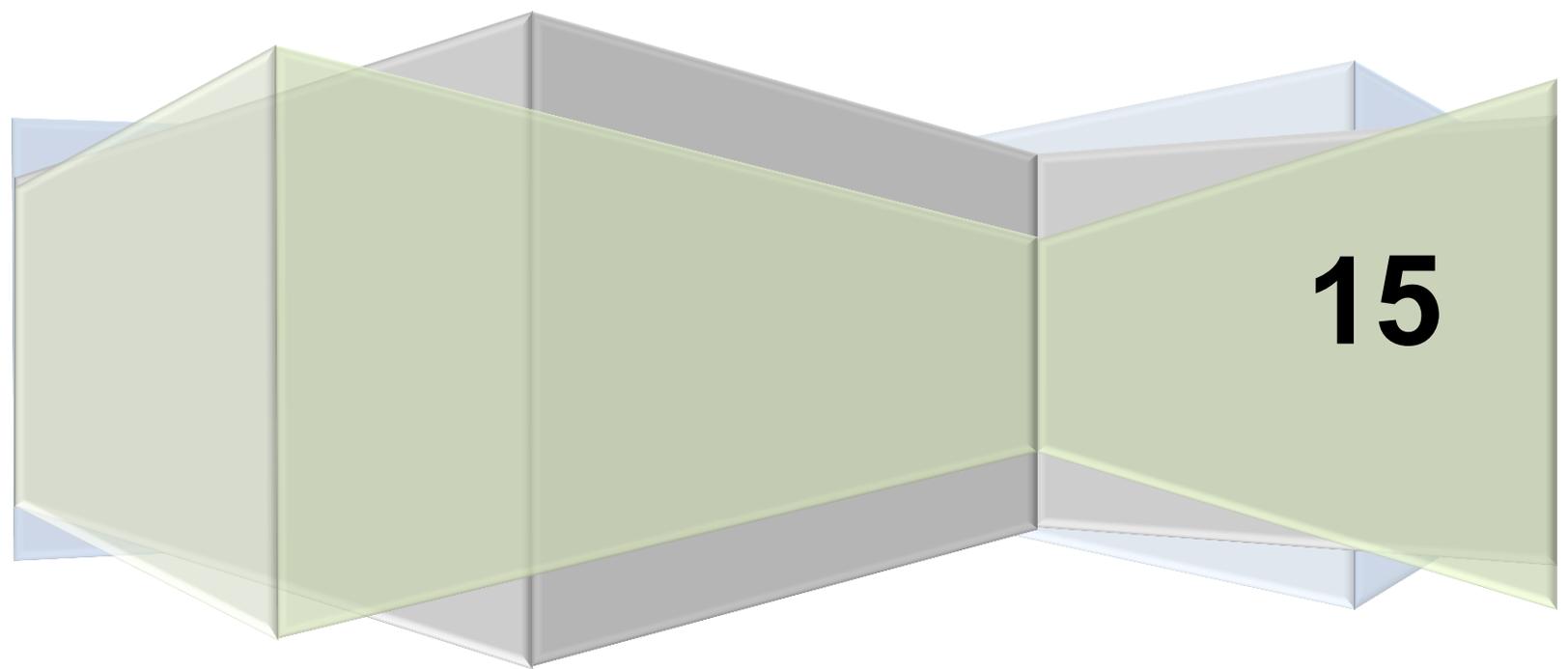


# CITY OF SALEM

## MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2015



**15**

# **MUNICIPALITY OF SALEM MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2015**

This section of Salem Municipality's annual financial report presents our discussion and analysis of the Municipality's financial performance during the fiscal year ending December 31, 2015. Please read it in conjunction with the Municipality's financial statements, which follow this section.

## **FINANCIAL HIGHLIGHTS**

- In FY2015, the Municipality's revenues generated from taxes, charges for services, and other revenues for the governmental programs were \$297,001 more than the \$811,962 governmental expenditures. This is an improvement over FY2014 when revenues exceeded expenditures by \$253,000 but a decline from FY2013's \$302,388 increase.
- In the Municipality's Water & Sewer Funds (business-type activities), revenues increased to \$503,493 a (9%) increase from FY2014 and a 2.3% increase from FY2013. Expenses show a \$33,282.75 (5.7%) decrease from FY2014 and a 27.4% increase from FY2013.
- The total cost of the Municipality's Governmental programs increased \$72,132 (9.7%) from FY2014 and 10.7% from FY2013. There were many variables for this increase and are explained in detail on page 8 of this report.
- The governmental funds report a \$297,001 surplus primarily due to an increase in taxes & contributions which is a rebound from the decline of 17.1% from FY2013 to FY2014.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, including related notes, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Municipality:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Municipality's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Municipality government, reporting the Municipality's operations in more detail than the government-wide statements.
  1. The governmental funds statements tell how general government services like public safety were financed in the short-term as well as what remains for future spending.
  2. Proprietary fund statements offer short- and long-term financial information about the activities that the Municipality operates like businesses. The Municipality has two proprietary funds – the Water Fund and the Sewer Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Figure A-1 summarizes the major features of the Municipality’s financial statements, including the portion of the Municipality government they cover and the types of information they contain. The remainder of the overview section of the management’s discussion and analysis explains the structure and contents of each of the statements.

<b>Figure A-1</b>			
<b>Mayor Features of Municipality of Salem's Government-wide and Fund Financial Statements</b>			
	<b>Government-Wide Statements</b>	<b>Fund Statements</b>	
		<b>Governmental Funds</b>	<b>Proprietary Funds</b>
Scope	Entire Municipality government	The activities of the Municipality that are not proprietary or fiduciary, such as finance office, police, streets, park	Activities the Municipality operates similar to private businesses, the water and sewer systems.
Required Financial Statements	*Statement of Net Position * Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	* Balance Sheet *Statement of Revenues, Expenditures and Changes in Net Position * Statement of Cash Flows
Type of Asset/Liability Information	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter no capital assets included.	All assets and liabilities, both financial and capital, and short-term and long-term
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during or soon thereafter	All revenues and expenses during year, regardless of when cash s received or paid.

### **Government-wide Statements**

The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector companies. The statement of Net Position includes all of the government’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Municipality’s Net Position and how they have changed. Net Position – the difference between the Municipality’s assets and liabilities – are one way to measure the Municipality’s financial health or position.

- Increases or decreases in the Municipalities net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Municipality you need to consider additional non-financial factors such as changes in the Municipality’s property tax base and changes in the sales tax revenue base.

The government-wide financial statements of the Municipality are reported in three categories:

- Governmental Activities -- This category includes most of the Municipality's basic services, such as police, fire, public works, parks department and general administration. Property taxes, sales taxes, charges for services, state and federal grants and interest earnings finance most of these activities.
- Business-type Activities -- The Municipality charges a fee to customers to help cover the costs of certain services it provides. The Municipality's water and sewer systems are included here.
- Component Units -- The Municipality includes one other entity in its report – the Housing and Redevelopment Commission. Although legally separate, this “component unit” is important because the Municipality is financially accountable for them.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the Municipality's most significant funds – not the Municipality as a whole. Funds are accounting devices that the Municipality uses to keep track of specific sources of funding and spending for particular purposes.

- State Law requires some of the funds.
- The Municipality Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The Municipality has two kinds of funds:

- **Governmental Funds** – Most of the Municipality's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between them.
- **Proprietary Funds** – Services for which the Municipality charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Municipality's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

## FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE – NET POSITION

The Municipality's combined net position increased by 5% - \$335,510 between FY2014 and FY2015 – a 2% improvement over the 3% increase shown in 2014. (See Table A-1).

