

# HANOVER FINANCE COMMITTEE

## Position Statement on the Proposed Fiscal Year 2025 Town Budget

The Hanover Finance Committee (HFC) is an appointed Town committee of Hanover residents<sup>1</sup> charged with reviewing financial matters of the Town and offering guidance on those matters to the Hanover Selectboard, Town officials and residents. As part of its deliberations on the proposed Fiscal Year 2025 (FY25) Town budget, HFC reviewed projected revenue and expenditure data, attended public budget meetings, and discussed the details of the budget with Selectboard members and Town administrators.

**During a public meeting on April 2, 2024, the Hanover Finance Committee voted unanimously to recommend adoption of the Town budget with significant reservations and recommendations. No positions could be taken on the fire, police and public works employee union contracts as they were still pending at the time of the meeting. If all warrant articles were to pass, Town administration estimates an increase of 6.7% in the combined Town General Fund and Fire Fund tax rates, resulting in a new “blended” rate of \$6.21 per \$1,000 of taxable assessed property value. Town taxes on a property currently valued at \$500,000 would be approximately \$3,105 in the coming year.**

### Recent Growth in Tax Rates and Compensation Costs

HFC notes that the current year increase of 6.0% in the “blended” tax rate and the proposed increase of 6.7% for next year represent the two largest increases in over a decade and outpace the rate of inflation. The largest cost driver in both cases is an increase in compensation costs—both in higher wages and higher insurance premiums (the latter is going up 13% in FY25). Many of these costs will be voted on through separate warrant articles and, in multi-year contracts, could result in similar tax increases over the next three years.

### Growth in Staffing

Further contributing to costs, the Town proposes to add as many as four full-time and three partial positions in FY25. Although the positions in childcare and downtown businesses support will bring in new revenues, these programs are not completely developed and may require taxpayer dollars. While skepticism and questions remain, HFC supported their inclusion in the budget on the understanding that the Selectboard will conduct a complete vetting before any implementation or the hiring of new staff which would entail future obligations.

The new Accounting & HR Analyst position will support essential improvements in administrative practices that were found to be inadequate in the recently completed FY22 audit<sup>2</sup>.

### Reliance on Inconstant Revenues to Offset Increased Spending

As offsets to the additional spending, the Town expects to see an additional \$350,000 in Short-Term Interest revenues in FY25 and to use \$458,000 from the General Undesignated Fund Balance (i.e. the Town’s “rainy-day fund”). These two sources reduce the impact of new spending significantly, but there is no guarantee that they will be available in future years for ongoing expenses or the compelling one-time capital projects that we see on the horizon.

### Increase Transparency in the Use of Undesignated Fund Balance and Other Decisions

While the use of Undesignated Funds is a policy matter in the hands of the Selectboard and trade-offs are an inherent part of any budget process, HFC hopes to see the Selectboard engage more fully in discussions revolving around such items so that the community can better understand how such decisions are made, especially in the face of significant tax increases.

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<sup>1</sup> Members this year are Kari Asmus, Antonia Barry (Hanover School Board member), Carey Callaghan (Hanover Selectboard member), John Dolan, Richard W. Greger, Jr., Herschel Nachlis, and Gregory L. Snyder.

