



TO: Hanover Board of Selectmen

FROM: Julia N. Griffin, Town Manager

DATE: February 11, 2011

SUBJECT: **Proposed Budget for Fiscal Year 2011-12**

I am transmitting herewith the Town Manager's Proposed Budget for FY 2011-12. The Proposed Budget contains requests for the General Fund, Fire Fund, Ambulance Fund, Water Reclamation Facility Fund, Water Utility Fund, Parking Fund and the Downtown Business Service District. Please note we will distribute the Housing Fund Budget as a separate document over the coming weeks as it is only subject to a public hearing by the Board of Selectmen acting as the Housing Authority Board and does not require Town Meeting approval.

Once again, this proposal has been developed in the midst of a long economic downturn. While many believe we are pulling out of the recession, there continues to be worrisome turbulence in this recovery, and staff does not believe that current economic conditions will be significantly improved over the next two years. Now facing a state budget deficit that some believe is approaching \$1.0 billion, we can anticipate the potential for additional down-shifting of the state's fiscal problems onto New Hampshire cities and towns. This budget has been developed with that potential in mind as well as with an awareness that our own citizens continue to experience personal financial stress – all of which leads us to want to minimize tax rate increases at the municipal level. The projected budget continues to be extremely conservative on both the revenue and expenditure

side, based both on current experience and anticipated potential impacts looming on the horizon.

Just as it has over the past two years, New Hampshire's unstable fiscal situation promises to continue to compound our own. Having chosen to downshift a portion of the State deficit to cities and towns during the FY 2009-2011 biennial budget, we have adjusted to that loss of revenue (General Revenue Sharing (\$177,000) and a ramp-back of Group II retirement system support for employer contributions from the original 35% contribution rate to 30% in FY 2009-10 and further down to 25% in FY 2010-11 (\$63,000)). Although the legislative actions that implemented both the elimination of general revenue sharing and the State's Group II retirement contribution both *sunset* on June 30, 2011 and some communities have opted to assume the return of those sources of revenue for local budget purposes, this proposed budget **does not** assume those revenues will be reinstated. Cities and towns have serious cause for concern that we could next lose some or all of the shared Meals and Rooms Tax revenue effective July 1, 2011, currently totaling \$487,000 per year for Hanover. We should also assume that in the next five months, the State Legislature will: 1) implement significant reductions in NH Health and Human Services expenditures that will impact local social service agencies; 2) further reduce Medicaid reimbursement levels for DHMC which will impact the regional economy just as Dartmouth's budget woes have; 3) implement new user fees to be assessed by State agencies that will impact municipal budgets related to everything from wetlands permits to wastewater compliance procedures; and 4) that the State may look for ways to simply eliminate services, which will lead our citizens to turn to their local government for help. School funding is, once again, up for grabs and it is anybody's guess what this Legislature will ultimately do to escape the financial burden facing the State. In short – just as I emphasized last year at this time - the State's fiscal future is very bleak, and local communities, school districts and counties are extremely vulnerable.

Unfortunately, we are not likely to know the outcome of the State Legislature's budget balancing decisions until well after Town Meeting. We have approached preparation of this budget with the mindset that the outcome will not be positive for municipal budgets in FY 2011-12 and have tried to curb expenses as much as possible in anticipation that the State may shift considerable cost down to the local level once they have finalized their work on the State budget in June. I would also surmise that the Legislature will not manage to balance the State budget in the first year of the biennium,

and may well be back in January of 2012 to begin a second round of budget cutting. With our taxpayers in mind, I feel it is prudent that we hold the line on expenses as much as possible to provide a cushion for State deficit downshifting to come.