TABLE A-1 CITY OF SALEM NET POSITION - FISCAL YEAR 2015

	Governmental Activities			Business-Type Activities			Total		
	2013	2014	2015	2013	2014	2015	2013	2014	2015
Current and Other Assets	1,598,653	1,552,924	1,903,476	851,282	781,135	754,045	2,449,935	2,334,059	2,657,521
Net Pension Asset	-	-	29,161	-	-	11,911	-	-	41,072
Capital Assets	2,301,173	2,462,994	2,455,622	3,919,220	3,821,144	3,711,205	6,220,393	6,284,138	6,166,827
<b>Total Assets</b>	<b>3,899,826</b>	<b>4,015,918</b>	<b>4,388,259</b>	<b>4,770,502</b>	<b>4,602,279</b>	<b>4,477,161</b>	<b>8,670,328</b>	<b>8,618,197</b>	<b>8,865,420</b>
Def Outflows of Resources	-	-	51,053	-	-	20,853	-	-	71,906
LT Debt Outstanding	11,592	12,754	12,913	2,064,248	1,975,043	1,883,478	2,075,840	1,987,798	1,896,392
Other Liabilities	159,752	21,682	35,723	40,711	43,605	43,897	200,464	65,287	79,620
<b>Total Liabilities</b>	<b>171,344</b>	<b>34,437</b>	<b>48,636</b>	<b>2,104,959</b>	<b>2,018,648</b>	<b>1,927,375</b>	<b>2,276,303</b>	<b>2,053,085</b>	<b>1,976,011</b>
Def Inflows of Resources	-	-	43,028	-	-	17,575	-	-	60,603
Capital Assets Net of Related Debt	2,301,173	2,462,994	2,455,622	1,860,645	1,851,326	1,833,130	4,161,818	4,314,321	4,288,752
Restricted	300,826	335,241	370,138	178,620	186,263	209,504	479,446	521,504	579,642
Unrestricted	1,126,483	1,183,246	1,521,889	626,278	546,041	510,340	1,752,761	1,729,287	2,032,228
<b>Total Net Position</b>	<b>3,728,482</b>	<b>3,981,481</b>	<b>4,347,648</b>	<b>2,665,543</b>	<b>2,583,631</b>	<b>2,552,973</b>	<b>6,394,025</b>	<b>6,565,112</b>	<b>6,900,622</b>
Beginning Net Position	3,426,094	3,728,482	3,981,481	2,603,151	2,665,543	2,583,631	6,029,245	6,394,025	6,565,112
Prior Period Adj for GASB 68	-	-	32,766	-	-	13,383	-	-	46,150
Prior Period Adj Sales Tax Rev	-	-	36,400	-	-	-	-	-	36,400
Adj Beginning Net Position	3,426,094	3,728,482	4,050,647	2,603,151	2,665,543	2,597,014	6,029,245	6,394,025	6,647,661
<b>Net Position Increase (Decrease)</b>	<b>302,388</b>	<b>252,999</b>	<b>297,001</b>	<b>62,392</b>	<b>(81,913)</b>	<b>(44,041)</b>	<b>364,781</b>	<b>171,086</b>	<b>335,510</b>
Percentage +/- Net Position	9%	7%	7%	2%	-3%	-2%	6%	3%	5%

The Statement of Net Position presents the assets and liabilities in order of relative liquidity. Liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. Long-term liabilities of the Municipality, consisting of compensated absences payable and water revenue bonds payable, have been reported in this manner on the Statement of Net Position. The difference between the Municipality's assets and liabilities is its net position.

The Municipality's net position reflect its investment in capital assets (e.g., land, buildings, improvements other than buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The .6% decrease in net position invested in capital assets net of related debt relates to the depreciation of \$227,561 being more than the Municipality's purchases in 2015 and reduction of revenue bond debt. The City purchased the following capital items in 2015:

FUND	ITEM	DEPTS	COST
<b>EQUIPMENT</b>			
General	(10) Armory Tables	Armory	4,637
General	Grasshopper Mower	Parks	11,715
Water	Meters & MXU	Water	2,280
<b>TOTAL EQUIPMENT</b>			<b>18,632</b>
<b>BUILDINGS</b>			
General	Restroom/Concession Stand	Parks	49,562
<b>TOTAL BUILDINGS</b>			<b>49,562</b>
<b>IMPROVEMENTS OTHER THAN BLDGS</b>			
General	Sidewalk	Parks	3,841
General	Batting Cage (finished)	Parks	4,355
General	Green Area - Baseball Field	Parks	6,375
General	Storm Sewer - Baseball Field	ST/Sewer	1,692
General	Radius & Alley Approach	ST/Sewer	1,607
General	Storm Sewer - Softball Field	ST/Sewer	634
Water	Water - Baseball Field	Water	663
Water	Hydrants (3)	Water	7,742
Sewer	Sewer - Baseball Field	Sewer	357
<b>TOTAL IOTB</b>			<b>27,267</b>
<b>CONSTRUCTION IN PROGRESS</b>			
General	Bathhouse Design	Pool	25,642
<b>TOTAL CIP</b>			<b>25,642</b>
<b>TOTAL 2015 CAPITAL ASSET ADDTS</b>			<b>121,103</b>

The Municipality's restricted net position represent resources that are subject to external restrictions on how they may be used. These restrictions are normally set by state statute, federal regulations or debt covenants. There was an increase in restricted net position due to more income than spending in the Storm Sewer Fund; more water surcharge receipts than the total bond payment and the addition of the SDRS Pension Purpose account. Both the Sales Tax and Street Assessment funds decreased as expenditures exceeded revenues by \$8,651 & \$20,504 respectively.

The remaining balance of net position is unrestricted and may be used to meet the Municipality's ongoing obligations to citizens and creditors. The overall unrestricted net position increased 17.5% in 2015 which is up from the 2013 to 2014 decrease of 1.3%.

At the end of the current year, the Municipality is able to report positive balances in two of the three categories of net position, for the government as a whole, as well as for its governmental activities. The business-type activities saw a decrease in two of the three categories. The same situation held true for the prior year except for the government activities saw an increase in all three categories.

The Municipality as a whole reports an increase in Net Position of \$335,510 (5%).

- The Current & Other Assets (cash & receivables) increased \$323,462 (13.9%).
- A new asset in 2015 – Net Pension Asset shows a balance of \$41,072.
- The 2015 Capital purchases listed above, less depreciation, resulted in an \$117,311 (1.9%) decrease in Capital Assets.
- Total Assets increased \$247,223 (2.9%).
- The LT Debt decreased \$91,406 (4.6%) - due to payments of on the SRF Revenue Bonds
- The Other liabilities increased \$14,332 (22%) due to the addition of Pension Related Deferred Inflows.
- Total Liabilities for the Municipality decreased \$77,074 (3.8%).

**REVENUE COMPARISON, TABLE A-2; FIGURE A-2**

**TABLE A-2  
MUNICIPALITY OF SALEM  
Changes in Net Position 12/31/2015**

	Governmental Activities			Business-Type Activities			Total		
	2013	2014	2015	2013	2014	2015	2013	2014	2015
<b>Revenues</b>									
Charges for Services	82,940	83,804	99,717	482,134	488,056	493,031	565,074	571,860	592,748
Operating Grants	43,062	45,961	49,552				43,062	45,961	49,552
Capital Grants & Contrib.	123,044	87,007	107,489	-	-	-	123,044	87,007	107,489
Taxes	743,851	743,230	823,852				743,851	743,230	823,852
Revenue State Sources	10,136	11,164	9,746				10,136	11,164	9,746
Grants/Contrib Unrestrict	-	-	275	-	-	-	-	-	275
Unrestricted Invest.	6,489	5,561	6,308	3,534	3,136	2,736	10,022	8,697	9,044
Miscellaneous	26,348	13,854	12,024	6,656	7,712	7,726	33,004	21,566	19,750
<b>Total Revenues</b>	<b>1,035,870</b>	<b>990,582</b>	<b>1,108,963</b>	<b>492,323</b>	<b>498,904</b>	<b>503,493</b>	<b>1,528,194</b>	<b>1,489,485</b>	<b>1,612,456</b>
<b>Expenses</b>									
General Government	166,121	192,467	180,478				166,121	192,467	180,478
Public Safety	94,502	92,825	92,177				94,502	92,825	92,177
Public Works	247,191	258,500	323,863				247,191	258,500	323,863
Health & Welfare	6,865	4,233	8,979				6,865	4,233	8,979
Culture & Recreation	212,751	180,767	193,035				212,751	180,767	193,035
Conservation/Develot	6,052	11,038	13,430				6,052	11,038	13,430
Misc Expenditures	-	-	-				-	-	-
Water Services				330,579	374,399	412,674	330,579	374,399	412,674
Sewer Services				99,352	206,418	134,860	99,352	206,418	134,860
<b>Total Expenses</b>	<b>733,482</b>	<b>739,830</b>	<b>811,962</b>	<b>429,931</b>	<b>580,817</b>	<b>547,534</b>	<b>1,163,413</b>	<b>1,320,647</b>	<b>1,359,496</b>
Change in Net Position	302,388	250,752	297,001	62,392	(81,913)	(44,041)	364,781	168,839	252,960
Adjustments & Transfers	-	2,248	-	-	-	-	-	2,248	-
Increase (Decrease) in Net Position	302,388	253,000	297,001	62,392	(81,913)	(44,041)	364,781	171,087	252,960
Adj to Net Position - Beginning			69,166			13,383	-	-	82,550
Ending Net Position	3,728,482	3,981,482	4,347,648	2,665,543	2,583,630	2,552,973	6,394,025	6,565,112	6,900,621

