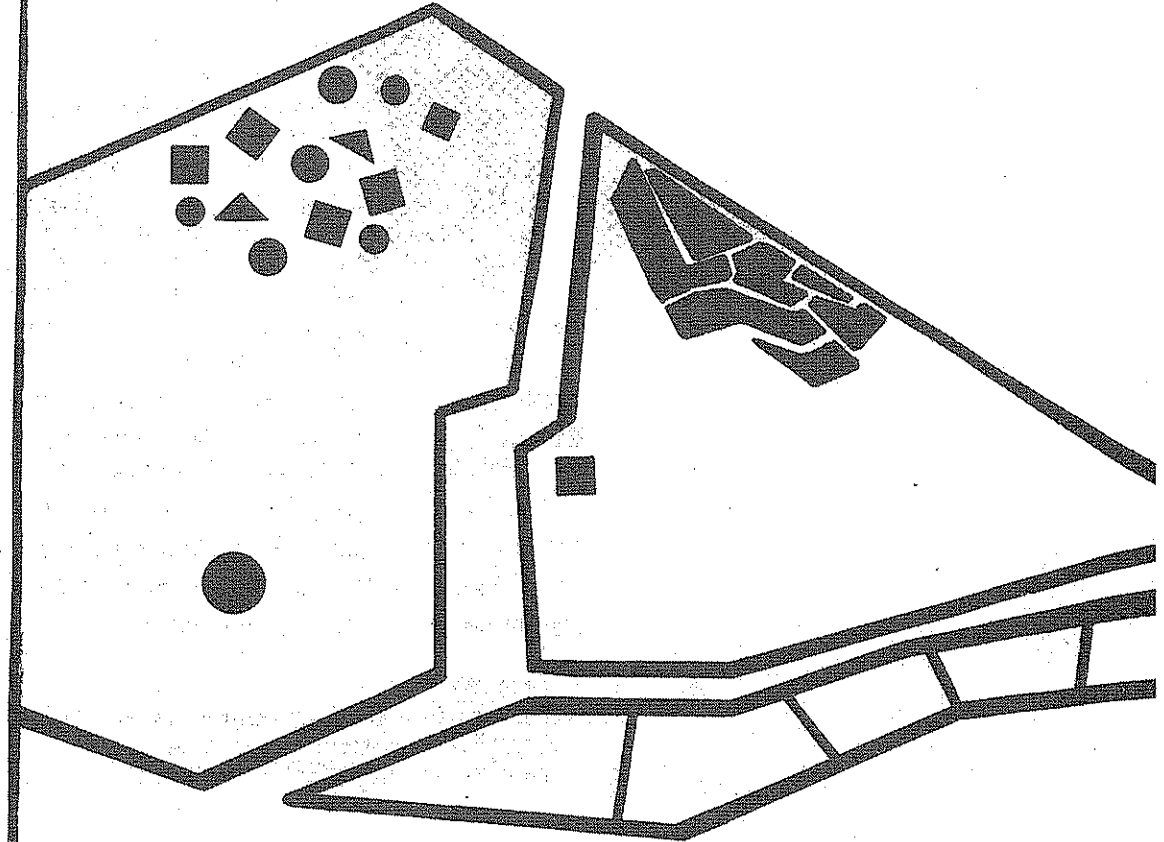




STATE OF NEW JERSEY
COUNTY AND MUNICIPAL GOVERNMENT
STUDY COMMISSION



CONSOLIDATION
Prospects and Problems

**Reports of the County and Municipal Government
Study Commission**

Creative Localism – A Prospectus, 1968

County Government – Challenge and Change, 1969

–Supplementary Readings and Research Materials, 1969

–Optional County Charter Bill, 1970

–Commentary on the Optional County Charter Bill, 1970

Joint Services – A Local Response to Area-Wide Problems, 1970

–Interlocal Joint Services Act, 1971

–Commentary on the Interlocal Joint Services Act, 1971

–A Practical Guide to Reaching Joint Services Agreements, 1971

**The Determinants of Municipal Policy in Education, Municipal Services,
and Land Use, 1971 (Monograph)**

Localization of Fiscal Responsibility in New Jersey, 1971 (Monograph)

Beyond Local Resources: Federal/State Aid & the Local Fiscal Crisis, 1971

–Supplementary essays and research materials, 1971

Consolidation: Prospects and Problems, 1972

Monitoring New Jersey Municipal Personnel: A Pilot Study (March, 1972)

Water Resource Management (Spring, 1972)

Solid Waste Disposal (Spring, 1972)

In Progress

Authorities and Autonomous Agencies

Law Enforcement at the Local Level

Fire Protection at the Local Level



State of New Jersey

**County and Municipal
Government Study Commission**

Fifth Report

**Consolidation:
Prospects and Problems**

February 1972

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STUDY COMMISSION**

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EUGENE J. SCHNEIDER
EXECUTIVE DIRECTOR

TO HIS EXCELLENCY, GOVERNOR WILLIAM T. CAHILL, AND
HONORABLE MEMBERS OF SENATE AND GENERAL ASSEMBLY:

The County and Municipal Government Study Commission is pleased to submit its fifth report, Consolidation: Prospects and Problems.

The Commission is charged with responsibility to study the structure and function of county and municipal governments, including their constitutional and statutory bases; to inquire into the structural and administrative streamlining of county and municipal governments as proposed in New Jersey and other states, including consolidation, federation, special districts, contract purchase of services and abolition or strengthening of existing forms of government; to determine their applicability in meeting the present and future needs of the State and its political subdivisions; and to study the interrelationship of State, county and municipal governments.

Accordingly, the Commission explored various alternative approaches for improving local government service capabilities, including strengthening county government; joint service provision; better utilization of federal and state aid; State assumption of welfare and judiciary costs, and most recently the prospects for political consolidation.

In this report, we suggest ways for simplifying the process of consolidation; for providing the necessary incentives to initiate a local examination of its feasibility; and for overcoming the understandable concern of municipalities regarding its fiscal impact.

As an approach for dealing with municipal service problems consolidation is most likely to be utilized in certain situations described in this report, however, we feel that where applicable this approach merits serious consideration.

This report is respectfully submitted by the undersigned.

(s) William V. Musto,
Chairman

(s) Richard J. Coffee,
Vice-Chairman

(s) Alfred D. Schiaffo

(s) Richard R. Stout

(s) John F. Brown

(s) Robert H. Fust

(s) William E. Schluter

(s) William T. Somers

(s) Fred G. Stickel, III

(s) Nicholas Heil

(s) Alan Augenblick

(s) Myles J. Gilsenan

This report is dedicated to the memory of Jack L. Scott who devoted his career to the improvement of local government in New Jersey and whose work on municipal consolidation laid the foundation for the Commission's study and continued until his untimely death.

We wish to acknowledge the contributions of Michael A. Pane, formerly Research Director of the Commission, who supervised the preparation of this study, David Gladfelter for additional research and final editing of the report; and Arthur Finkle and Ronald Berman for their general assistance.

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"Yet municipal institutions constitute the strength of free nations . . . A nation may establish a free government, but without municipal institutions it cannot have the spirit of liberty."

Alexis de Tocqueville

"No man is an island, entire of itself. . ."

John Donne

SUMMARY

This report is intended by the Commission to be the latest of a series dealing with the same general problem, rather than a document complete in itself. The general problem was stated succinctly in the Commission's very first report, *Creative Localism: A Prospectus*.

New Jersey is in desperate need of a better allocation of the fiscal and governmental responsibilities for the planning, financing, and performance of the functions and services provided by its local governmental system — especially those of area-wide or regional scope.

In 1969, *County Government: Challenge and Change* recommended new legal, fiscal and administrative options for modernizing county governments and giving them powers and resources adequate to discharge their responsibilities. In 1970, *Joint Services — A Local Response to Area Wide Problems* presented recommendations for encouraging joint services among municipalities.

In the present report, the Commission holds out yet another strategy for strengthening the State's local governmental system — municipal consolidation.

Rationale

It is recognized that of the three strategies mentioned above, consolidation is the most far-reaching from a municipal point of view, in that it involves basic alterations to municipal corporations and basic changes in the powers and scope of local government. However, it is also believed that consolidation may strengthen local government better than other alternatives in certain situations. It is not the Commission's position that consolidation should be recommended uncritically in every situation even though it might be argued that it would result in cost savings, improved services and strengthened local potency. However, consolidation does merit far more serious consideration than it has received in the past, and this report is intended to stimulate that consideration.

In addition, it is held that the State, as creator and ultimate guarantor of the local government system, has a paramount interest in its viability. This interest is already being demonstrated through a wide

range of state-aid programs to local governments in many fields. From the Commission's standpoint, this interest is expressed not only in studies of improvement and reform methods, but in programs of legislation designed to promote them.

Unfortunately, the mere mention of improvement and reform is perceived in some quarters as somehow threatening, and motives are ascribed and consequences inferred that were never intended. Accordingly, at the outset it might be instructive for the Commission to delineate its position narrowly, to avoid such misunderstandings.

1) It is not recommended that as a general rule consolidation be used in situations where local service and finance problems can be adequately resolved by less fundamental approaches. The Commission believes that in these instances it is more feasible to consolidate services rather than governments.

2) The Commission's research indicates that consolidation should not be attempted where it would be more feasible to strengthen the county as a middle level of government and transfer area-wide responsibilities to it. In Bergen County, for example, where local units are numerous, individually small and urbanized, there is less to be gained through merging a few isolated pairs of municipalities than by streamlining the county itself and equipping it to handle problems that transcend local boundaries or abilities.

3) The Commission does not believe that consolidation can be employed as a means to arrest severe urban problems and service deficiencies. Such problems have increasingly been recognized as the proper responsibilities of higher levels of government — the State and Federal levels — and it would be unwise to seek solutions for them through a device that would merely shift their burden to more local shoulders. As pointed out in *Creative Localism*, the older suburbs of New Jersey partake themselves of the same desperate circumstances as the core cities adjoining them:¹

The choices in these suburbs are quite limited.
Their fate is tied closely with the core city
and other contiguous municipalities.

4) It is the Commission's findings that consolidation should not be seriously considered unless it shows promise of mutual benefit to both municipalities, and would require mutual contributions from each municipality.

5) Above all, the Commission does not suggest that any municipality be "eliminated" according to some arbitrary standard. The

decision to consolidate or not to consolidate should remain the citizens' prerogative to the greatest extent possible.

