



# Salem City Current

By Sally Burbridge, Temporary City Administrator

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“What is going on with the City’s finances?” This is the question I have heard the most since stepping into the Temporary City Administrator position almost 7 weeks ago. I have made 3 other attempts to answer this question in the form of an article in as many weeks, and each time I threw it in the trash before finishing. What follows is my *mostly* non-numbers explanation of what is going on in the city. If you want to see the actual approved budget you may do so on our website:

[https://www.salemmo.com/city/government/reports/financial\\_reports.php](https://www.salemmo.com/city/government/reports/financial_reports.php).

In my opinion, it will be *at least 2 years* before there is significant change in the city’s financial position. Why? Let’s talk about the factors that created this perfect storm. The City of Salem has a long-standing history of not raising utility or other rates on a regular basis, we are not alone in this, many small communities put off raising rates as long as possible so as not to hurt their citizens, but the pain of increased rates is far worse when you wait for several years and raise those rates by double digits all at once. Small, single digit increases every year or two are much easier for citizens of all income levels to adapt to. Unfortunately, we are at a crossroads where there is no choice but to raise utility rates because we have mostly depleted the reserves for those utilities.

Another of the City’s long-standing practices is to transfer funds from the Utility accounts to supplement the General Fund. An oversimplification is to look at General Fund as everything the City does that is not Utility related. Definitely an oversimplification, our Parks Department, Special Streets and a few other departments have their own tax and/or separate revenue stream which means they aren’t General Fund and they aren’t utilities either. But, back to the point, the current year’s transfer of \$900K+ from Electric to the General Fund is one of the smaller transfers in recent years. This amount has fluctuated from year to year depending upon the expenditures for the General Fund or the main non-utility, government part of the City’s operations. Without going into too much detail here, let me simply state that the City of Salem’s Sales Tax rate is 1.875%. I will insert a table here so you can see for yourself where Salem stands in relation to our surrounding communities concerning Sales Tax Rates. Before you protest about raising sales tax rates, ask yourself if you would rather we continue to transfer \$1M+ every year from our utilities (that only residents of Salem pay) or would you rather pay an additional 1% or less in sales tax and have the tourists who come through and shop, help us pay it?



## Area Sales Tax Rates

City	City Sales Tax Rate	Total Taxes (City/State/County/Special Tax)
Salem	1.875%	8.35%
Eminence	2.50%	8.23%
Rolla	2.25%	7.6%-8.6%
St. James	2.00%	7.85%
Cuba	2.25%	9.35%
Steelville	2.50%	9.60%
Licking	2.50%	8.60%
Houston	2.50%	8.60%
St. Robert	2.25%	8.225%-9.225%
Waynesville	2.25%	8.225%-9.225%
Sullivan	2.00%	8.975%-9.975%
Mountain Grove	3.00%	9.10%

Next item contributing to Salem’s perfect storm, the February 2021 cold snap event, dun, dun, duuuuuuuuu. Yes, I am tired of hearing about it, you? However, it has relevance when we are talking about the reserves for utility budgets. The \$1M+ cost of this event to the city was shouldered entirely by the City reserve funds for 9 months before any cost was passed on to electric customers of the city. Why the delay? When the City is billed for the electric we purchase each month, we get an estimated amount that we pay based on the previous month's service, and the following month, we get the new monthly estimate plus the trued-up amount, and we either must pay a little more or get credited to reflect the actual cost for that previous month. The utility committee agreed following the weather event that we wait until we get actual numbers to know what kind of increase we would need to pass on to the customers. We got the trued-up bill for February 2021 in July 2021 when it normally would have been in April 2021. The event was such an unusual and disruptive event nation-wide that MPUA, whom we buy our power from, didn't know what their costs were right away, so it took a few months for them to get those numbers. Once the City had good numbers for the actual cost of this event, there was a series of Utility Committee and Aldermen meetings where the information was discussed and analyzed before a final recommendation by the Utility Committee for a 13.84% increase. That was approved at the 09/14/21 Board of Aldermen meeting and that rate went into effect starting with the 09/15/21 to 10/15/21 billing. That first bill reflecting the increase to help cover the cost of the February 2021 event was received by customers in November of 2021.

The City was able to take advantage of a 0% loan (Missouri’s Municipal Utility Emergency Loan Program) to stretch out how long we had to pay off this amount, but it is still a loan and we are still paying on it. In fact, the 24% electric increase that our customers and citizens saw with their August 2022 bills was a delay from when the City began paying more for the electric. The entire system is set up to be reactive, after the fact, which means we will always be playing catch up and with the Feb 2021 event wiping out most of our reserves, we have almost nothing to fall back on. In fact, for the first 3 months of the current budget year (July, August, and September) the city is already seeing a 13% increase in the cost of electricity above the 24% increase customers saw just a month ago.



Long term for electric rates, we are in a unique global situation. Yes, what happens in the rest of the world really does reach into Dent County every now and then and this is one of those times. Costs of power, impacted by natural gas prices, shutting down of coal fired power plants, and unreliability of renewable energy are all playing a part in utility prices around the world. I am not debating the good or bad of any of these things, simply making a statement. These are things not in the City of Salem's control, but each of these things are now impacting the cost of power to the city and they will continue to impact our electric cost and prices in the future.

Now let's talk about a little thing called ARPA funds. That is the American Recovery Plan Act. The City received just over \$1M, about half last budget year and the other half this budget year. So we should have an extra Million dollars right? Wrong, just in case you need a recap of the storyline so far, the City's costs have increased over the years. Things like basic pay raises, costs of fuel, costs of materials and supplies, building maintenance, etc. All this time the City of Salem has not seen an equal increase in General Fund revenue or the sales tax in years. When there isn't a view to the long term for adequately funding local government activities, the only recourse is to raise utility rates and transfer those funds. This is not sustainable, and it is not good for the citizens nor for the community. So where has the ARPA money gone? It is filling a hole in the city finances that was bigger than the Utility money transfer could fill.

So, what is the City doing to reduce expenses? During the budget adoption process early this summer, 4 staff positions were cut from the budget. These positions included both vacant positions and, in some instances, residents of our community were laid off and no longer work for the city. The Mayor, Board of Aldermen, myself, and other staff are looking at ways to reduce costs such as reducing overtime, watching invoices and contracts to eliminate unnecessary fees and expenses, and reviewing every proposed expense to make sure we are cutting responsibly while ensuring we will still be able to deliver basic services. This is an ongoing, everyday activity for some of us and it is not clear yet whether we will make it through the current budget year without the need to make more substantial cuts.

So how do we fix this? As I mentioned at the beginning, it will not be quick. One option would be to look at an increase in the City Sales Tax. This would reduce our dependence on transfers from Utility funds, which could help keep electric and other utility costs lower for citizens. A Sales Tax increase would need to go on an election ballot and be voted on by the citizens of Salem. If such an increase were to pass, it would be roughly 6 months before the City would begin receiving the additional funds.

As an example, if the proposed tax increase were to be placed on the April 2023 election ballot (the soonest option available), the City of Salem would not begin receiving those additional funds until approximately 6 months after the election which would be September 2023. This would be at the end of the first quarter of next year's budget. The next election ballot would be August of 2023 or November of 2023, each of those pushes the new revenue off further into the following budget year. Which means at least 2 years before we see real daylight in the City's finances. That is, unless we figure out some outside the box revenue streams and alternative ways to reduce costs.