**The Municipality's 2015 revenues totaled \$1,612,456 an 8.3% increase from FY2014, and a 5.5% increase from 2013 - \$122,971 and \$84,263 respectively; a definite improvement over the decrease of 2.5% (\$38,708) from 2013 to 2014.**

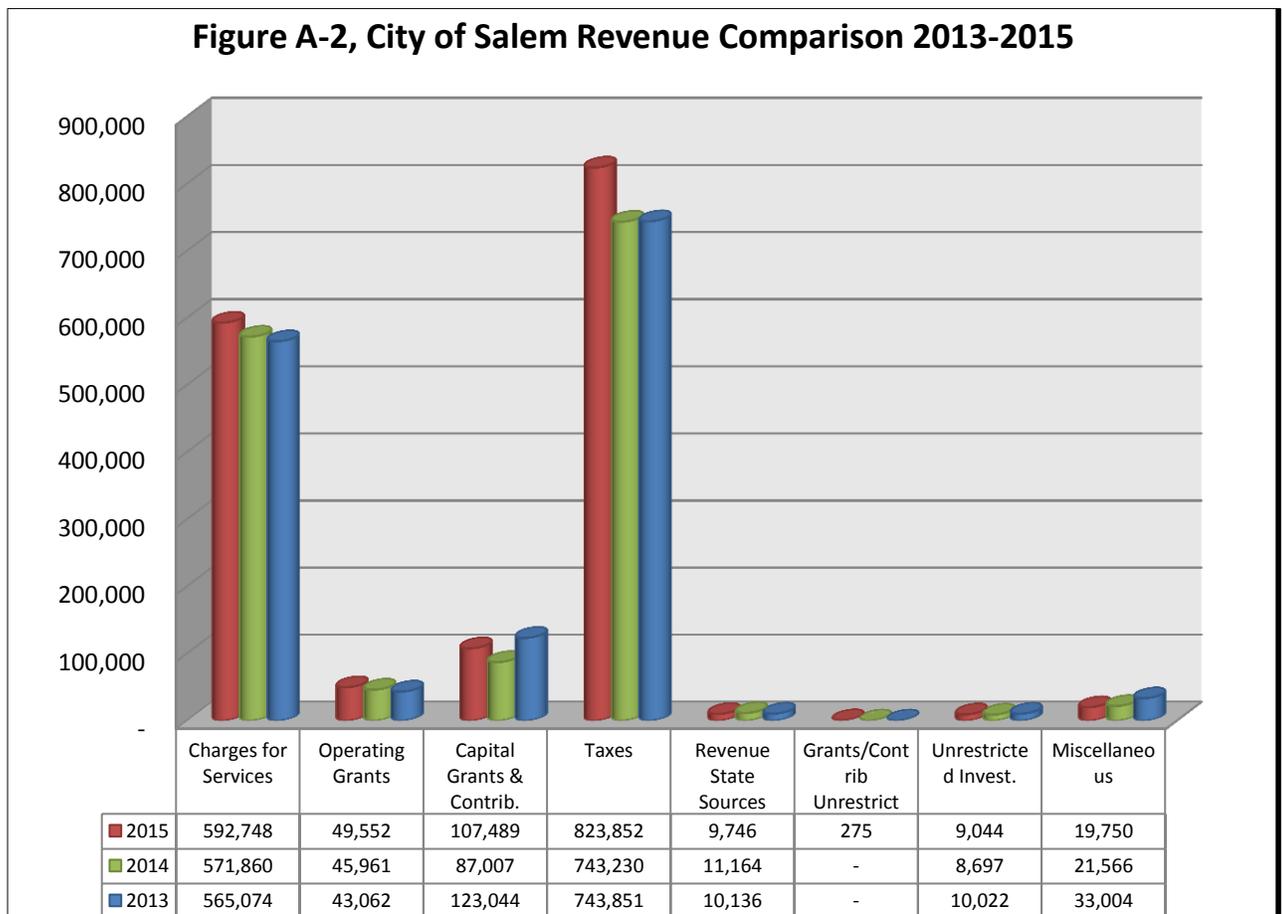
- **Charges for Goods and Services** increased 3.7% from. 2014; 4.9% from 2013; and 2013 to 2014 1.2%.

Business Type Activities: The 2015 user fees in the Business-Type activities increased 1% from 2014 and 2.3% from. 2013; and 1.2% from 2013 to 2014 – \$4,975, \$10,897 & \$5,293 respectively. The user rates were increased all three years.

General Fund Activities: 2015 reflects a 19% increase over 2014; 20.2% over 2013; and 1.0% from 2013 to 2014 - \$15,913; \$16,777 & \$864 respectively. The refuse collection charge was the main cause for the increase. The low fuel costs called for a 10% fuel reduction to the contract in 2015 and a portion of 2014. A new 3-year contract on January 1, 2014 was \$2,118 less than in 2013.

- **Operating Grants** increased 7.8% from 2014; 15.1% from 2013 and 8.3% from 2013 to 2014. The vehicle licensing increases and Mosquito Control Grant in 2015 & 2014 account for the differences.
- **Capital Grants & Contributions** show an increase of 23.5% from 2014; decrease of 12.6% from 2013; and decrease of 29.3% from 2013 to 2014 - \$20,482, (\$15,555) & (36,037) respectively. The main reason for the fluctuation is contributions between the years.
- **Taxes** increased by 10.8% from both 2014 and 2013; an improvement from the decline of .1% from 2013 to 2014. Sales tax was the reason for the decline in 2014 - \$7,855 (1.9%); but rebounding in 2015 reflecting an increase of 17.5% from 2014 and 15.5% from 2013 - \$77,089 & \$69,234 respectively. 2015 Property tax revenue increased 1.2% from 2014 & 3.6% from 2013; 2014 reflects a 2.4% increase from 2013 – \$3533, \$10,766 & \$7,233 respectively.
- **Revenue from State Sources** is derived from Liquor Tax Reversion and Bank Franchise collections. 2015 revenues show a 12.7% decline from 2014 and 3.8% from 2013. 2014 revenues increased 10.1% from 2013 – (\$1,418), (\$390) & \$1,028 respectively.
- **Investment earnings** show a 4% increase in revenue from 2014; decline of 9.8% from 2013; and a decrease of 13.2% from 2013 to 2014 - \$347, (\$979) & (1,326) respectively. These figures directly reflect the low interest rates and cash on hand during the year.
- **Miscellaneous revenues** consist of cable franchise, dividends and recovery of prior year expenses in the governmental funds and Verizon’s water tower lease and dividends in the Business funds. The Municipality sold the 1973 maintainer in 2013 where 2015 & 2014 show no capital items sold. Verizon’s lease increased \$900 in 2014. The above account for the following decreases – 2015 - 8.4% from 2014; 44.1% from 2013; and 39% from 2013 to – (\$1,816), (\$13,254) and (\$11,438) respectively.

**Figure A-2, City of Salem Revenue Comparison 2013-2015**



## EXPENDITURE COMPARISON, TABLE A-2 & FIGURE A-3

The Municipality's expenses show an increase of 2.5% from 2014 & 16.9% from 2013; and a 13.5% increase in 2014 from 2013 - \$38,850, \$196,083 & \$157,234 respectively.