At the Board's November 22, 2010 meeting, you asked staff to submit a budget representing a status-quo effort reflecting a tax rate increase of no more than a range of 1.0% to 3.0%. The proposed budget detail reflects a municipal tax rate increase of 1.05% (from a current rate of \$3.98 per \$1,000 of property valuation to \$4.02). Included for your review and discussion is a list of reductions -- which if all applied to this proposed budget --will bring the tax rate increase necessary to fund the upcoming year's expenditures down to zero or to 1% while enabling a modest cost-of-living adjustment. It also includes some recommended additions which would take the tax rate increase up to 3%.

The combined totals for the seven funds included in the Proposed Budget for FY 2011-12 recommend expenditures of \$22,770,795 which is a decrease of \$359,676 or 1.6% below the total appropriations approved for FY 2010-11.

Of this total appropriation, \$1,145,521 represents capital reserve and other reserve fund purchases which are offset by the appropriation of revenue to finance the purchases from their respective reserves. As such, capital reserve purchases do not impact the tax rate. The total capital reserve expenditure recommendations represent a \$1,548,528 or a 57.5% decrease below the FY 2010-11 Budget, resulting from the return to more normal capital expenditure levels after appropriation of funds for the Phase III improvements to the water reclamation facility.

The actual expenditures net of capital projects funded from capital reserves and other reserve funds represent a total \$21,625,274 or 5.8% over the FY 2010-11 Budget. The components of increase are outlined in detail below, by fund. An increase in Public Works Outside Projects funded through direct contributions accounts for a large component of the additional expense, resulting in a very modest 1.05% increase in the municipal tax rate. A somewhat higher tax rate increase will be required to fund the Fire Department budget and the factors contributing to that increase are also outlined below.

GENERAL FUND BUDGET HIGHLIGHTS

The General Fund Proposed Budget for FY 2011-12 recommends appropriations totaling \$13,556,699, which represents an increase of \$1,478,416 or 12.2% above the appropriation for FY 2010-11. Taking into account the benefit of the growth in total assessed valuation (projected to be \$25 million), netting out the General Fund's capital reserve expenditures totaling \$462,917 which are offset by the transfer in of revenue from various reserves, and recognizing that \$800,000 of the additional expense is for undergrounding utilities on Lebanon Street which is fully funded by outside funding provided by Dartmouth, **a General Fund tax rate increase of only 1.05% is required to fund this budget, taking the tax rate from the current \$3.98 to \$4.02.** Staff has also provided the Board with a graduated series of reductions which, if implemented, enable the Board to eliminate any General Fund tax rate increase in the upcoming fiscal year.

Revenue

1. The Proposed Budget assumes an estimated \$25 million increase in total assessed valuation which generates an additional **\$79,187** at the current tax rates above the tax revenues budgeted for FY 2010-11.
2. General Revenue Sharing previously received on an annual basis (\$190,000) is not reinstated for FY 2011-12, even though the state law that implemented that suspension of revenue expires in June of 2011. Meals and Rooms tax revenue (\$487,000) is not eliminated nor is it increased based on the formula laid out in statute, but it is important to note that we stand a very real chance of losing some or all of this revenue source as the Legislature struggles with the state budget deficit. Loss of this revenue source in its entirety would require on its own a 6.15% General Fund tax rate increase.
3. We continue to be challenged in maximizing our short-term interest earnings in this climate of 3-month Treasury Bill rates hovering at zero. Consequently, we have further reduced our projected earnings by **<\$40,115>** to reflect these increasingly lower yields. Given that we

previously saw revenue in the range of \$350,000 from short-term interest earnings, this has represented a significant hit on local municipal budgets.

4. Despite the overall dormant economic climate, Building Permit revenues are projected to increase by **\$69,853**, due principally to robust construction activity on the part of Dartmouth College. Town staff strives to project this line-item conservatively given that this revenue source is potentially unstable as it is so closely pegged to the financial vitality of the College, major developers and the overall ability of single-family homeowners to implement renovation projects. We do continue to see fairly predictable amounts of homeowner building activity that generates a consistent level of permit revenues, although the projects are generally fairly small in scale.