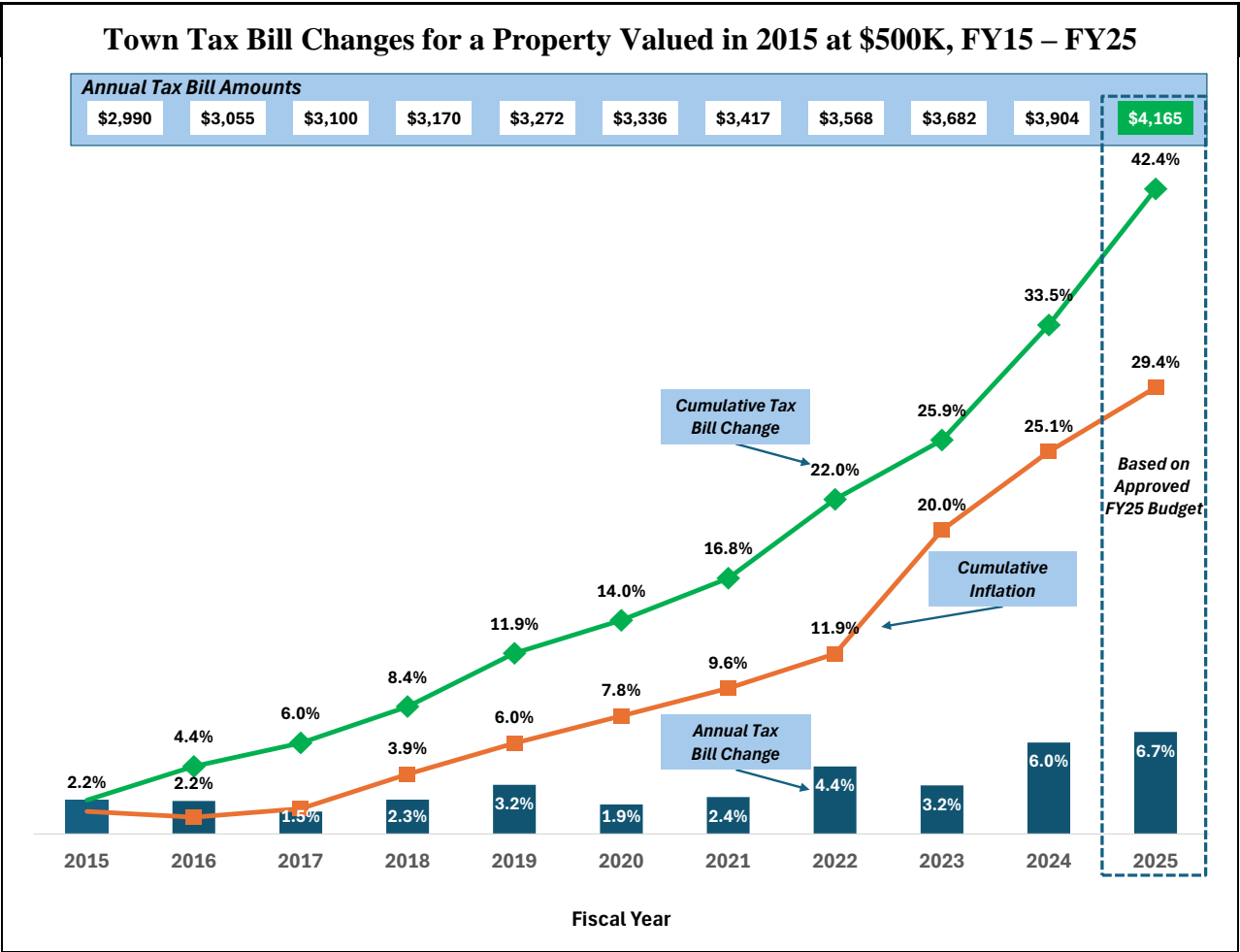
<sup>2</sup> The auditor’s adverse opinions, as well as other audit findings, have been of great concern to HFC. In addition to hiring a new Accounting and HR Analyst, we hope to see the Town administration take additional actions to strengthen the Town’s administrative and financial policies and practices.

Provide Detailed Guidance for Conducting the Budget Process

Further, while HFC is mindful that many key staff members are still new to their positions, we encourage the Selectboard to provide more specific guidance to staff in a range of areas, including periodic “actual vs. budget” financial reporting throughout the year, timelines and expectations for the budget process and negotiations, and the provision of current budget details as well as historical budget data that are reliable, informative, and highlight changes and associated costs. We also note that having a flexible tax rate target (such as this year’s 5-7%) without indicating a desire to see a hypothetical budget at the low end of the range may limit opportunities to sharpen priorities as well as pencils. Looking forward, the Finance Committee would be highly unlikely to be able to recommend approval of a budget without having timely access to complete information relevant to our decision-making process.

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In closing, HFC recognizes all the effort required of staff, administrators, and Selectboard members to bring this budget and the proposed contracts to Town Meeting. There have been many challenges in recent years, and we thank all who care about and have contributed to the wellbeing of the Hanover community.



Annual Tax Bill Amounts are shown in nominal dollars for a property valued at \$500,000 in 2015 which would, if average, be valued at approximately \$670,000 following the 2018 and 2021 Town-wide revaluations. The Northeast Regional CPI increased by approximately 29.4% in the ten years from March 2014 to March 2024.

## **ADDENDUM**

### **Position Statement on the FY2021, FY2022, and FY2023 Audits**

**During a public meeting on April 25, 2024, the Hanover Finance Committee (HFC) reviewed and agreed to the substance of the following statement as an addendum to our comments on the FY25 Town Budget:**

The Hanover Finance Committee is disappointed and concerned to learn that the FY2023 audit will not be completed prior to Town Meeting on May 14, 2024, despite earlier assurances. The negative impact is that the town residents will be deciding on financial matters without the confidence of audited financial information from the prior fiscal year thus constraining their judgment on the matters at hand in the meeting. This situation is now the third consecutive year that the audit has not been completed on a timely basis. Importantly and equally concerning is that both the FY2021 and FY2022 audit reported material weaknesses in financial internal controls. In a January memo, Town administration wrote that they “expect to have similar findings for the FY2023 audit.”