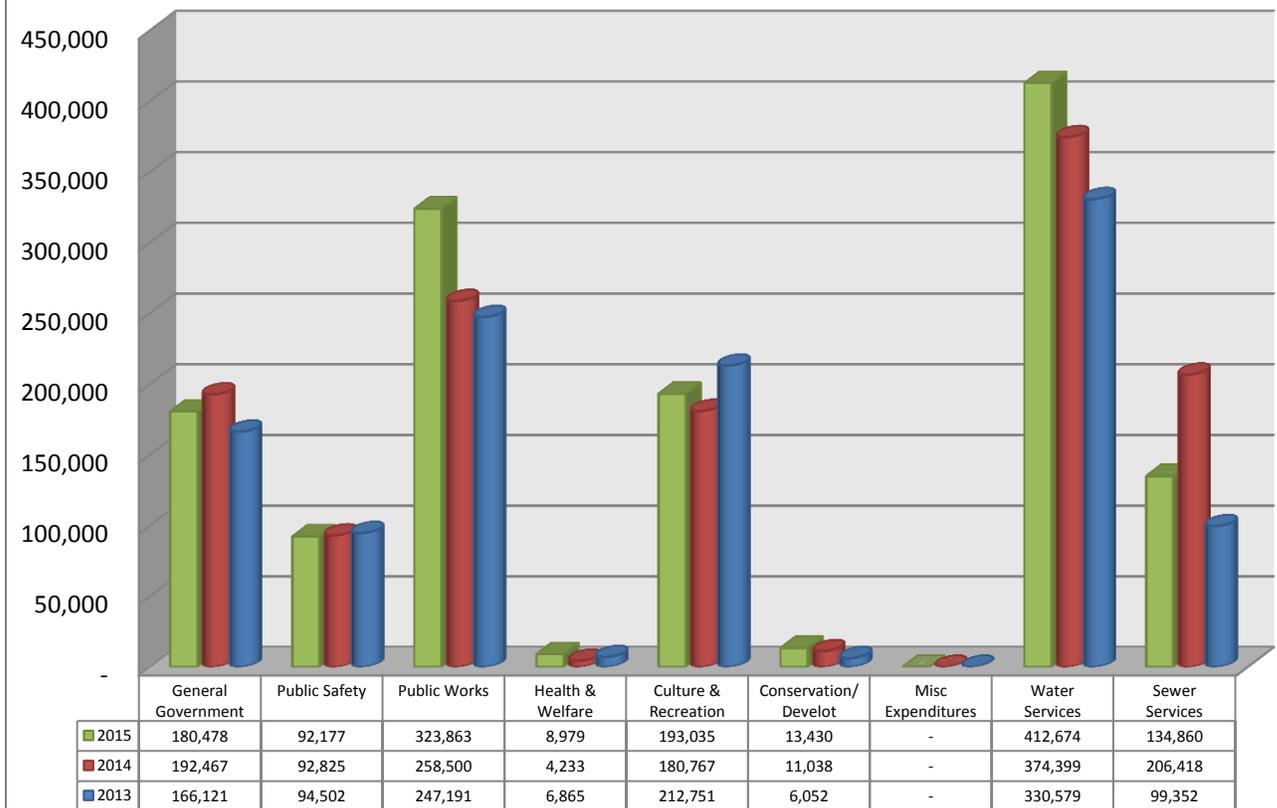
- **General Government Expenditures** decreased 6.2% or \$11,989 from 2014; increased 8.6% - \$14,357 from 2013; and 2014 vs. 2013 reflects an increase of 15.9% or \$26,346. Insurance increased all three years, an audit was paid for in 2014 and the allocation of wages to the Finance Department increased in both 2014 & 2015.
- **Public Safety** decreased .7% (\$648) from 2014 and 2.5% (\$2,325) from 2013; 2014 declined 1.8% (1677) from 2013. The police contract remained the same so the fluctuation reflects repairs to the fire department and civil defense equipment.
- **Public Works** expenses consist of Street Administration, Maintenance [overlays, sealing (chip, crack & fog), gravel], Street Lighting and Snow Removal; Storm Sewer maintenance. The 2015 expenses increased \$65,364 (25.3%) from 2014 and \$76,672 (31%) from 2013; 2014 shows an increase of \$11,309 (4.6%) from 2013. Crack sealing was performed for the first time in 2015 and the west shop received a much needed facelift with new roof, siding and overhead doors at a cost of \$32,500. Snow removal varied between the years; and street projects in 2013 and 2014 allowed fewer dollars for overlays during those years as dollar were spent on capital improvements.
- **Health & Welfare** consists of the Mosquito Control program. All fluctuation is based on chemicals purchased from year to year. The 2015 expenses increased \$4,747 (112.1%) from 2014 and \$2,115 (30.8%) from 2013; 2014 decreased 38.3% (\$2,632) from 2013.
- **Culture & Recreation** expenses are derived from the Summer Recreation Programs, Pool, Parks & Armory. The 2015 expenses increased 6.8% from 2014; and decreased 9.3% from 2013 (\$19,715) & (\$31,983) respectively. 2014 expenses decreased 15% - \$12,268 from 2013. Some of the fluctuations are from the following:
  - Summer Recreation costs increased in 2015 – \$1,733 (15%) from 2014 & \$1,908 (17%) from 2013 costs between 2014 and 2013 increased \$175 (2%). This is mainly due to league and tournament fee increases.
  - Swimming Pool expenses decreased \$914 (2%) from 2014 and \$35,599 (42%) from 2013; and 2014 to 2013 decreased \$35,684 (40%). The large difference from 2013 is due to the installation of the pool liner in 2013 (\$42T) – chemicals did increase and the initial Pool Bathhouse Renovation design and drawing were paid for in 2014.
  - Park expenses increased \$12,693 (12.7%) from 2014; \$5,556 (\$12.9%) from 2013; and 2014 to 2013 decreased \$7,137 (16.5%). The utilities increased from 2013 and 2014 due to the metering of water and the electrical rate increase. Supplies and repairs increased due to sprinkler repairs, roof replacement on the park buildings and tree removal.
  - Auditorium costs decreased \$1,455 (2.6%) from 2014 and increased \$4,193 (8.4%) from 2013; 2014 to 2013 reflects a \$5,648 (11.3%) increase. The auditorium wages, supplies and utilities have been declining since 2013 directly related to use and weather. The Maintenance and repairs have increased due to the door replacement (\$16T – 2015 and \$6,520 – 2014) and repairs to the HAVC system (\$11,425 in 2015).
- **Conservation & Development:** The 2015 Planning and Zoning and Promoting the Municipality reflects a \$2,392 (21.7%) increase from 2014; and \$7,378 (121.9%) from 2013; 2014 to 2013 increased \$4,986 (82.4%). The 2015 increase is due to the hiring of a code enforcement officer and actively pursuing the need to cleanup dilapidated buildings and junk vehicles. The 2014 increase is due to the payment to S.E.F.P in 2014; the 2013 fee was waived for one year.
- **Miscellaneous** Expenditures were zero for all three years.
- **Water Fund** 2015 expenditures increased \$38,275 (10.2%) from 2014 and \$82,095 (24.8%) from 2013. 2014 to 2013 expenses increased \$43,820 (13.3%). In 2015, chemical usage decreased 9.6% from 2014 and increased 17.8% from 2013. There was a cost increase in 2014 to one of the

main chemicals used. Filter usage decreased \$8220 (53.1%) from 2014; and \$3,247 (30.9%) from 2013. The decrease in chemicals and filter usage is directly related to the replacement of the

UF & NANO filters in 2015; \$76,778 expensed in 2015 and \$40,935 in 2014. The wages remained fairly consistent and the power and pumping decreased from \$45,166.32 in 2013; to \$41,524.04 in 2014; and \$39,222.76 in 2015; again directly related to the new filters and number of cleanings.