Expenditures

1. As Salaries and Benefits comprise 70% of the overall General Fund Operating Budget, the 2.0% merit step increases, projected 25.1% increase in health insurance rates, and the substantial mandatory increase in employer contributions to the New Hampshire Retirement System for Group I and II employees account for the lion's share of the overall expenditure increase in the General Fund. The total increase in Salaries and Benefits, a year-to-year increase of 3.8%, represents an additional **\$325,076** of General Fund expenditures. And it is important to point out that this assumes **no cost-of-living adjustment in FY 2011-12, which we have chosen not to factor in to the Proposed Budget**. It would simply be impossible to meet the Board's tax rate target established last November if we were to factor in even a modest cost-of-living adjustment without making substantial reductions in other operating areas. Given the economic times and the fact that employees already receive a 2.0% merit increase (unless they are at the top of their pay scale) and that the Town must shoulder a hefty health insurance cost increase as well as a significant increase in the NHRS mandated employer contribution on behalf of employees, staff did not feel it was appropriate to suggest any cost-of-living adjustment in FY 2011-12.
 - a. After factoring a 2.0% merit step only for eligible employees, additional funds of \$65,952 are proposed for FY 2011-12 salaries.

- b. The guaranteed maximum rate increase for the Town's FY 2010-11 health insurance premiums was set at 25.1% in October. However, projecting next year's health insurance cost given the current benefits eligibility composite of employees and their opt-out status and a proposed change to the prescription drug benefit, a 6.4% or \$91,840, budget-to-budget increase is proposed.
 - c. In addition to the employer contributions to the New Hampshire Retirement System increasing due to projected salary increases, all NHRS employers face a significant retirement contribution increase for both Group I and Group II employees effective July 1, 2011. The impact on the General Fund involves all Group I and Group II-Police employees. Group I employer contribution rates will increase from 9.16% to 11.09% of salary which represents a 21.07% increase. Group II-Police rates will increase from 13.66% to 19.18% of salary, which reflects a 40.41% increase if you assume the reduced 25% State subsidy remains in place. Consequently, an additional \$139,043 is needed to meet the anticipated mandated employer contributions to the NHRS funded by the General Fund, reflecting an overall 25.2% increase.
2. The position of Director of Human Resources is returned to full-time funding. Our trial effort to spread the HR functions amongst other staff in the organization has not yielded the success we would have liked given the workload involved and so we have opted to create an enhanced Human Resources oversight function to be combined with additional responsibilities in an Assistant Town Manager position. This position is funded at a level below the total cost of the previous full-time Human Resources Director.
3. Additional General Fund expenditure capacity is opened up due to a return to normal expense level after an initial investment in a new website (\$20,000 budgeted) in FY 2010-11; the migration of the Howe Library from the costly and proprietary Innovative automated management system to the Equinox open source system, saving almost \$20,000 per year; and the return to normal expense levels after the one year budgeting of funds toward the 250th Commemoration in July of 2011 (\$25,000).

4. Highway Maintenance Funds are proposed to increase by **\$51,964** to continue to work towards full funding of the anticipated cost for salt and sand used for road maintenance and for highway repaving expenses geared to our predetermined paving schedule.
5. Funding of **\$131,670** has been budgeted in FY 2011-12 for reconstruction of North and South Park Streets to enable the addition of safer bicycle lanes as well as construction of a new sidewalk segment on the west side of South Park between West Wheelock and Summer Streets. This has been identified as a high priority project by the Bicycle and Pedestrian Committee.
6. A draw of **\$72,100** from the Bridge Replacement and Renovation Capital Reserve Fund has been appropriated to repair the bridge on River Road just south of the Lyme border which was recently reported to be in very tough shape after a Fall, 2009 State DOT inspection. We are fortunate to be able to repair these bridges without impacting the tax rate as the project will be funded from accumulated capital reserve funds.
7. The Public Works Department budgets \$800,000 for undergrounding of utilities on Lebanon Street between Crosby and South Main Streets in 2011, but this expense is offset by the receipt of revenue from Dartmouth College for this work. This offsite improvement was negotiated with the College as part of the approval for the Visual Arts Center, now under construction.
8. Funding in the amount of \$446,100 is budgeted in the Public Works Department for the replacement of three dump trucks with plows and one pick-up, adhering to our comprehensive vehicle replacement schedule. A matching amount of revenue is appropriated from the Public Works Equipment Reserve Fund to provide for these purchases.
9. The Hanover Improvement Society reduces its support for the Town Gardening function from their current \$20,000 annual contribution down to \$10,000 for FY 2011-12. Town staff has developed a reduced work plan that will be implemented as we absorb this reduction in grant revenue by reducing the amount budgeted for seasonal salaries.
10. The Town remains committed to funding energy efficiency projects in Town facilities by maintaining the \$50,000 annual funding level for these efforts.