While we understand that the current administration is not responsible for the 2021 and 2022 deficiencies that occurred prior to their arrival and appreciate the hard work of staff to implement new practices in the areas of Balance Sheet Reconciliation, General Ledger Maintenance, and Capital Projects Tracking, we remain concerned that the auditors note that two significant risks were identified through their risk assessment procedures during the FY2022 audit. Namely:

- Management override of controls; and
- Improper revenue recognition.

To date, we have not heard of the steps required to eliminate these risks.

Further, twelve months ago, in the 2022 Annual Town Report, in lieu of a summary audit report, a statement was made that a website link to the audit would be made available “as soon as possible as part of the new audit review process.” To date, the audit has not been posted to the Town’s website for easy access with prior audits, and more significantly, no new audit review process has been put into place.

The Finance Committee strongly recommends that the Town establish an immediate corrective action plan to complete the FY2023 audit and effectively address the financial internal control issues and to make this a major focus of Town administration and Selectboard going forward.

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## **HANOVER FINANCE COMMITTEE**

### **Position Statement on the Proposed Union Contracts**

**During a public meeting on April 25, 2024, the Hanover Finance Committee voted 6-0 (with one absent) *not* to endorse the contracts as presented in Warrant Articles 13, 15 and 17, and that should any of the contract articles fail, we take the position that its corresponding Special Town Meeting warrant article should be approved as found in Warrant Articles 14, 16, and 18.**

**First and foremost, committee members underscore their appreciation for the good work and dedication of union employees. These staff members do extraordinary work, day-in and day-out, to keep us safe and our town running smoothly.**

The job of the Finance Committee, however, is to gauge whether any given proposal is in the best interest of the Town’s financial wellbeing—both in the short and long term.

Of chief concern, all three contracts require that negotiations be reopened within the coming months to finalize merit increases (all contracts) as well as a “Milestone/Longevity bonus program” (Police and Public Works) as well as benefits, holidays, and automated Cost of Living Adjustments (Fire). Although these additional cost items will be voted on next year, the costs as of today are unknown, and it is impossible to say whether the total contract amounts should be deemed reasonable or unreasonable. **This is, in essence, asking voters to approve contracts even though they are not complete.**

We also note that the introduction of automated Cost of Living Adjustments (or COLAs) opens great uncertainty in terms of future increases, ranging from 1-4% with the possibility of another contract reopener. By contrast, the Town’s long-established practice of focusing on “total compensation” (COLAs *and* steps) has resulted in wage increases greater than inflation while providing budgetary predictability.

In the table below, an employee who earned \$75,000 in FY2019 would have seen their pay increase to \$91,182 in FY24 with the COLAs and step increases typically received by employees—an amount that exceeds inflation by \$1,845 or 2.1%. As proposed, all employees will receive, minimally, an increase of 4.5% in FY25.

| \$75,000 Adjusted for Inflation |                           |                             | Hanover Total Compensation vs Inflation |                        |                                |                                    |
|---------------------------------|---------------------------|-----------------------------|---|------------------------|--------------------------------|------------------------------------|
| FY                              | Annual NE CPI-U* Increase | Annual NE CPI-U* Adjustment | Annual COLA + Step                      | COLA + Step Adjustment | COLA + Step + Bonus Adjustment | Variance from NE CPI-U* Adjustment |
| 2019                            |                           | 75,000                      |   | 75,000                 | 75,000                         | -                                  |
| 2020                            | 1.9%                      | 76,425                      | 3%                                      | 77,250                 | 77,250                         | 825                                |
| 2021                            | 1.4%                      | 77,495                      | 3%                                      | 79,568                 | 79,568                         | 2,073                              |
| 2022                            | 5.9%                      | 82,067                      | 2%                                      | 81,159                 | 81,159                         | (908)                              |
| 2023                            | 6.1%                      | 87,073                      | 5%                                      | 85,217                 | 86,217                         | (856)                              |
| 2024                            | 2.6%                      | 89,337                      | 7%                                      | 91,182                 | 91,182                         | 1,845                              |
| % Variance                      |                           |                             |   |                        |                                | 2.1%                               |

\*Northeast Consumer Price Index for All Urban Consumers (CPI-U)

Further, after reviewing data from the compensation study, we did not see that Hanover’s wage scales were particularly uncompetitive, especially as the study looked at FY23 wages which did not reflect the benefits of Hanover’s 5% wage scale adjustment in FY24. To the extent that some of the beginning wages are below average, the new contract provisions do not strongly target this end of wage scale and hence do not ease the difficulties currently experienced by the Town in hiring entry-level employees in an extremely low unemployment environment. Instead, the contracts add steps at the top of the wage scales where compensation is already very competitive.

Other provisions, such as a vacation sellback, were also questioned.

In closing, should any of the contract warrant articles fail, **the Finance Committee has taken the position that the following warrant article which would allow for a second vote at a Special Town Meeting should be approved**—and in so doing, hopefully achieve the dual goals of better information for voters and a new contract for Hanover’s dedicated employees.