It is our belief that the strategy of consolidation has value to pairs or groups of municipalities that together constitute a single community of interest and share common functions. This concept of "community of interest" will be elaborated later in the report, but in the final analysis it is not a concept that lends itself to precise, exact measurement. It exists where people perceive it to exist; historically the concept has had the most significance to New Jersey's "hole and doughnut" municipalities — typically boroughs surrounded by townships but may have meaning for other municipalities as well.²

Statement. The position taken by the Commission in this report can be summarized as follows:

Consolidation is recommended to New Jersey municipalities as a means toward more rational control of growth and development, more efficient provision of local services, more viable and capable public administration and the healing of local government fragmentation, in those situations where bonds of interdependence form a recognized community of interest between or among the municipalities.

In addition, the considerations listed above mandate a State interest in facilitating consolidation between or among willing partners.

The Commission proposes to implement this position in the following ways:

1) By recommending simplifications to existing consolidation statutes that will make consolidation easier to achieve where it is desired, without eliminating provisions for local self-determination.

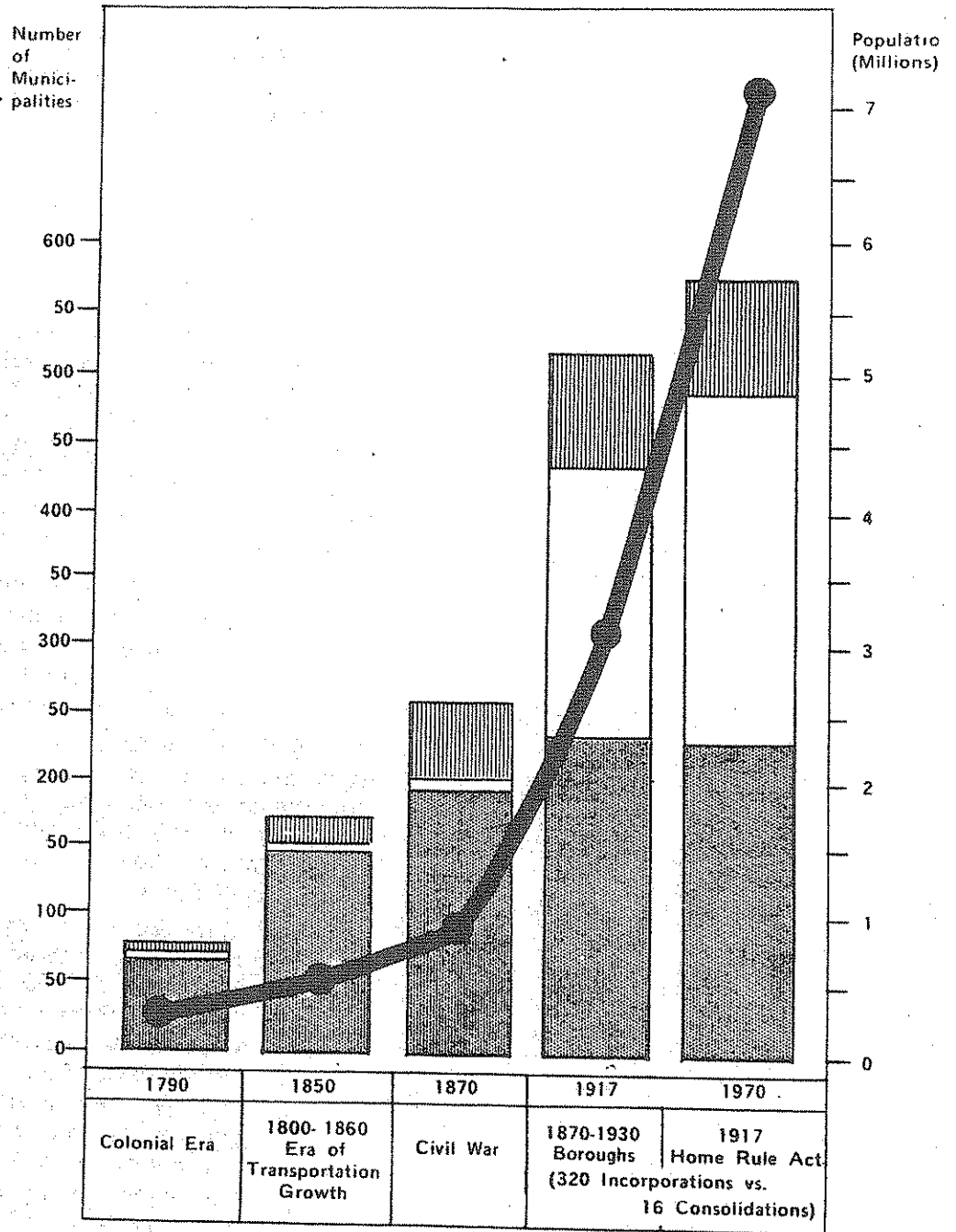
2) By recommending new legislation providing for "degrees" of consolidation to encourage wider acceptance, ease sudden transitions, and provide options not now available, as for example, staged consolidation.




3) By recommending a program of state aid within a "system" of state aid to localities as an incentive to consolidation and as a means of overcoming the most serious objection of voters — incurring increased taxes or debt. The aid formula would provide: first, an assumption by the state of all *extraordinary* initial operating costs: attributable to consolidation; second, a state "save harmless" payment for several years which would mitigate possible tax rate increases for the consolidating municipalities;

4) By providing State aid to all municipalities requesting it for preliminary studies of the feasibility of consolidation, weighing the options and focusing on practical methods of implementing consolidation. Where consolidation is found to be feasible, State aid will also be available for later, in-depth technical studies, under provisions similar to those proposed in the Joint Services Aid Bill.

Although this report was completed prior to the release of the findings and recommendations of the New Jersey Tax Policy Committee, an examination of the proposals for comprehensive tax reform in the state supports the Commission's conclusions on the need for concomitant actions to improve the service capabilities of local government — joint services, service consolidation and a strengthened county government. The Commission feels that the spirit and the principles of its report on consolidation are reinforced by the findings of the Tax Policy Committee. Moreover, if those recommendations pertaining to a vastly increased state role in financing public education are implemented, and the state assumption of all county welfare and judiciary costs reduces local taxes for county purposes, some of the main obstacles impeding municipal mergers will be removed, as such costs may account for up to four-fifths of the local tax levy. Financial incentives recommended by the Commission will then go a long way towards the reduction of any remaining disparities between those municipalities considering consolidation.

CHART I
A REAL NUMBER COMPARISON OF NEW JERSEY POPULATION GROWTH WITH GROWTH IN NUMBER OF MUNICIPALITIES BY TYPE



K  TOWNSHIP
 E  BOROUGH
 Y  OTHER MUNICIPALITIES

The Problem and Its Background

A wag once called New Jersey "a city governed by 567 municipalities." The description reveals much about our State -- its urbanization, its interdependence, its mosaic of self-governing localities and the relative weakness of the higher entity which created them and holds them together.

How did such a situation develop?

Origins of Mini-Government

The pattern in 1790, the year of the first U. S. Census, was that of small settlements in New Jersey, linked by rivers and colonial stage routes. The State had only 70 municipalities then and only a few of them -- Burlington, Elizabeth, Newark, New Brunswick, Perth Amboy and Trenton -- were of any substantial size. The form of government of these early settlements (see Chart 1) was almost exclusively that of the township. Geographically, they were self-contained and self-defined communities. As two observers of the State's development have noted:¹

A tour of the principal cities and towns of New Jersey just before the Revolution would have taken several weeks of rugged travel, with nights spent in some of the four hundred or more taverns which marked places of existing or future development.

With the improvement of transportation in the 19th Century and with the growth of industry, new sites were opened to settlement, and the State's population grew. So did the number of municipal corporations. Both had doubled by 1850; the industrial boom seemed to favor not only the creation of new local governments but the splitting-off of old ones:²

More and more urbanized areas won political independence. Movements for incorporation quite frequently pleased everybody. The outlying districts were happy to avoid paying taxes to the new urban center, and the city people rejoiced over liberation from rural control ... The legislature encouraged incorporations. The balkanization of local government had the political merit of increasing the number of offices and jobs ... The process of municipal fragmentation was the easy way under a constitutional and political system which offered no serious obstacles -- or ready alternatives -- to creation of new municipalities.

Between 1850 and 1917, when the Legislature passed the Home Rule Act, the number of municipalities in New Jersey tripled, exceeding 500. During that period also, the State's population increased sixfold, from 484,000 to 3-million, and the increase in the number of municipalities can thus be viewed as a parallel to the increase in residents (See Chart 1). Indeed, about half of the newly formed governments resulted from incorporation of population centers and from the splitting of large rural areas into townships. However, a new phenomenon also took place between those benchmark years: an increase in the number of boroughs from 5 to 193.

The boroughs -- which have been called "postage-stamp communities" because of their frequent small size³ -- resulted from the existence of very permissive legislation. The laws of the period put a premium on both geographic and population smallness; until 1896, a borough could incorporate merely by majority vote of its citizens, without any requirement for legislative approval, provided that it met *maximum* population and area criteria and had a minimal taxable valuation of property.⁴ In many situations this led to the breaking up of previously existing communities -- a rationale opposite from that which led to earlier incorporations. A particular group of inhabitants, finding themselves sufficiently different from their neighbors to want their own institutions and laws, could form their own government very easily. A case in point was cited in a recent study of a pair of "hole and doughnut" municipalities which had shared "a common historical heritage -- for a hundred years after the Revolutionary War they were one community." Despite this century-long association, the borough separated itself from the township in 1888.

The boroughs that were formed during this period may be classified into four types, the locations of which are shown on Map 1:⁵

- shore and island boroughs, resulting initially from the desire of estate owners in seaside resort areas for exclusiveness. According to an 1878 law, these boroughs had to have at least \$100,000 in taxable valuation and had to be *less* than two square miles in area.
- railroad or commuter boroughs, formed mainly in the 1870-1890 period along the main lines of commuter rail routes. A variety of standards were in use during this period as to population and area.
- school district boroughs, formed principally in response to an 1894 law which provided that any unit of government that incorporated as a borough could have its own school district. Most of these boroughs are in Bergen County.

- boroughs formed by separations of population centers from surrounding townships - the "hole and doughnut" municipalities. These are found in 16 of the State's 21 counties.