11. The Town is beginning to see the benefits of investing in energy efficiency – in FY 2011-12, we take advantage of a \$17,760 or 6% reduction in electricity costs in Town facilities and we recognize that the level of savings will continue to grow over time as we witness the benefits of our investment in everything from interior and exterior building lighting to high efficiency hot water heaters, furnace modifications, window replacements, insulation upgrades and re-roofing.
12. In FY 2011-12, we reduce streetlight electricity expenditures by \$14,000 resulting from the National Grid relamping program currently underway in Hanover. All outdated mercury vapor streetlights are being replaced with high pressure sodium. If only National Grid offered an LED streetlight!
13. Public Works has budgeted funds to slip-line the aging clay sewer line near Occom Pond (\$34,450).
14. The Police Department budgets in FY 2011-12 for the replacement of the cruiser fleet on the normal three year replacement cycle (\$193,501). A transfer in from the Police Vehicle Reserve Fund offsets the expenditure.
15. Three social service agency funding requests from CASA (\$500), HIV/HCV Resource Center (formerly ACORN - \$2,000) and Mascoma Valley Health Initiative (\$8,159) are not recommended for funding based on the agency funding criteria adopted by the Board in late 2010.

FIRE AND AMBULANCE FUND HIGHLIGHTS

Fire Fund

The proposed FY 2011-12 Budget recommends Fire Fund expenditures of \$2,910,864, representing an increase of \$69,232 or 2.4% above the FY 2010-11 appropriations. Funding for the Fire Department is substantially drawn from property taxes assessed to three different fire districts: Fire District #1 serviced by fire hydrants; Fire District #2 not serviced by fire hydrants and west of Moose Mountain; and Fire District #3 not serviced by fire hydrants and east of Moose Mountain. The costs related to the fire hydrant system are borne only by those taxpayers in Fire District #1; all other costs, such as Personnel, are shared equitably among the property valuation in Fire Districts #1 and #2; and Fire District #3 pays one-half of

the Fire District #2 rate in recognition of the delay in service delivery given their remote location. These new districts were implemented in FY 2007-08, and the full impact of the reallocation of Fire Department costs among these three districts was to be phased in over five years. The upcoming FY 2011-12 represents the fifth and final year of this transition.

The proposed Fire District tax levy for FY 2010-11 is projected to be \$2,697,851, up from the current year's levy of \$2,513,711. With projected growth in the Town's net assessed valuation, if the projected tax levy was recovered through one tax rate across all Town properties, there would be a 6.0% tax rate increase. However, because of the 5-year transition of a greater share of shared Fire Department costs over to Fire Districts #2 and #3, these districts will see the following increases:

	Current Rate (FY2011)	Proposed Rate (FY2011-12)	% Increase
Fire District #1	1.41	1.45	2.9%
Fire District #2	.96	1.12	17.0%
Fire District #3	.48	.56	17.0%

The resulting Fire District tax rates increase so significantly due primarily to the elimination of two revenue sources that have been used in the recent past to reduce the impact on tax rates: the SAFER grant awarded in FY 2006-07 which enabled the Town to hire four additional firefighters as part of our commitment to implement ISO required staffing levels and which has been fully expended; and the Fire Fund Undesignated Fund Balance (UFB) which has a balance in excess of the 5-10% fund balance policy employed by the Town. The Fire Fund UFB was used to defer the need to raise \$100,000 in Fire District taxes in FY 2009-10 and \$150,000 in FY 2010-11.