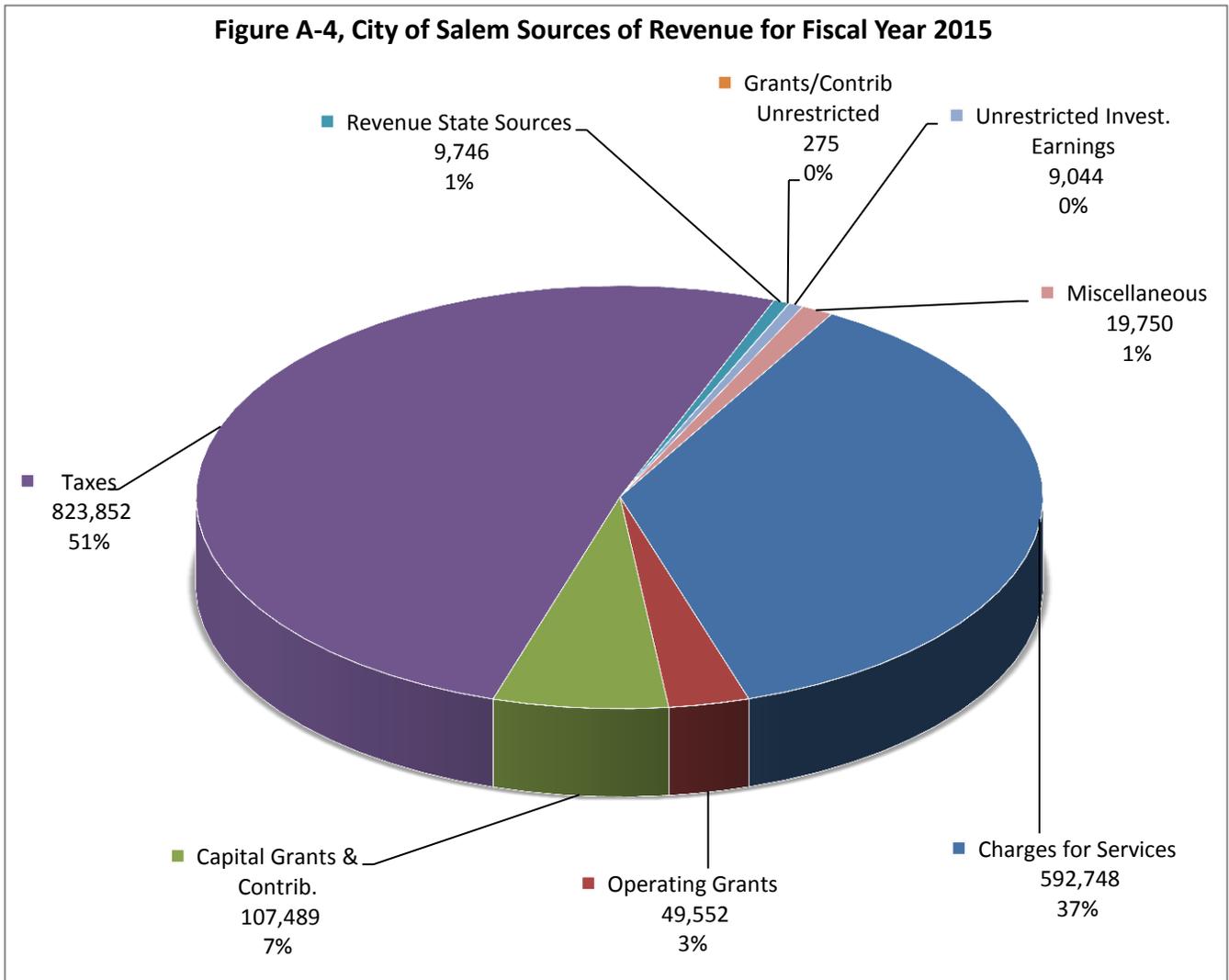
- Sewer Fund** 2015 expenditures decreased \$71,558 (34.7%) from 2014 and increased \$35,508 (35.7%) from 2013; 2014 to 2013 increased \$107,066 (107.8%). In 2014, bid letting was held on cleaning & televising the entire sewer system. The cleaning and televising is considered maintenance reflecting \$48,622 in maintenance costs in 2015 and \$71,455.60 in 2014. FY2014 also saw \$34,780 in repairs at the lagoon (pump & float replacement); and emergency sewer cleaning which lead to a block of sewer main being replaced.