It was usual, in the case of the last mentioned type of borough, for its population density to be greater than that of the surrounding area. As a developed center, it offered amenities and services which the undeveloped surrounding areas did not. However, because of the boroughs' small area, it was not long before their growth reached its limits and ceased. The "doughnut" municipalities, with land to spare, then experienced population growth, along with the accompanying service problems. The table below indicates these divergent growth time-tables for selected pairs of municipalities:

Table 1
1920 and 1970 Population
Selected "Hole and Doughnut" Pairs

Municipality	1920	1970
Alpha Bor.	2140	2829
Pohatcong Twp.	1559	3924
Bordentown City	4371	4490
Bordentown Twp.	596	7303
Burlington City	9049	11991
Burlington Twp.	1520	10612
Flemington Bor.	2590	3917
Raritan Twp.	1677	69
Freehold Bor.	4768	10545
Freehold Twp.	1498	13185
Hightstown Bor.	2674	5431
East Windsor Twp.	733	11736
Morristown Town	12548	17662
Morris Twp.	2607	19414
Passaic City	60841	55124
Clifton City	26470	82437
Princeton Bor.	5912	12311
Princeton Twp.	1424	13651

The Effects of Mini-Government

This thumbsketch history has thus far shown how municipal fragmentation in New Jersey came about. It is the conclusion of the Commission that such splinter government often results in impotent government. As stated in a previous report:⁶

Our municipalities by 1917 had been given broad grants of power to provide all the services their citizens needed. Yet, as society became more complex, and problems grew with suburban sprawl, the proliferation and fragmentation of governments which shared this grant of power was so great that no one of them, in spite of legal powers, had the resources, the skills or the area-wide jurisdiction to get at the roots of any problem, because it may have been from two to twenty-two municipalities away.

In other words, by giving hundreds of units equal and broad powers we made those units in great measure powerless to solve their problems. By thus fragmenting authority we have substantially weakened not only local government and home rule, but also the chief virtue of the system -- the individual municipality's ability to meet its citizens' needs."

A government that controls a small area or population often commands a meager tax base as well. Without sufficient resources, such a government will be unable to perform the full range of municipal services that citizen have a right to expect. For example, police protection is commonly considered a standard municipal function. In a 1970 study of this service in 35 "hole and doughnut" pairs of municipalities,⁷ it was found that seven pairs had no police service at all, either individually or jointly, and were relying upon the State Police to provide it. In nine of the pairs, only one of the two communities had a full-time force.

Other communities that provide police service may not be able to offer satisfactory performance of that service. Continuing with the same example, a ratio of one policeman per 1,000 residents is generally considered a satisfactory standard. In the study cited above, of the 28 pairs of municipalities that offered some police services, 11 failed to meet that standard and one had a ratio as high as one policeman per 11,510 residents. Put another way, only 17 pairs of municipalities --

slightly fewer than half the study sample of 35 pairs — could be said to be providing an adequate level of service for a standard municipal function.

It has long been suggested that there might be an optimum population or tax base, short of which local government is not considered viable. Were such an optimum demonstrable, it could be argued, it might be possible to apply it to test the feasibility of municipal consolidation. All other factors being favorable, if the two municipalities were individually below the optimum but together above it, consolidation would result in a viable situation; if even the consolidated municipality could not meet the optimum standard then some additional means or different means of achieving workable government would need to be found.

The Commission has not determined such a standard, although it has proposed that an attempt be made to determine optimum standards for performing the functional responsibilities of government. In its first report, *Creative Localism: A Prospectus*, the Commission noted:⁸

The primary question to be asked in each functional study is: what is the minimum or optimum service area for the most effective and efficient performance of each function or aspects of a function? An inventory made by the Commission of the available studies delineating standards and guidelines in each functional area revealed serious gaps in the information necessary to make the recommendations concerning the reallocation of governmental responsibility for the performance of functions. It should be noted, however, that some useful work has been done in New Jersey ... While these efforts are important first steps, they need to be supplemented by further work within each of the functional areas in which there are studies. In addition, pioneering work must be undertaken in many of the functional areas where no studies or data are available.

Distinction should be made between *optimum service standards*, which is the topic proposed for study in the discussion above, and *minimum viability standards*, which was the question raised in the preceding paragraph. In the latter area it may be impossible to arrive at any objective standards acceptable to all, since the term "viability" implies a value judgment. In the former area, one can attempt a standard

based on efficiency of services, as was done in the preceding discussion of police services; on this basis, the Committee for Economic Development has suggested that a population of 50,000 is a commonly but not universally accepted minimum efficiency standard for local law enforcement, welfare, and public road construction and maintenance. Only 19 of New Jersey's municipal governments met that standard in the 1970 Census.

Another standard frequently argued is that of economies of scale — that as a municipality gets bigger, its overhead and therefore its cost per capita of services will drop. However, in a recent study of this phenomenon in which data from New Jersey and two other states were used, the Advisory Commission on Intergovernmental Relations determined that economies of scale were realized only for the highway function and were not important for communities in the 25,000 to 250,000 population range.¹⁰

But perhaps an even more basic reason for the Commission's reluctance to search for fixed standards of viability arises from the belief of its members and its staff that a municipality represents more than merely a service district. A municipality is a basic element of our federal system of government; it is that level of general government closest to the citizen himself, in which he should have the greatest opportunity for direct participation. The Commission is certainly in favor of service capability, particularly as the task of governing increases in difficulty with the new complexities each passing year brings; yet it is anxious that community self-government be preserved, and in fact restored where it has been split apart in the past.

On the matter of standards, suffice it then for the Commission to observe that in 1970, New Jersey had: ¹¹

- 177 municipalities of less than two square miles in area -- nearly one-third of the entire total.
- 117 municipalities with fewer than 2,000 inhabitants.
- 190 municipalities with a tax base of less than \$5,500 per capita.

Some of these municipalities may find it well worth their while to consider joint service agreements. Other may soon be in a position to share their service burdens with a modernized and efficient county government. Consolidation may be a practical approach for some to pursue. These alternatives will next be considered.

Consolidation and Its Alternatives

Two basic criticisms of New Jersey's local government system — its fragmentation, and its consequent inability to carry out consistent its expected responsibilities — have been woven not only through this study, but through all of the Commission's preceding work as well. Since the Commission, as it stated at the outset of this report, regards the present study as an extension of its earlier work, it seems germane at this point to review the highlights of two previous studies.

Strengthening the Counties

The Commission's report, *County Government: Challenge and Change*, recommended steps to strengthen the potential of the counties to provide regional and area-wide services, and to meet sub-regional and interlocal service needs on a contract basis. Such arrangements, it was argued, would rapidly increase the capabilities of local government to deliver services over a broad geographic area, and would do so with a minimum of institutional change and without any alteration whatever of established political boundaries and ties. In the report, the county was viewed as a ready-at-hand but underutilized middle-level government, already possessing an administrative structure and political powers, although in need of considerable reorganization and injection of professionalism to be able to assume the challenges foreseen. The Commission recommended that the counties be empowered to choose their own administrative structures from among four modern options to be made available under new legislation, each option appropriate to a county with a particular urban-rural makeup and other developmental characteristics. The legislation has been introduced and at the time of this writing is awaiting action.

The Commission's research indicates that this particular strategy, when compared with consolidation, has the following advantages:

- A wider area would be affected. Consolidation usually involves two municipalities, occasionally three or more; county reorganization could have an impact on as many as 70 municipalities (in the case of Bergen County).
- A broader range of problems would be affected. In its report, the Commission cited air and water pollution, traffic and transit, law enforcement, drainage, and solid waste disposal as examples of problems calling for regional management, at least in some of their aspects.

- Municipal boundary changes would not be required. Nor would the complicated process of combining the laws, procedures, facilities, equipment, personnel, debt, and so forth, of two corporations.
- An existing unit of government with "strong political, administrative and functional roots" could be used to better advantage.

The disadvantages would be these:

- While the modernized county might take on new services, it would probably be less effective in eliminating duplication of services, and their high cost to taxpayers.
- Where accidents of history have produced artificial boundaries that serve more to divide communities than unite them, these separations would continue.

Joint Services

In another report, *Joint Services — A Local Response to Area Wide Problems*, the Commission pointed out the possibilities for improving services, and extending them to municipalities that had not found it feasible to undertake them, through joint municipal provision or through county-municipal provision. In a survey of municipal attitudes on this subject, the Commission found that the overwhelming majority of the municipalities were anxious to enter into joint service agreements on a wide variety of services, and would welcome the incentive of State financial aid and technical assistance. Such state incentives were recommended and legislation was introduced to carry out this recommendation.

Joint service arrangements and consolidation have the common advantage of not only minimizing duplication, but encouraging combination of the best features of services previously conducted separately. For example, if one town had a computer and another town had an experienced tax assessor, both towns could benefit from a merger of the assessment functions, either via consolidation or joint services.

The advantages of joint services over consolidation are perceived as follows:

- They may be undertaken via the relatively simple mechanism of a contract. Again, no alternations to municipal corporations or boundaries would be necessary; they would operate within existing governmental structures.

- They may be undertaken selectively. A municipality could, if it wished, contract with the county for some services, with a neighbor for other services, and with several municipalities for still others, and retain those services it wished to perform itself for whatever reasons.
- The possibilities for quickly demonstrable success of the joint provision of a single service would be higher than for an across-the-board consolidation. Thus, a joint service agreement could be used as a pilot between two municipalities interested in the possibilities of full consolidation at a later time.

The disadvantages would be:

- Certain services do not lend themselves readily to being carried out by this means. For example, a water or sewer system serving more than one municipality would require considerable capital investment, and would require more permanent authority than a contract which can be terminated.
- Certain municipal powers cannot be delegated via joint service agreements. As a recent study by the Department of Community Affairs pointed out:¹
 - A joint police department would create a number of policy, administrative, and operational accountability problems. What would happen if a patrolman, paid in part by each community, were dismissed by one community?
- As with county modernization, joint services is an alternative that would leave unchanged the basic problems of community fragmentation caused by random municipal boundaries.

The Commission should point out that it does not consider these alternatives necessarily to be mutually exclusive. Consolidation will still be viewed as advantageous in counties that modernize and assume broader functions; it might also take place between a pair of municipalities that has experimented successfully with joint services. Although the alternatives address themselves to the same general problems, each has particular usefulness in certain situations, and it would be quite in order for more than one approach to be tried if desired.