There are several items of note in the Proposed Fire Fund Budget:

1. The Fire Fund has accumulated an Undesignated Fund Balance of \$534,466 which represents, in essence, excess tax revenue being raised over the past several years. In accordance with the Board's policy governing the maintenance of Undesignated Fund Balances, a **revenue line-item of \$66,000** has been proposed in the FY 2011-12. This non-tax

source of funding is not sustainable beyond this time; however, it brings the Fire Fund Undesignated Fund Balance down to a more appropriate level and allows us to complete the five year Fire District transition from four to three separate districts without placing this additional financial burden on the taxpayers.

2. Public Works Department staff has begun a thorough review of hydrant charges, currently borne by the Fire Fund, now that the Town has completed the municipalization of the water utility. While we recommend the appointment of a working group to look at the issue of hydrant charges in more detail, staff recommends an initial reduction in hydrant rental charges assessed both private hydrant owners and the Fire Fund, resulting in a \$50,000 reduced Fire Fund expense in FY 2011-12. The challenge will be how to balance the impact on the Fire Fund that will result from reducing this charge with the impact on water ratepayers – an issue the working group should consider as we move forward.
3. There is a minimal increase in salaries, reflecting merit step increases offset by the recent hire of new staff at a lower step in grade. However, on the health insurance side, the impact of a 25.1% health insurance cost increase results in an additional \$56,313 in expense.
4. In FY 2011-12, the NHRS employer contribution for Group II – Fire increases from 17.28% to 23.18% if you assume the reduced 25% State contribution remains in place. This reflects a 24.9% increase in the employer contribution, and amounts to an additional \$64,402 in expense in the Fire Fund.

Ambulance Fund

The FY 2011-12 Budget for the Ambulance Fund recommends expenditures of \$660,351, which amounts to an increase of \$18,663, or 2.9% over the FY 2010-11 Budget. The increase is largely due to the recommended purchase of additional operational equipment that is needed (\$5,000) and additional funds budgeted for mandatory paramedic and EMT recertification (\$5,000).

Beginning in October 2006, the Town outsourced ambulance billing to a third party provider, Comstar. Comstar continues to be an invaluable

resource in advising the Town of Hanover on rate adjustments and billing practices.

The per-capita community contributions from the Towns of Hanover, Lyme and Norwich help to offset Hanover Ambulance Service operating costs not covered by patient billings. The per capita rate is proposed to increase from \$22.81 to \$22.84, or a 0.1% increase:

Town	FY2011 Contribution	Proposed FY 2012 Contribution
Hanover	\$172,583	\$172,807
Lyme	\$ 38,686	\$ 38,736
Norwich	<u>\$ 80,019</u>	<u>\$ 80,123</u>
Totals	<u>\$291,288</u>	<u>\$291,666</u>

WATER RECLAMATION FACILITY FUND HIGHLIGHTS

The recommended expenditures in the WRF Fund for FY 2011-12 are \$2,349,018 which represents a decrease of \$2,015,259, or 46.2%, reflecting a ramping back down to more normal operating expenses after the appropriation of \$2,000,000 in FY 2010-11 for Phase III of the Water Reclamation Facility upgrade.