**Figure A-3, City of Salem, Functional Expenses, Fiscal Year 2013-2015**

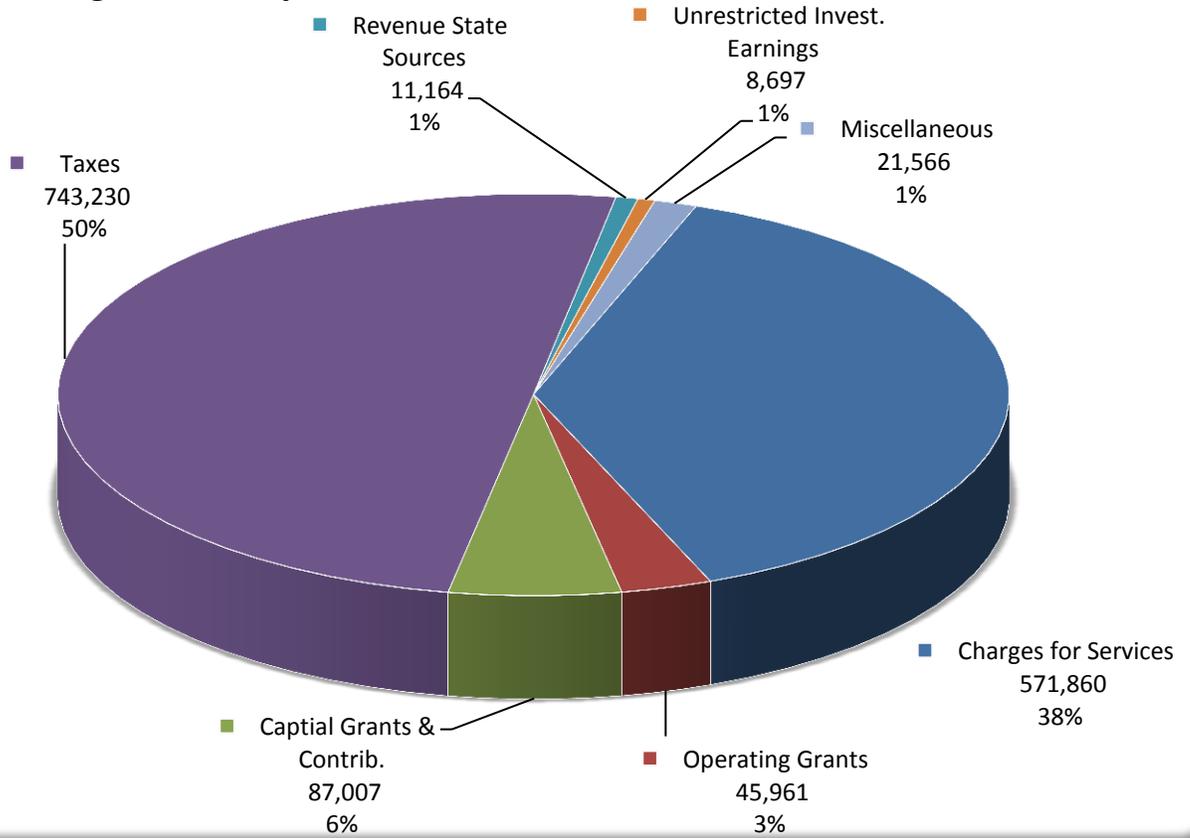


**SOURCE OF REVENUE (Figure A-4, A-5 and A-6)**

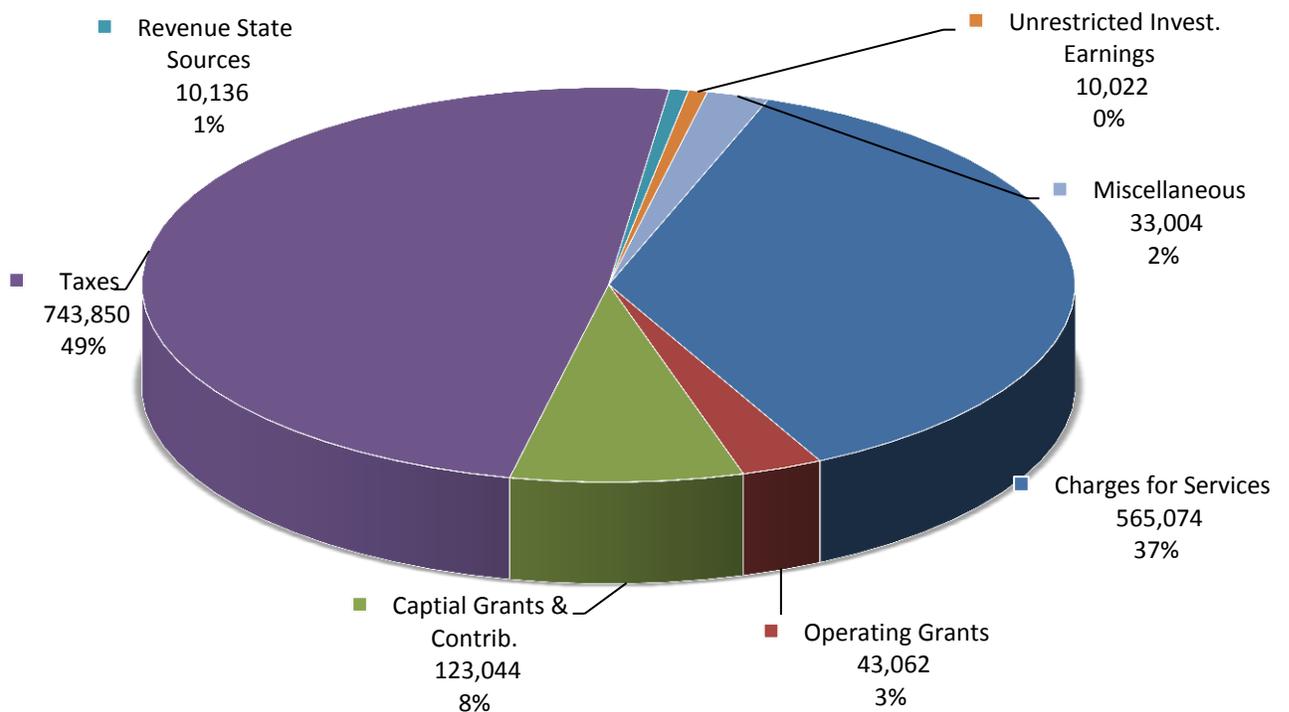
Eighty-eight percent (88%) of the Municipality's revenue is from taxes and charges for goods and services; with 37 cents of every dollar raised coming from charges for services (primarily water and sewer operations) and 51 cents of every dollar raised coming from some type of tax. (See Figure A-4). Another 10% is from state and federal grants for operating & capital purposes and the remaining revenue is from state-shared revenues, miscellaneous revenue and interest earnings. This varied slightly from 2014 & 2013.



**Figure A-4, City of Salem Sources of Revenue for Fiscal Year 2014**



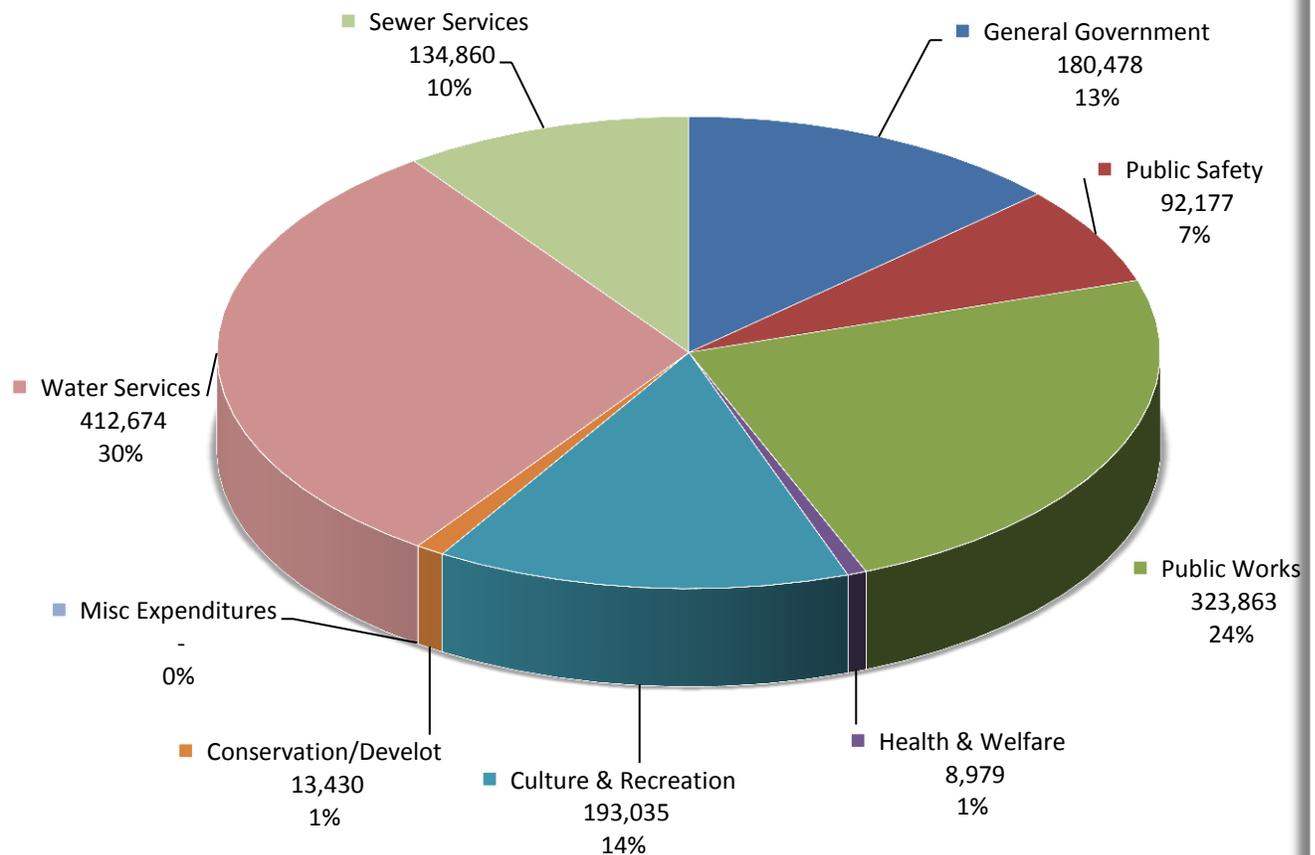
**Figure A-5, City of Salem Sources of Revenue for Fiscal Year 2013**