Consolidation in Practice: Many Proposals, Few Marriages

New Jersey's record on consolidations since 1900 has been no match for its record of separations -- 183 of the latter, but only six of the former. There has been but a single successful consolidation since passage of the Optional Municipal Charter (Faulkner) Act in 1950; that was in 1952, between the former Borough of Vineland and the

Township of Landis, into Vineland City. In recent years, consolidation has fared little better in the nation as a whole than it has in this State; between 1965 and 1969 there were only 20 municipal consolidations in the United States. Evidently a decision with such permanent consequences is one that local citizens and governments prefer to avoid.

This has not prevented a number of New Jersey groups and individuals over the years from advocating consolidation. The New Jersey State Planning Board in 1925 reported that:²

Not the least of the State's administrative difficulties is due to an excessive number of local government units, county and municipal. Wholesale consolidation of counties and municipalities coupled with the elimination of rural townships will be helpful if not essential to public economy and effective public service.

And Governor A. Harry Moore, in urging a study of consolidation by state, county, and local groups, said in 1933:³

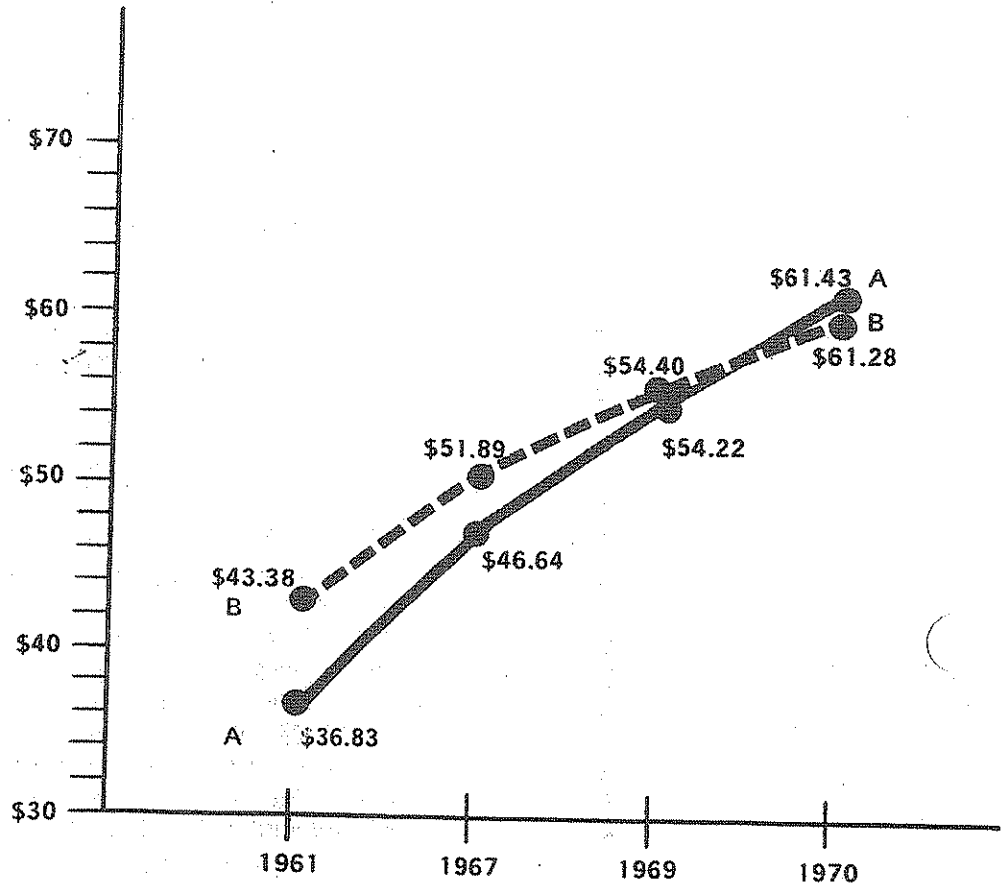
I believe, however, that advanced steps must be taken in the direction of consolidation of small governing areas and that some plan as is here outlined is necessary to create the interest ...

The most recent series of consolidation proposals has been the studies performed by the New Jersey Department of Community Affairs at the request of municipalities interested in the subject. Not all of these studies recommended in favor of consolidation, although they attempted a thorough analysis of all the factors involved.⁴

Among the constraints upon the operation of municipal consolidation in New Jersey are the difficult requirements of the law itself. The Local Units Permissive Consolidation Act requires concurrent petitions, each signed by 20 per cent of the voters of each municipality involved, to initiate the procedure. It also requires a majority vote in favor of consolidation in each municipality involved, to adopt the final plan. There is a long series of intricate steps in between. The Commission is proposing to amend the law to simplify these steps, to make it easier for communities that desire to consolidate to do so, without changing the safeguards that protect them from action adverse to their interests.

Another barrier to consolidation, the most formidable in the Commission's view, is that posed by differing tax rates, per capita ratables, and rates of growth. Unless tax rates are very close, prospects are dim of obtaining a majority of favorable votes for consolidation in the municipality whose tax rate would go up as a result of consolidation (see Table 2). Also, while tax rates of any given pair of municipalities

MEDIAN PER CAPITA EXPENDITURES FOR A AND B MUNICIPALITIES
1961 — 1967 — 1969 — 1970



KEY: — A = OUTER TOWNSHIPS

--- B = INNER BOROUGHES

may be close at the moment, their per capita ratables may be considerably different, resulting in different levels of service; these factors may influence voter judgment that in the future the municipality would be better off "going it alone."

TABLE 2

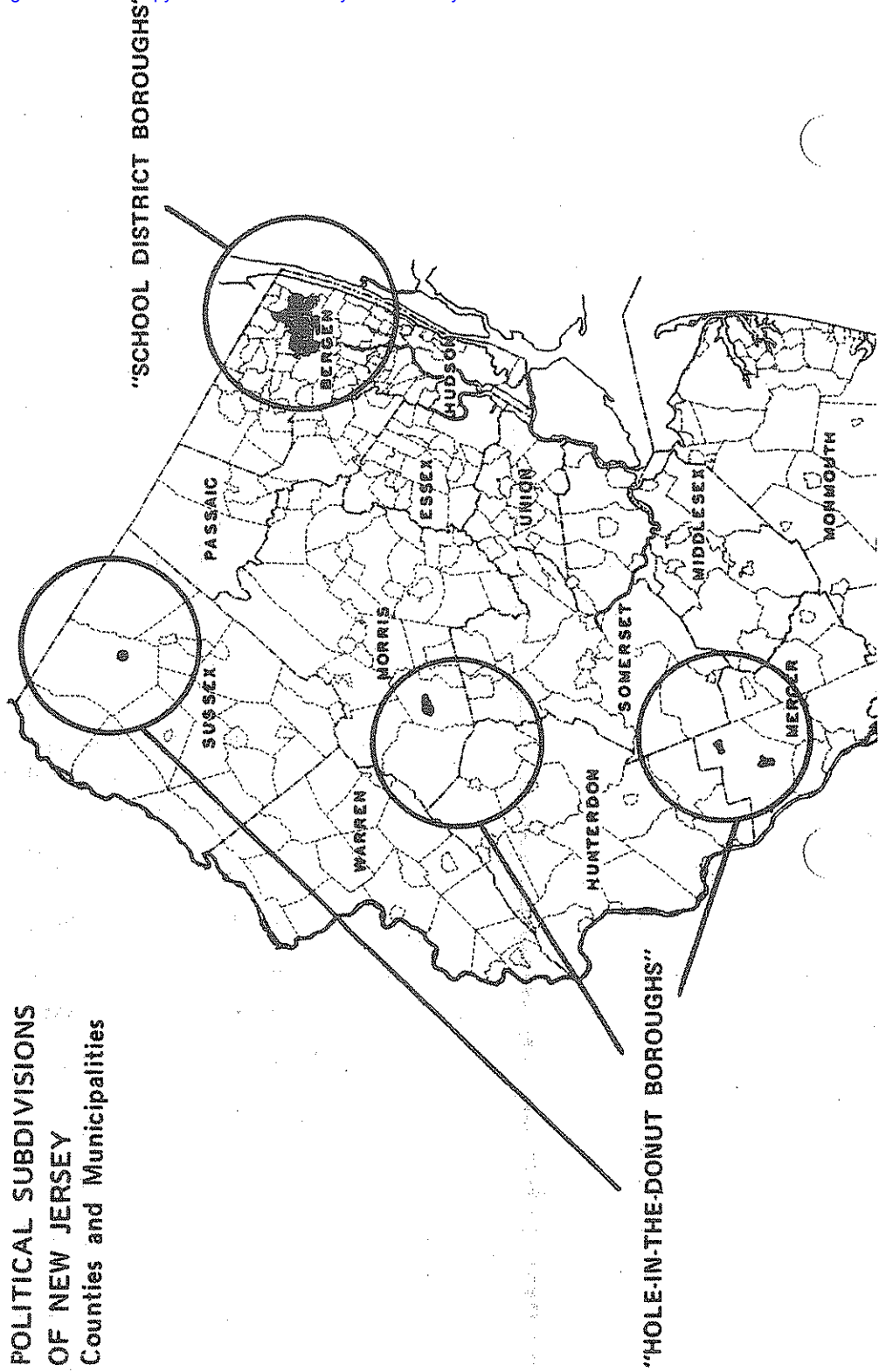
FISCAL DIFFERENCES FOR 35 SELECTED PAIRS OF INNER BOROUGHES AND SURROUNDING TOWNSHIPS				
	1970 Effective Tax Rates		1970 Tax for Municipal Purposes	
	Boro.	Twp.	Boro.	Twp.
(Median Equalized Rates)	\$4.69	\$4.24	\$1.19	\$0.72