The Phase III improvements are now well underway and include: (1) replacement of aging and obsolete equipment; (2) reduction of energy dependence; and (3) continued improvements in solids handling capacity. With the injection of ARRA funding, we were able to expand the scope of the project to include an overhaul of Pump Station #5 without impacting sewer rates. With this scope addition, the \$7,442,000 Phase III total presented at May 2008 Town Meeting was increased to \$8,662,250 in FY 2010-11, but with future debt forgiveness that resulted in no impact to ratepayers of the expanded scope.

The operating expenditures of the Water Reclamation Facility are funded by charges to those who utilize the facility. Sewer user fees are currently billed annually and are based on a fixed charge based on the size of the water meter, and a usage charge based on the amount of water flowing

through the meter. With the municipalization of the Hanover Water Works in late June of 2010, we mailed our last annual sewer bills in May 2010, and transitioned to our first combined quarterly water and sewer bills in October 2010.

WATER UTILITY FUND HIGHLIGHTS

The recommended expenditures in the Water Utility Fund for FY 2011-12 are \$1,604,363 which represents an increase of \$124,033, or 8.4%. The increase is largely due to a commitment to begin contributing to a Water Reserve to be utilized for future system improvements (\$113,050).

Much of the upcoming fiscal year will be focused on reviewing water rates in depth and refining a comprehensive long-range capital improvement program for the utility, oriented around upgrades of existing secondary water lines throughout town.

PARKING FUND HIGHLIGHTS

The Parking Fund Budget for FY 2011-12 anticipates expenses and revenues of \$1,664,501, which is a decrease of \$34,760 or 2.0% below the FY 2010-11 appropriations. The decrease reflects modest reductions in several operating accounts.

Work on the facility deck membrane moved from the upper deck to the lower level, in FY 2010-11 and \$100,000 was budgeted for this ongoing work. In FY 2011-12, the membrane will be completed on the lowest levels of the garage, requiring the final component of investment (\$100,000). The second phase of the LED lighting upgrade to the facility outside decks has been included in the proposed budget in the amount of \$75,000.

Parking Division staff continues to explore new technology to insure the efficiency of our parking system. In FY 2011-12, the central parking pay station in Lot 7 will be replaced due to wear-and-tear (\$7,000).

The Parking System continues to generate sufficient income to operate without the need for a Parking District tax levy. The Parking Fund is also

fortunate to have accumulated resources to look to in order to fund capital projects. However, after several years of revenues exceeding expenditures and adding to these accumulated resources, we have seen revenues plateau, and the oft-seen end-of-year surpluses in the Parking Fund have significantly diminished in the economic downturn.

CONCLUSION

As I noted in my introduction, this budget process has proven to be yet another challenging one for all of us as we continue to respond to the impacts of both the national and regional economic downturn as well as the State's ongoing and increasing serious budget deficit. Once again this year, as they have done consistently in the past, the Department and Division Heads have gone above-and-beyond to provide Betsy McClain and me with thoughtful, prudent, hold-the-line budgets and to look at new ways to save expense. They continue to do this work with absolutely no complaint – sharing in the real concern over the state of the national, state and local economy and willing to do what it takes to provide for our citizens as efficiently and inexpensively as possible. They are a great group with which to work and I am grateful for their unselfish service.

As always, particular thanks goes to Administrative Services Director Betsy McClain, who works tirelessly to produce and then edit the entire budget document. The budget is a resource we all use heavily in our work, and the community appreciates its detail and the extent to which it illuminates what we do and how we fund Town operations. Betsy continues to be a valued source of creative and new ideas for managing our resources, and she is always a source of wise counsel when it comes to trying to juggle the many competing priorities and to explore new ways to respond to rapidly surfacing fiscal challenges. And when all else fails, venting with her is always productive as we struggle to manage all the impacts hurtling at us from above.

In addition, my thanks to Penny Hoisington for her assistance on the various odds and ends, from putting together tabs and organization charts to revising the table of contents and packaging covers and notebook inserts as well as overseeing the copying that comes at the end of the process. Rumor has it this will be her last budget for the Town and I shudder at the thought of losing her to retirement later this year.