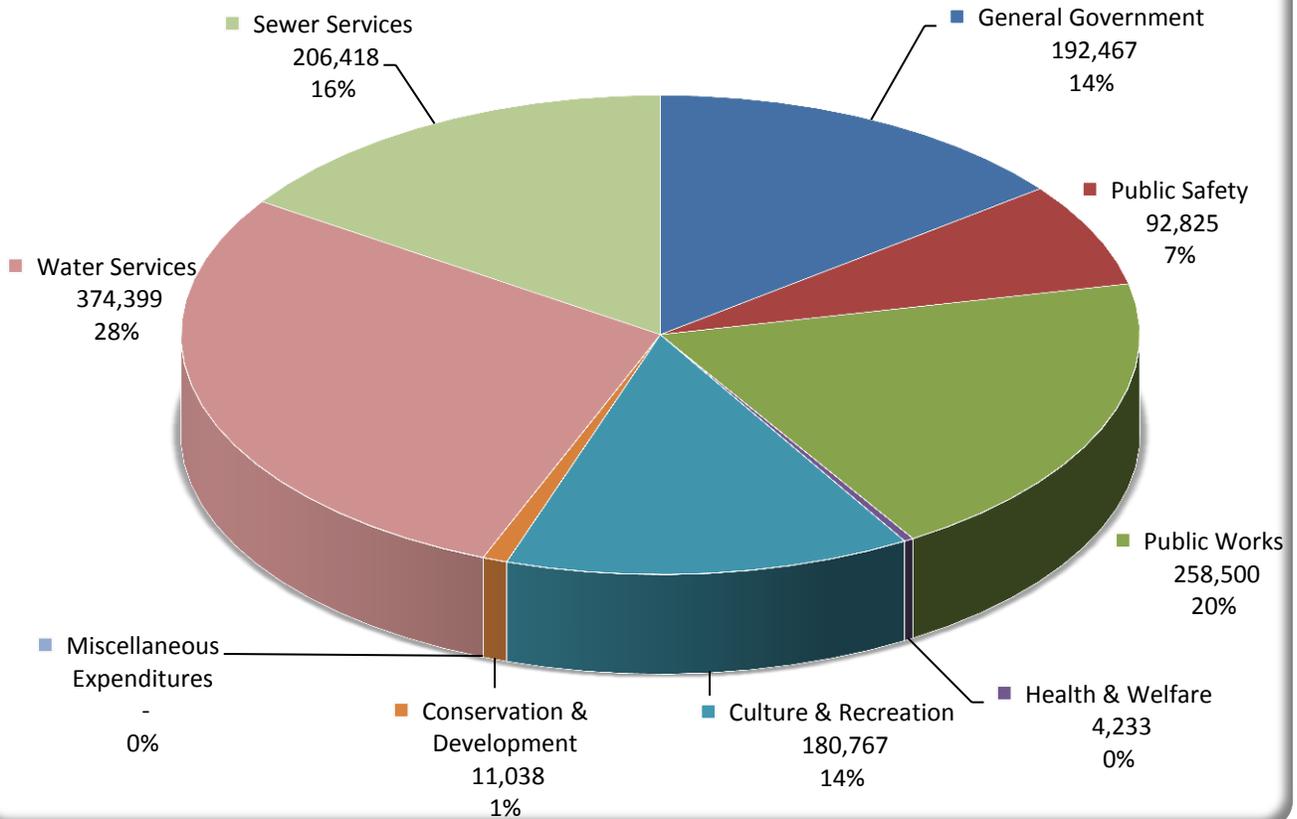
**FUNCTIONAL EXPENSES – FIGURE A-7, A-8 and A-9**

The Municipality's expenses cover a range of services 64% related to public works services [road maintenance – sealing (crack, chip & fog) – street sweeping – snow plowing; water & sewer system services]. Culture and Recreation (Summer Recreation, Pool, Parks and Armory) make up 14%; General Government (Publications, Council, Attorney, Insurance, Finance Office & Municipality Hall) accounted for 13%; Public Safety (Police, Civil Defense, and Fire Department) accounted for 7%; and Miscellaneous, Conservation & Development and Health & Welfare expenditures each account for 1% of the 2015 expenditures. The expenditures service percentages are virtually the same as 2014 which varied from 2013. The Public Works increased due to the increased spending on filters and chemicals in the water department and the lagoon repairs and cleaning & televising in the Sewer Dept from 2013 to 2014; and 2015 to 2014 varied between sewer, water & public works from the purchase of filters in the water department, the ongoing sewer cleaning/televising project in the sewer department, and the increased spending on road maintenance.

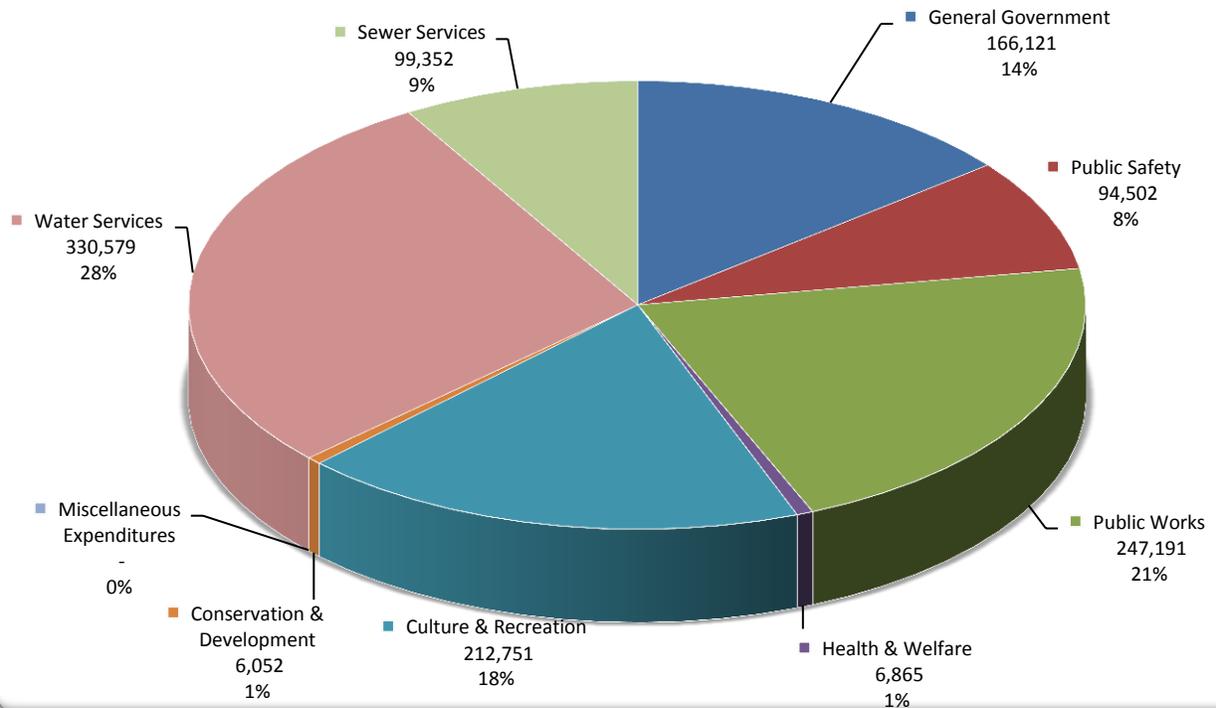
**Figure A-7, City of Salem, Functional Expenses for Fiscal Year 2015**



**Figure A-7, City of Salem, Functional Expenses for Fiscal Year 2014**



**Figure A-8, City of Salem, Functional Expenses for Fiscal Year 2013**



## Governmental Activities

Table A-2 and Figure A-3 & A-3 and the narrative that follows consider the operations of the governmental activities.

The Municipality's Governmental activity revenues increased in 2015 by 12% from 2014 and 7.1% from 2013; whereas 2014 - 2013 saw a decline of 4.4%; and the expenses increased all three years, 9.7% from 2014; 10.7 from 2013 and 2013 - 2014 .9%. The following are the main contributing factors for the increase in revenue – the decline of 2014 revenues from 2013 is due to the sale of capital assets in 2013.

- Property taxes were raised 2.2% in 2015; 3.3% in 2014; and 4.4% in 2013.
- Sales tax 2% base increased 8.161% from 2014; 10.265% from 2013 and 3.52% from 2012. The 1% tax base increased .19%, 13.52% and 2.49% respectively.