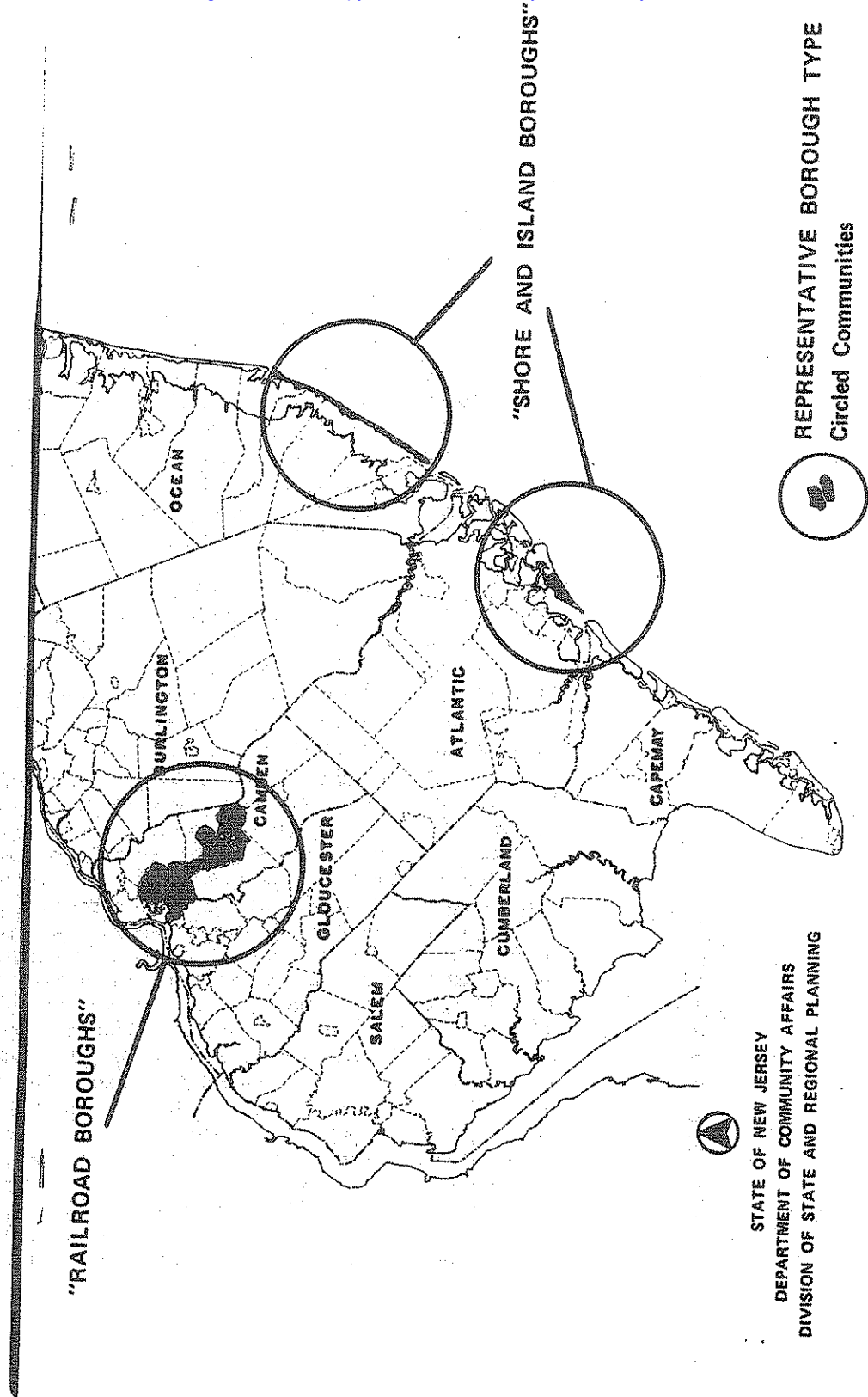
TABLE 3

MEDIAN POPULATION, DENSITY AND LAND AREAS:
35 INNER BOROUGH - TOWNSHIP PAIRS

	1970 Population	1970 Pop. Density	Land Area
Township	9533	1430 Per Square Mile	20.46 Square Miles
Borough	5574	3115.1 Per Square Mile	1.81 Square Miles

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decade, 1960-1970, upon per capita municipal expenditures, excluding school costs.

A special problem in consolidation is that of school costs where regional school districts are involved. Where two or more municipalities operate a regional school district, the costs of operating that district may be distributed between or among the municipalities either on a per-pupil basis or a property valuation basis, and are then added into the tax rate. Should these municipalities consolidate, there would have to be an adjustment in the cost distribution within the consolidated municipality so that the costs were distributed equally throughout the consolidated municipality. This is a requirement of the New Jersey Constitution, which provides (in Article VIII, Section 1) that no two residents of the same municipality be taxed on differing bases. In addition, if the regional school district were coterminous with the consolidated municipality, it would cease to be a regional district, but would become a single district in which case the school costs would have to be distributed on the basis of property. In cases where costs were shared on a per-pupil basis, a significant shift in taxes could develop.

The Commission has not weighed the school cost implications of consolidation, but observes that 63 per cent of the 36 pairs of municipalities in its sample are in regional school districts with each other, and recognizes therefore that school costs will be an important factor in proposed consolidations, that should be studied thoroughly on a case-by-case basis.⁷ The Commission is recommending state aid for consolidation studies as part of its incentive program.

A final constraint which should be noted is that arising from social, housing, and racial differences between two potential consolidation partners. These differences include such factors as average per capita or per family income, percentage of nonwhite residents, average level of educational attainment, type and value of housing and its age, the average age of the population, and other less tangible factors present in the social composition of a community. The weight given to such differences by voters when considering a referendum is hard to assess, but the Commission has attempted to analyze the differences objectively and has found that they are not only less sharply pronounced than might be supposed, but also that they tend to even out over time, as do some of the other differences discussed above. Table 4 presents some of these data for the 35 sample pairs, taken from the 1960 and 1970 U.S. Censuses. To summarize: Although more than 60 percent of the pairs analyzed manifested significant differences in major social characteristics, these differences do not uniformly favor the township ("doughnut"). On the contrary, the mixture is sufficiently close so that, if anything, it adds to the possibility that both sides may stand to gain much and lose relatively little through political consolidation. These potential gains are examined in further detail below.

TABLE 4
SELECTED FISCAL SOCIAL AND HOUSING CHARACTERISTICS 1970

	Pop.	Equal. Val. Per Capita	Eff. Tax Rate	% Indus. Commercial Ratables	Population			%Age 65+	Housing Value	
					%White	%Other	%5-18		%Below \$9,999	%Above \$9,999
Atlantic	4,239	4,185	3.44	10.4%	75	25	32	9	32	2
Burlington	3,283	4,286	3.29	22.2%	96	4	25	9	22	2
	8,292	8,326	3.05	12.5%	98	2	30	5	8	20
	792	6,689	3.42	1.8%	100	0	35	4	0	17
	19,754	2,817	2.18	5.8%	83	17	31	5	15	1
	1,344	2,735	2.25	25.2%	94	6	22	9	23	3
	7,303	6,389	3.11	28.9%	96	4	28	5	3	3
Camden	4,490	3,572	3.96	28.9%	85	15	23	12	34	3
	11,202	4,688	3.90	26.3%	83	17	26	12	26	2
Camden	801	3,567	6.09	13.5%	22	78	33	5	19	3
Cape May	2,635	4,891	1.93	8.6%	99	1	26	17	49	1
	2,625	1,427	5.51	24.9%	76	24	26	7	56	0
Gloucester	1,147	8,857	2.72	40.2%	83	17	26	10	17	16
	2,287	2,954	4.04	40.4%	79	21	26	13	29	1
Hunterdon	6,934	11,526	2.98	27.1%	100	0	30	9	1	36
	3,917	8,877	2.72	37.0%	98	2	21	15	2	9
	5,119	8,502	3.59	17.6%	93	7	31	6	2	26
Mercer	885	6,201	3.35	27.4%	99	1	28	11	2	4
	10,030	9,088	2.90	14.7%	97	3	29	8	3	32
	2,151	7,293	3.80	12.0%	96	4	29	13	2	30
	2,271	5,500	3.52	16.2%	96	4	25	11	4	10
	19,567	13,620	3.04	6.7%	93	7	20	5	0	78
	12,311	8,461	2.85	30.9%	88	12	19	11	1	58
	11,736	10,309	3.33	32.2%	95	5	21	3	2	27
	5,431	4,677	4.53	20.3%	90	10	22	17	5	10
Middesex	67,120	8,064	2.77	31.8%	98	2	29	5	1	23
	16,031	6,593	3.40	14.4%	94	6	29	7	1	21
	9,138	8,312	2.75	32.3%	92	8	27	11	4	5
	4,584	4,201	3.48	17.6%	88	12	27	7	4	2
	14,049	7,655	3.58	5.8%	93	7	34	4	3	41
Monmouth	1,948	4,296	3.69	29.7%	95	5	26	11	15	2
	13,185	8,556	4.08	20.8%	97	3	33	6	2	47
	10,545	5,440	2.04	26.0%	94	4	33	6	2	47

Howell Twp.	21,756	6,556	3.44	11.9%	94	6	32	8	7	9
Farmingdale Bor.	1,148	4,667	4.20	28.2%	100	0	29	10	2	47
Millstone Twp.	2,535	8,771	2.61	8.4%	84	16	31	10	11	11
Roosevelt Bor.	814	540	4.77	6.5%	96	4	28	9	2	2
Matawan Twp.	17,680	6,849	3.65	11.7%	90	10	34	4	3	21
Matawan Bor.	9,136	5,424	3.47	10.6%	96	4	27	7	2	19
New Shrewsbury Twp.	5,925	5,771	4.22	18.1%	67	33	36	5	4	22
Shrewsbury Bor.	3,315	9,661	3.18	22.8%	100	0	29	8	1	26
Chester Twp.	4,265	10,770	3.13	5.2%	99	1	33	7	1	58
Chester Bor.	1,299	7,273	3.35	32.0%	100	0	32	8	3	16
Roxbury Twp.	15,754	8,880	3.44	22.0%	100	0	33	6	2	15
Mt. Arlington Bor.	3,590	10,809	3.09	8.6%	100	0	27	5	2	14
Morris Twp.	19,414	12,680	2.80	22.0%	94	6	30	8	1	60
Morristown Bor.	17,662	6,768	3.60	34.9%	77	23	21	14	2	21
Manchester Twp.	7,550	3,717	2.06	6.3%	88	12	14	38	0	87
Lakehurst Bor.	2,641	2,004	3.09	16.6%	94	6	29	5	22	1
Little Egg Harbor Twp.	2,972	21,346	1.78	8.6%	100	0	19	17	17	1
Tuckerton Bor.	1,926	6,836	3.43	12.6%	100	0	23	18	36	1
Clifton City	82,437	8,633	2.27	32.9%	100	0	22	12	0	18
Passaic City	55,124	4,558	3.97	47.2%	81	19	26	20	2	16
Pilesgrove Twp.	2,706	5,419	3.23	9.9%	76	24	28	9	21	4
Woodstown Bor.	3,137	4,105	3.47	20.0%	84	16	26	14	21	4
Upper Penns Neck Twp.	7,016	3,768	4.00	27.6%	93	7	27	9	29	3
Penns. Grove Bor.	5,727	2,623	3.90	24.5%	75	25	27	11	45	1
Montgomery Twp.	6,353	15,246	2.18	19.9%	94	6	31	7	1	56
Rocky Hill Bor.	917	8,297	3.52	13.3%	97	3	31	6	0	57
Wantage Twp.	4,329	12,556	2.49	16.3%	100	0	31	7	11	8
Sussex Bor.	2,098	4,995	4.71	24.5%	99	1	24	13	11	3
Frankford Twp.	2,777	12,155	3.21	10.3%	100	0	26	13	8	11
Branchville Bor.	911	6,673	3.80	41.4%	100	0	25	14	12	3
Hardyston Twp.	3,499	8,647	2.99	14.7%	100	0	29	7	7	5
Hamburg Bor.	1,820	5,540	3.06	37.4%	100	0	28	9	13	3
Franklin Bor.	4,236	4,530	3.33	30.6%	99	1	25	12	14	3
Scotch Plains Twp.	22,279	8,122	3.55	8.8%	92	8	31	6	0	41
Fanwood Bor.	8,920	6,995	3.99	5.4%	98	2	32	6	0	24
Washington Twp.	3,585	7,078	3.24	8.4%	100	0	30	10	6	7
Washington Bor.	5,943	5,091	3.68	19.2%	97	3	24	15	10	3
Pohatcong Twp.	3,924	5,702	3.30	7.5%	99	1	27	9	13	1
Alpha Bor.	2,829	3,695	3.61	19.2%	100	0	24	8	23	1

Why Consolidate?

To reiterate, the decision whether to consolidate or not is a local decision. This is not only a matter of judgment; it is a matter of law. Although municipalities legally are creatures of the State the Legislature has provided (in N.J.S.A. 40:43-66.1 et seq.) that a majority favorable referendum vote is necessary in each municipality affected in order to accomplish a consolidation.

Consolidation is recommended to New Jersey municipalities as a means toward more rational control of growth and development, more efficient provision of local services, more viable and capable public administration and the healing of local government fragmentation, in those situations where bonds of interdependence form a recognized community of interest between or among the municipalities. In addition, the considerations listed above mandate a State interest in facilitating consolidation between or among willing partners.

Though qualified and limited, this position is consistent with other approaches previously advocated by the Commission as practical methods to achieve "creative localism." Rather than being mutually exclusive, these approaches are regarded as complementary. Further, it should be noted that the most favorable situation for consolidation is where a "community of interest" exists between or among municipalities; most commonly, the "hole and doughnut" boroughs and townships. Finally, it should be stressed that local self-determination on consolidation is balanced by the State's general interest in promoting consolidation through law reform, financial incentives, and studies.

Benefits to municipalities.

The first point mentioned in support of consolidation is rational control of growth and development. Without belaboring the obvious, one need only observe the numerous instances of one municipality's adverse impact on its neighbor -- a nuisance industry abutting fine homes, the traffic from a garden-apartment complex spilling into the narrow streets of an adjacent town; the upstream town's sewage polluting the downstream town's water; the daily intrusion of untrammelled commercialism into forests and farms -- to appreciate the need for a better system of guiding the course of inevitable development in a rapidly growing State. The consolidation of municipalities would at least enlarge the municipal frame of reference in planning for land use to include a geographical area big enough to merit the description of community -- a place containing not only homes, not only jobs, not only shops, schools, churches:

and the whole market-basket full of private and public services — but all of these. One of the most pitiable victims of New Jersey's local government fragmentation has been local planning and plan enforcement capability; the strengthening of this capability through consolidation could increase measurably the benefits and reduce the costs of continued growth.

The next point, efficient provision of local services, has already been discussed previously.* The increase in efficiency possible through consolidation would result not only from the pooling of manpower, equipment, and facilities with a larger service area, but also from the pooling of tax resources, across-the-board elimination of duplication, and application where possible of economies of scale through improved work schedules and personnel deployment.

The third point concerns viable and capable public administration. Many of New Jersey's smaller municipalities do not have full-time administration; in many cases the elected public officials must assume administrative duties for which they are not technically qualified, as well as their proper policy-making duties. Consolidation of such municipalities would, through strengthening of the tax base and creation of a larger service area, make full-time professional administration more feasible, thereby revitalizing "home rule" potency. A pertinent example may be quoted from one of the Community Affairs Department consolidation studies.¹

Neither of the governments provide for full time executive leadership. They are forced to rely upon part-time officials to supervise increasingly complex municipal operations. In recent years, many New Jersey municipalities have found it necessary, and in their best interests, to provide for full time municipal administration, utilizing either a manager or administrator. And although it is true that either ... could hire such administrative talent on their own, as a consolidated community of 16,000 people they could more easily afford to retain the highly qualified professional that is needed. An administrative officer would provide full time supervision

*For discussion of specific service efficiencies that could be realized through consolidation of particular New Jersey municipalities, in more detail than is possible within this report, reference is made to the Department of Community Affairs consolidation studies listed in footnote 4 of the section — Consolidation and Its Alternatives.

and direction for the various municipal activities. Three specific and critical areas that would benefit by the presence of an administrator are budget preparation, purchasing, and personnel administration.

The final point, healing of local government fragmentation, needs little elaboration. The Commission believes that fragmentation more than anything else is crippling the ability of home rule to perform up to the expectations of New Jersey citizens. After discussing this problem at some length in its *Creative Localism* report, the Commission concluded:²

The results of jurisdictional fragmentation, then, have been felt in many areas. Often things are not done at all because of limited resources, in spite of the fact that with better liaison a willing partner — Federal, State, county or municipal — might have been found to aid or join in the undertaking. Often things are not done as well as they might be with more information, or they are done much more expensively than they might be in a joint venture.

Community of Interest

Persuasive as the benefits of consolidation may be, it is recognized that they are counterbalanced in the minds of voters by other considerations, such as were discussed in the preceding section. Consolidation is a basic and fundamental change in the structure of local government, a step not taken lightly. It is, to be sure, no more basic and fundamental a change than separation; perhaps there is something in the human psyche that finds it easier to opt for a more restricted unit of government than for a more enlarged one. At any rate, the Commission believes that a necessary precondition for consolidation is the perception by the voters of a "community of interest" transcending their municipal corporate limits. For consolidation to succeed, the voters must believe that it will restore to them a sense of governmental wholeness and that the give and take on both sides will be approximately equal. They must realize that the prosperity of one unit has spillover benefits to the other, and conversely, that the decline of one unit will ultimately mar the character of the other. Such a strong mutual interdependence is most likely to be perceived within the "hole and doughnut" municipalities: the surrounding townships' heart is in the boroughs; and there can be no commerce or interchange to and from the boroughs but through the townships. To a perspective merger the borough could

bring its developed town center with established services; the township could bring its new land resources and growing population base. Through consolidation, such a pair would form a stronger municipality in terms of area, resources, population, planning capability, and ability to deal with state and federal governments. These are the interests the Commission has in mind when discussing the "community of interest" concept.

A recent opinion of the New Jersey Supreme Court contained an excellent description of two municipalities which illustrates the kind of relationship the Commission is attempting to portray. The Court's description noted that the two towns had once been a single entity, but had split apart along "arbitrary boundary lines" during the 19th Century. The description is worth quoting at length:³

Despite their official separation, the Town and the Township have remained so interrelated that they may realistically be viewed as a single community, probably a unique one in our State. The Town is a compact urban municipality of 2.9 square miles and is completely encircled by the Township of 15.7 square miles. The boundary lines between the Town and the Township do not adhere to any natural or physical features but cut indiscriminately across streets and neighborhoods. All of the main roads radiate into the Township from the Green located in the center of the Town and it is impractical to go from most Township areas to other Township areas without going through the Town itself.

The Town is the social and commercial center of the community whereas the Township is primarily residential with considerable undeveloped area for further residential development. The Town has many retail stores and other commercial establishments surrounding its Green while the Township has only a few retail outlets located on its main roads. The Township has no business center or so-called "downtown" area but the Town's substantial shopping center serves in that aspect for both the Township and the Town. Most of the associations, clubs, social services and welfare organizations serving the residents of both the Town and the Township are located within the Town and, as members of the aforementioned organizations, the

Town and Township residents are routinely together at both work and play. The (Town) Green is a common meeting place for young people from both the Town and the Township; day care centers and park and playground facilities in the Town are used by the residents of both the Town and the Township; and little leagues and the like generally involve Town and Township teammates who play on both Town and Township fields.

There is also considerable interdependency in municipal public services. Thus the Town's Water Department supplies water to most of the Township residents; sewer service is rendered by the Town to some parts of the Township; Town and Township Fire and Police Departments regularly assist each other; and the Town and Township jointly operate the Public Library located within the Town. There are socio-economic and population differences between the Town and the Township but despite these differences the record before us clearly establishes that the Town and Township "are integrally and uniquely related to one another" and "constitute a single community."

In this example, the two municipalities demonstrated their interdependence not only through the social habits of their people, but through a variety of shared services and facilities. The Commission believes that it would be to the advantage of communities already engaging in joint services to explore the possibilities for consolidation. As noted earlier in this report, nearly two-thirds of the pairs of municipalities surveyed by the Commission are now in regional school districts with each other. Where such tangible evidence of cooperation already exists, consolidation should be further investigated and the State should create the incentives to make such investigation possible.

State Interest in Promoting Consolidation.

As previously indicated, the State has a strong interest in enhancing local government's ability to manage its own affairs — those affairs which are properly of a local nature and not, like welfare, left to localities by default of higher levels of government. For one thing, our federal system of government requires that all partners to the system be strong, and our citizens have a right to expect performance of the system. Without performance, "home rule" is an empty phrase.

Second, and from the State's own practical viewpoint, local governments capable of handling their own problems today will be less likely to require the State to handle them in the future. They will be able to do their share of the difficult tasks involved in preventing the decline and maintaining the vitality of the human environment. While the State recognizes the legitimate need to return a high proportion of its budget to the local level as state-aid, it also recognizes that these funds should be invested wisely in public programs, and not drained away in vain efforts to support unviable units of local government.

All of the benefits to municipalities mentioned earlier in this section ultimately can be viewed also as benefits to the State. Certainly orderly development is a goal of all levels of government; so is service efficiency. The majority of the inner boroughs discussed herein are old market towns, county seats, and focal points for transportation and commerce. To allow them to decline would to permit the appearance of additional pockets of blight. Similarly, many of the townships contain the only free land available to future generations of New Jerseyans for development, conservation, or whatever its best use is. To allow this scarce land to be wasted and lost now through municipal inefficiency would be to rob our own children of their right to a decent environment.

The Commission therefore proposes a series of State actions aimed at enhancing the prospects for municipal consolidation, and thereby holding out promise of significant benefits to those municipalities willing to consolidate, as well as to the State as a whole.

Conclusions and Recommendations

1. Law Revision

The Commission finds that the "Local Units Permissive Consolidation Act" (N.J.S.A. 40:43-66.1 et seq.), the basic law authorizing consolidation of municipalities, is in need of complete revision, with major substantive as well as technical changes required. That law, basically unchanged since its enactment in 1939, has become archaic, cumbersome and inflexible as a legal framework for communities desiring to study and adopt an effective plan of consolidation. The concurrent petition procedure for initiating the consolidation process is unwieldy; options for effective change open to the joint consolidation committee are too limited; the act, moreover, is not keyed into more recent and integrally related legislation such as the Faulkner Act (N.J.S.A. 40:43-66.1 et seq.) and the Consolidated Municipal Services Act (N.J.S.A. 40:48B-1 et seq.).

In addition to a complete technical revision, the Commission makes the following recommendations for substantive change in the law:

A. Initiation of Consolidation Study

Under the present act, consolidation proceedings may only be initiated by a cumbersome and difficult procedure requiring a petition signed by 20% of the qualified voters in each of the participating municipalities. It is recommended that the law be revised so that there be two alternative procedures for initiation of consolidation proceedings. First, would be to maintain local citizen initiative by authorizing the initiation of a consolidation study by a more simplified form of petition signed by 10% of the qualified voters in each participating municipality. Second, the Commission recommends an alternative process whereby the local governing bodies of the municipalities involved may initiate a consolidation study by the enactment of concurrent ordinances.

B. Election of Joint Consolidation Study Commission

The present law provides that after the voters in each of the municipalities have approved a proposed consolidation, the joint consolidation committee members shall be appointed by the governing bodies of each of the municipalities. The Commission contends that this procedure may foreclose the existence of a committee that is representative of important community interests. It is recommended that a Joint Consolidation Study Commission consisting of three members from each municipality be elected at the time of the referendum on whether to

undertake the study. It is further recommended that the Commissioner of the Department of Community Affairs be authorized to appoint one additional member of the Commission who shall participate in all proceedings of the Commission, but shall have no vote except in the event of a tie.

C. Joint Consolidation Commission to Act as Charter Study Commission

One of the key functions of a consolidation plan is to establish the most appropriate form of government, and administrative and legal framework, for the proposed consolidated municipality. The present law unduly ties the hands of the joint consolidation committee by limiting its discretion on what it may study and the options it may propose. The Commission recommends that the Consolidation Study Commission should be given all of the rights and powers of a Charter Study Commission under the Faulkner Act, including the power to make findings and recommendations as to any of the Faulkner Act optional plans of government or a special charter for the proposed consolidated municipality.

In addition, it is recommended that the Consolidation Study Commission be given the authority to make alternative findings and recommendations so that, in lieu of political consolidation, specific functions or services could be consolidated and a plan provided for such consolidation of services. Another alternative that should be open to the commission is to recommend a political and service consolidation staged over a period of up to five years. Such staging would smooth over some of the adjustments of immediate consolidation and would provide a sufficiently long period for tax rates and service costs to be brought to parity without either community assuming an undue burden of costs.

D. State Approval Role

The present law provides for state approval of any plan submitted by a joint consolidation committee, but authorizes enactment of any plan subsequently adopted by the local joint committee regardless of state disapproval. The Commission recommends that the state shall not be obliged to grant any of the incentive aids described in the following section to any consolidation plans that it disapproves.

2. Financial Assistance

A. Grants for Feasibility and Technical Studies

Consistent with its conclusion in its report, "Joint Services – Local Response to Area Wide Problems", the Commission recommends that state-aid funds be appropriated to the Department of Community Affairs to pay the cost of conducting studies of potential consolidation situations. The Consolidation Study Commission, or where such commission has not been formed, the governing bodies of the municipalities concerned, could make application for an initial feasibility study grant to the Commissioner of Community Affairs. The feasibility study would focus on the practical aspects of consolidation and would not only recommend whether or not consolidation were feasible, but also the most practical details for carrying it out. Upon completion of a feasibility study, state-aid funds would be available through the Community Affairs Department for additional technical studies covering such matters as allocation of costs, detailed governmental, political and personnel blueprints, and levels of service. The state aid fund would pay for the full costs of these studies, but only a Consolidation Study Commission would be eligible to apply for funds for a detailed technical study. The State possibly through the Department of Community Affairs would supervise the conduct of studies it funds.

B. Considerations for Incentive Grants to Municipalities that Consolidate

In the view of the Commission, state financial aids as incentives for municipalities to consolidate should be part of an overall "system" of state aids to achieve clearly defined state goals with respect to the delivery of local government services. The challenge in formulating such a system is to balance competing objectives, to clear away outworn and undesirable arrangements, to achieve consistency among related policies and programs, and to provide for future conditions and needs.

As previously stated, municipal consolidation is not an end by itself but should be encouraged to the extent that it achieves some of the following conditions:

- local governments with jurisdictions broad enough to cope adequately with forces that create the problems which citizens expect them to handle;
- local governments with the capability to raise adequate revenues, equitably;
- local governments able to deliver a full array of

services to meet needs, at adequate levels, and permitting advantages of economies of scale;

- local governments accessible to and controllable by their residents.

State financial aid as an incentive to encourage municipal consolidation efforts should be designed in a way to relate to other state aids to encourage joint service provision, in some systematic fashion. For example, legislative policy might seek to favor full *political* consolidation over joint *service* contracts and *multiple* service agreements over *single* service agreements, by offering greater incentives for the more desirable areawide approaches. Moreover:

- state financial aids to localities should be designed to encourage areawide arrangements for the purpose of more effective delivery of local government services, in the most economical manner possible;
- Wherever practicable no state tax resources should be used to subsidize the consolidation of small communities which fall below some minimum standards for service level performance, that is, consolidation should be considered to be a *means* to create more viable units of government and not an *end* in itself;
- The use of state consolidation incentive aids should be monitored in a way to assure the achievement of state program goals;
- Consolidation incentive grants should be coordinated with any future state general support grants which may have minimum population cutoffs, so as to eliminate possible state-aid windfalls to consolidating municipalities.

What the State needs to do is develop some minimum standards for the performance of local government services. To date, few reliable measures have been developed to indicate the minimum size and resource reach of local units of government to meet these standards. It is the continuing task of the Commission to develop data upon which these measures can be based; this work is underway. Consolidation feasibility studies can indicate the desirability of individual consolidation proposals, and state auditing of incentive grants can assure their efficient use.

C. Proposed Incentive Grants to Municipalities that Consolidate

With these considerations in mind, the Commission proposes

that state aid be made available through the Department of Community Affairs, in accordance with statutory guidelines, to consolidating municipalities, that would overcome the major deterrent to the implementation of consolidation, namely the fiscal burden that would be borne by one or more of the partners. The state aid formula should include the following elements.

- 1) An amount to cover all extraordinary operating costs associated with affecting the consolidation, as certified each year by the consolidated municipality, and approved by the Department of Community Affairs for a period not to exceed four years from the date of consolidation.

and

- 2) An *Adjusted "Save Harmless" Payment* granting an amount to cover that portion of the consolidated municipality's first year operating expenditures required to guarantee each municipality that the consolidated tax rate will not exceed what its tax rate would have been if it had not consolidated (based upon actual tax levy and equalized valuations trends for the most recent preceding years). As indicated in examples 1-4 in the appendix, payment by the state during the 2nd year following consolidation will not exceed 75% of the 1st year payment. Payments during the 3rd and 4th year, will be 50% and 25% of the 1st year grant, respectively. The grant will expire in the 5th year.

While the details must be worked out precisely in statutory language, this formulation seeks to provide state funds sufficient to cover extraordinary operating costs in the first years of consolidation, and to mitigate sudden tax rate changes for consolidating municipalities with low relative tax rates.

The impact of future tax policies emanating from the report of the New Jersey Tax Policy Committee on fiscal conditions of "hole-in-donut" municipalities, and others most likely to consider consolidation, will be assessed in the coming months. However, a preliminary analysis of the tax report supports the thrust of the foregoing recommendations and the general approaches suggested for strengthening local government's viability. To the extent that all or part of the costs of education is assumed by the State, and assumption of all county welfare and judiciary costs reduces required local taxes for the support of county government, the absolute fiscal disparities among municipalities will be reduced. The "save harmless" provision would then apply primarily to tax expenditures for *municipal purposes* which consume a relatively smaller part of the local budget (less than 25% in suburban communities), and, of course, the cost of such aid to the state would be substantially smaller.

APPENDIX

The effect of a "Save Harmless" provision for state aid to consolidating municipalities is indicated in the following four examples. Calculations were made for four pairs of municipalities representing types of potential consolidation opportunities within the State. First, a situation where the tax base in both the borough and the surrounding township has been growing, albeit at different rates. In Example 2, computations were made for a relatively stable borough surrounded by an expanding township. In Example 3, the borough's growth has virtually stopped while the tax base of the rural township has developed slowly. In Example 4, the borough indicates a relatively better fiscal balance than the surrounding township.

It is likely that economies of scale and changes in the service system of the consolidating municipalities would take place after the initial year of consolidation. No attempt was made to compute the second, third and fourth year tax rates and levies. It should be noted that any *extraordinary* costs directly attributed to consolidation would be underwritten by state aid.

School costs accounted for 70% of the tax levy in the first pair of municipalities cited in the appendix. In the second pair the tax levy for educational purposes consumed 75% of the total tax levy in the borough and over 80% in the township. In the third pair the figures were 60% and 65% for the borough and township, respectively, while in the last pair these figures ranged from 65% in the borough to 75% in the township. Thus, the state assumption of all educational costs, as recommended by the report of the Tax Policy Committee, would mean a reduction of state subsidies needed to support the "save harmless" provision of approximately 60% to 80% of the costs indicated in these examples.

**COMPUTATION OF STATE SUBSIDY
UNDER "SAVE HARMLESS" PROVISIONS**

Example 1 — A: Commercially active borough; B: Fast growing township.

	<u>Municipality A</u>	<u>Municipality B</u>	<u>Combined</u>
Tax Levy¹			
Base Year ²	1,500	3,000	(4,500) ⁴
1st year projected ³	1,800	3,750	5,550
Tax Rate			
Base Year	3.30	3.15	(3.25) ⁴
1st year projected	3.50	3.85	3.75
Tax Yield			
@ 3.50:			
(Lowest projected 1st year tax rate)	1,800	3,400	5,200
Shortfall			
at first year tax levy to maintain <u>\$3.50</u> tax rate	0	350	350

State Adjusted "Save Harmless" Payment

State Subsidy @ declining Percent Scale		Consolidated Tax Rates (Per \$100 Eq. Val.)		
	%	\$(000)	<u>With State Subsidy</u>	<u>Without State Subsidy</u>
1st year	100	350.	1st year 3.50	3.75
2nd year	75	262.5		
3rd year	50	175.		
4th year	25	87.5		
4 year total		875.		

1. Tax levy, yield and shortfall in \$000; tax rates indicated are per \$100 of equalized valuations.
2. Base year indicates last year of actual data (not projected).
3. Projections based on average annual increases in equalized valuations, total expenditures, tax levies and tax rates 1965-70.
4. Theoretical, consolidation not in effect in base year.

Example 2 – C: Small stable borough; D: Fast growing township.

	Municipality C	Municipality D	Combined
Tax Levy¹			
Base Year ²	250	4,000	(4,250) ⁴
1st Year projected ³	300	5,000	5,300
Tax Rate			
Base Year	4.15	3.75	(3.77) ⁴
1st Year projected	4.30	3.80	3.83
Tax Yield			
@ 3.80 (Lowest projected 1st year tax rate)	265	5,000	5,265
Shortfall			
at first year tax levy to maintain @ \$3.80 tax rate	35	0	35

State Adjusted "Save Harmless" Payment

	State Subsidy @ declining Percent Scale		Consolidated Tax Rates (Per \$100 Eq. Val.)	
	%	\$	With State Subsidy	Without State Subsidy
1st year	100	35,000	1st year 3.80	3.83
2nd year	75	26,250		
3rd year	50	17,500		
4th year	25	8,750		
4 year total		87,500		

1. Tax levy, yield and short fall in \$000; tax rates indicated per are per \$100 of equalized valuations.
2. Base year indicates last year of actual data (not projected).
3. Projections based on average annual increases in equalized valuations, total expenditures, tax levies and tax rates 1965-70.
4. Theoretical, consolidation not in effect in base year.

Example 3 — E: Stagnating rural borough; F: Slow growing rural township.

	Municipality E	Municipality F	Combined
Tax Levy¹			
Base Year ²	75	800	(875) ⁴
1st year projected ³	85	975	1,060
Tax Rate			
Base Year	3.50	3.15	(3.18) ⁴
1st year projected	3.75	3.25	3.30
Tax Yield			
@3.25 (Lowest projected 1st year tax rate)	69	975	1,044
Shortfall			
at first year tax levy to maintain \$3.25 tax rate	16	0	16

State Adjusted "Save Harmless" Payment

	State Subsidy @ declining Percent Scale		Consolidated Tax Rates (Per \$100 Eq. Val.)	
	%	\$(000)	With State Subsidy	Without State Subsidy
1st year	100	16.	1st year - 3.25	3.30
2nd year	75	12.		
3rd year	50	8.		
4th year	25	4.		
4 year total		40.		

1. Tax levy, yield and short fall in \$000; tax rates indicated are per \$100 of equalized valuations.
2. Base year indicates last year of actual data (not projected).
3. Projections based on average annual increases in equalized valuations, total expenditures, tax levies and tax rates 1965-70.
4. Theoretical, consolidation not in effect in base year.

Example 4 — G: Developing rural borough;* H: Rural township, moderate development.

	<u>Municipality G</u>	<u>Municipality H</u>	<u>Combined</u>
Tax Levy ¹			
Base Year ²	270	1,850	(2,120) ⁴
1st year projected ³	315	2,100	2,415
Tax Rate			
Base Year	3.65	4.55	(4.40) ⁴
1st year projected	4.05	4.80	4.65
Tax Yield			
@ 4.05 (Lowest projected 1st year tax rate)	315	1,800	2,115
Shortfall			
at first year tax levy to maintain \$4.50 tax rate	0	300	300

State Adjusted "Save Harmless" Payment

	State Subsidy @ declining Percent Scale		Consolidated Tax Rates (Per \$100 Eq. Val.)	
	%	\$(000)	<u>With State Subsidy</u>	<u>Without State Subsidy</u>
1st year	100	\$300.	1st year 4.05	4.65
2nd year	75	225.		
3rd year	50	150.		
4th year	25	75.		
4 year total		\$750.		

1. Tax levy, yield and short fall in \$000; tax rates indicated are per \$100 of equalized valuations.
 2. Base year indicates last year of actual data (not projected).
 3. Projections based on average annual increases in equalized valuations, total expenditures, tax levies and tax rates 1965-70.
 4. Theoretical consolidation not in effect in base year.
- * Borough in relatively better fiscal condition.

REFERENCES

Summary

1. New Jersey County and Municipal Government Study Commission, *Creative Localism: A Prospectus*. (Trenton, 1968), p.13.
2. The only successful consolidation in New Jersey in recent years was that of the former Borough of Vineland and Township of Landis into the City of Vineland in 1952. This was a "hole and doughnut" situation. Consolidation plans were drafted subsequently for two additional "hole and doughnut" pairs of municipalities, Princeton Borough and Township and Hightstown Borough - East Windsor Township, but the plans were rejected by voters at referendums. Of the seven consolidation studies performed by the State Department of Community Affairs from 1968 to 1970 at the request of municipalities, four were for "hole and doughnut" pairs - Princeton Borough and Township; Washington Borough and Township (Warren County); Pennsgrove - Upper Penns Neck; Englishtown-Manalapan.
3. This bill (A-2363, S-2239, 1970-71 Session) would authorize the Commissioner of Community Affairs to provide grants covering the full cost of both initial feasibility, and later technical, studies of joint services. For details, the reader is referred to the bills themselves and to the Commission study, *Joint Services - A Local Response to Area Wide Problems*. (Trenton, 1970), pp.42-43.

The Problem and Its Background

1. Bebout, John E., and Ronald J. Grele, *Where Cities Meet: The Urbanization of New Jersey*, (Princeton, Van Nostrand, 1964), pp. 15-16.
2. *Ibid.*, pp. 26-27.
3. *Ibid.*, p. 62.
4. Scott, Jack L., *An Introduction to the Problems of Municipal Consolidation in New Jersey* (New Jersey County and Municipal Government Study Commission, 1970), p.6.
5. *Ibid.*, pp. 7-8.
6. New Jersey County and Municipal Government Study Commission, *Joint Services*, *op. cit.*, pp. 3-4.
7. Scott, Jack L., *Introduction to Consolidation*, *op. cit.*, pp.36-37.
8. New Jersey County and Municipal Government Study Commission, *Creative Localism: A Prospectus* (Trenton, 1968), p. 89.

9. Committee for Economic Development, *Modernizing Local Government* (New York, 1966), pp. 33-37.
10. Advisory Commission on Intergovernmental Relations, *Urban and Rural America: Policies for Future Growth* (Washington, D.C., U.S. Government Printing Office, 1968), pp. 45-52. This is not to say that substantial economies would not be realized by the consolidation of two much smaller units of government, however, the Department of Community Affairs, in recommending the consolidation of Washington Borough and Township (Warren County), claimed the towns would thereby realize savings of about \$18,600 out of their combined budget of \$550,600. More important, however, was the expectation that a consolidation of services and personnel would prove to be more economic in the coming years.
See. New Jersey Department of Community Affairs, *One Washington?* (Trenton, 1968), p.32.
11. Sources: U.S. Census, 1970; *33rd Annual Report of the New Jersey Division of Local Finance, 1970.*

Consolidation and Its Alternatives

1. New Jersey Department of Community Affairs, *Report to Manalapan Township and the Borough of Englishtown*. Prepared jointly with Synectics, a consulting firm. (Trenton, 1970). pp. 16-17.
2. New Jersey State Planning Board, *First Annual Report of Progress* (1935), p. 118. Quoted in "Notes on Assembly Joint Resolution Number 23 of 1955 Establishing a Consolidation of Municipalities Study Commission," New Jersey State Legislature (1955), p.5.
3. Moore, A. Harry, *First Annual Message*, January 10, 1933, pp. 52-54. Quoted in "Notes on Assembly Joint Resolution Number 23..." , *op. cit.*, p.11.
4. Some of these studies have already been referred to in this report. Those completed as of the time of this writing include studies for the following municipalities: Princeton Borough and Township (1969), Manalapan Township – Englishtown Borough (1970), Dover Town and Mine Hill Township (1969), Oldmans Township, Penns Grove Borough and Upper Penns Neck Township (1969), Newton Town – Hampton Township (1970),

Sandyston Township – Walpack Township (1970), Washington Borough and Township (Warren County) (1968), and Phillipsburg Town, Greenwich Township, Lopactong Township, Pohatcong Township and Alpha Borough (1970).

5. Scott, Jack L., *Methodological Guidelines for the Study of Municipal Consolidation in New Jersey* (New Jersey County and Municipal Government Study Commission, 1969), pp. 8–9.
6. *One Washington, op. cit.*, pp. 5-7.
7. The Princeton Borough and Township situation is an example of this special problem. The effect of school taxes upon consolidation in that situation was discussed in a study by Richard F. Keevey and the late Jack L. Scott of the New Jersey Department of Community Affairs, *Municipal Finance and Potential Consolidation: Princeton Township and Princeton Borough*. (Trenton, 1969, 18 pp.) The report notes that a 1969 law remedied one of school-cost drawbacks to consolidation in that, before passage of the law, municipalities that formed regional school districts which consolidated automatically lost whatever state school aid incentive payments they might have been receiving. The 1969 law permitted continuation of those payments, which are a flat millage rate (not a percentage) for 15 years.

Why Consolidate?

1. New Jersey Department of Community Affairs, *Municipal Consolidation: Oldsmans Township, Penns Grove Borough, Upper Penns Neck Township. A Feasibility Survey* (Trenton, 1969), p73.
2. New Jersey County and Municipal Government Study Commission, *Creative Localism, op. cit.*, p.19.
3. Beatrice M. Jenkins, et al., v. Morris Township School District, et al., Supreme Court of New Jersey, (1971).