## Business-type Activities

Operating revenues of the Municipality's business-type activities increased .9% (2015 – 2014); 2.3% (2015-2013) and 1.3% (2014-2013). The expenses decreased 5.7% (2015-2014); increased 27.4% (2015-2013) and 35.1% (2014-2013). The following are the rate increases and other factors affecting the revenues:

- The Water Rates were adjusted in 2015 and 2014 for the Filter Replacement, Equipment Repair and Replacement reserve accounts and operating expenses. It has been an on-going struggle to accommodate the ever fluctuating operating expenses in the Water Treatment Plant. The sewer rates are being adjusted for funding requirements for a projected need to fix sewer mains.
  - **2015:** the water flat fee increased to \$14.80 a 2% increase and sewer to \$22.00 a 4.8% increase. The Charges for Services water revenues decreased \$623 (.19%) from 2014 and increased \$5,256 (1.6%) from 2013. The water produced declined from 2014 by 3.4% - 1,307,308 gallons and 5.5% 2,157,709 gallons from 2013 due to less water used. The water loss ratio for 2015 was 8.98% well within the acceptable limits. The sewer revenues increased \$5,598 (3.4%) from 2014 & \$5,741 (3.5%) from 2013 due to the rate increase.
  - **2014:** The water flat fee increased 8.2% to \$14.50 and the sewer remained at \$21.00. The revenues generated from Charges for Services increased \$5,879 (1.8%) from 2013. The water produced declined 2.2% a direct result of less water used. The sewer department saw a \$123 (0%) increase in revenues from user fees as there was no rate increase in 2014.
  - **2013:** The water flat fee increased 2.29% to 13.40 and the sewer rate increased 2.9% to \$21.00. The revenues generated from Charges for Services decreased 4.5% - the water produced declined 9.6% a direct result of less water used. The sewer department saw a 2.04% increase in revenues from user fees (\$.60 Flat Fee increase).
- The expenditures in the water and sewer departments are directly related to replacement of filters in the water treatment plant and 2014 repairs at the lagoons and the cleaning and televising of sewer mains in 2014 & 2015. The UF and NANO filters were replaced at the beginning of 2015 driving the use of chemicals and filters down. The increase in the overall expenditures is due to the purchase of the filters (partial in 2014 and 2015). The Sewer Department expenses decreased in 2015 due to the major repairs to the lagoons in 2014. The sewer main cleaning & televising project was started in 2014 and finished in 2015. The details on these expenditures are listed on page 8 and 9.

## FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

The financial analysis of the Municipality's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The Municipality maintained four governmental funds - General, Sales Tax, Street Assessment, and a Storm Sewer Funds and only two business type funds – Water and Sewer Funds. The General, Storm Sewer & Sewer Fund saw an increase in Net Position.

### General Fund Budgetary Highlights

Over the course of the FY2015, FY2014 & F2013, the Municipality Council revised the Municipality's budget. These amendments fall into these categories:

- Supplemental appropriations and contingency transfers approved for unanticipated, yet necessary, expenses to provide for items necessary for the health and welfare of its citizens.
- Increases in appropriations, primarily by contingency transfer, to prevent budget overruns.

FY2015: The three budget changes during the year were for the Salem HRC audit; Pool Design Engineering; Park Improvements (green area & new restroom /concession facility); Armory - HVAC repairs; Publications; Street Repairs; Wages – Council & Rubble Site; Park Repairs (shingling dugouts) Park Supplies; Park Utilities (newly metered water).

FY2014: The three budget changes during the year were for the 2013 Main Street Lighting Project, 2014 Street Project, Storm Drainage Improvements, Sidewalk Improvements at City Hall; Park Improvements; Wages in the Finance Office and Insurance.

FY2013: The three budget changes during the year were for the 2013 Main Street Lighting Project, 2014 Street Project, Parks – Baseball field grand stand; crow's nest & dugouts; Parks – Softball field concession stand/restroom building; Pool Liner and remodel design; city hall supplies; insurance, street equipment, swimming pool services & repairs; Fire truck service transfers from General Fund and Sales Tax fund to the Capital Projects Fund

### CAPITAL ASSET ADMINISTRATION

By the end of 2015, the Municipality had invested in a broad range of capital assets, including, land, buildings, infrastructure, and various machinery and equipment - totaling \$6,166,867; FY2014, reflects a \$6,284,138 investment and FY2013 \$6,220,393; which includes additions, deductions and depreciation (See Table A-3.)

FY2015 capital assets decreased 1.87% from 2014 (\$117,271) and .86% from 2013 (\$53,526). FY2014 shows a net increase of 1% (\$63,745) over FY2013.

TABLE A-3  
CITY OF SALEM - CAPITAL ASSETS  
(net of depreciation)

	Governmental Activities			Business-Type Activities		
	2013	2014	2015	2013	2014	2015
Land	60,591	60,591	60,591	41,866	41,866	41,866
Buildings	288,428	277,185	314,686	1,168,744	1,142,772	1,116,800
Improvements Other Than Buildings	1,362,903	1,815,301	1,757,135	1,713,748	1,674,611	1,626,871
Machinery & Equipment	292,604	307,560	297,569	994,861	961,895	925,668
Construction In Progress	296,648	2,358	25,642	-	-	-
<b>Total Capital Assets (Net)</b>	<b>2,301,173</b>	<b>2,462,994</b>	<b>2,455,622</b>	<b>3,919,220</b>	<b>3,821,144</b>	<b>3,711,205</b>

The major capital assets additions over the past three years include:

Governmental additions:

- **2015**
  1. Buildings: Addition of a Restroom/Concession Stand facility at the baseball field park.
  2. Improvements Other than BLDG additions of sidewalk, finishing batting cages and green area at the baseball field; culvert at softball field; 2 new radiuses & 1 alley approach.
  3. Equipment: Grasshopper mower for parks and 10 Alulite tables for the armory.
  4. CIP Pool Bathhouse Project.
- **2014**
  1. Improvements Other than Bldgs. additions were curb & gutter, new batting cage area and expansion of the sprinkler system at the baseball field; sidewalk at City Hall, 2014 Street Project, 7 new radiuses; and finishing of the 2013 Main Street Lighting Project.
  2. Equipment shows an increase from the addition of a 2002 Sterling Truck and One-Way of with Quik attach for the loader and 10 new Alulite tables for the armory.
  3. CIP a new established green area at the baseball field was started but not finished in 2014.
- **2013**
  1. Buildings increased from the addition of the Softball concession stand/restroom, baseball field grandstand, dugouts & crow's nest buildings.
  2. Improvements Other than Bldg. additions were curb & gutter at the Armory's west parking lot; radius (2) and backstop & fencing at the baseball field.
  3. Equipment shows an increase from the addition of a 2011 CAT Maintainer & 7' Farm King Mower.
  4. CIP increased from the 2013 Main Street Lighting Project & 2014 Street Project Design.

Business-type additions are:

- **2015**
  1. Improvements Other than BLDGS: Three hydrants replaced and water & sewer lines at the baseball park.
  2. Equipment: (1) 2" & (1) 3" meters and (4) MXU.
- **2014**
  1. Improvements Other than Bldg: A new Sanitary Sewer Manhole was installed along with 1 block of sewer main on Washington between Hwy 81 & Idaho.
- **2013**
  1. Improvements Other than Bldg - The Water Department's addition of a water main on Dakota from Norton to Drake, (3) new fire hydrants and new water valve behind City Hall.
  2. Equipment - The addition of the Water Tower Telemetry Equipment.

The Municipality's fiscal year 2016 Budget for capital projects include the following:

**General Fund:** the purchase of approximately 50 chairs for the Armory; sweeper for skid steer; 6 picnic tables for the new baseball facilities; and replacement of playground equipment. Capital Outlay for a sweeper & city equipment; Capital Replacement Reserves – Pool Renovation and Street Projects. The Council will review the Pool Bathhouse project once final design and cost estimates are presented.

**Water & Sewer Funds:** The review of the sewer cleaning & televising project has revealed areas of concern. The first, by priority, is the sewer main on Vermont from Dakota to Pierce; Dakota from Essex to Norton; and Norton from Dakota to Idaho. The project will be reviewed and includes the replacement of 4" CIP water main and rebuild of streets. Once estimates are received, funding options and project timelines will be established.

No money was borrowed for any capital project over the last three years.

In 2015, the improvements at the ball field were completed using Contributions and \$44,562 in Sales Tax reserves (new building). By the end of 2015, \$20,000 was contributed back to the Sales Tax fund by the Salem Summer Youth Boosters and Salem Baseball supporters. General fund equipment purchases totaled \$16,352; new baseball field building - \$49,562; Park improvements totaling \$16,263 – sidewalk, batting cage, green area, and storm sewer improvements at baseball & softball field; and \$1,607 in radiuses & an alley approach. Construction in Progress consists of the pool bathhouse project - \$26,642.

The water and sewer spent \$2,280 in new meters and MXU's and \$8,762 adding water and sewer lines at the baseball field and replacing three fire hydrants.

In 2014, the General Fund spent \$11,551.42 in local cash for the 2013 Main Street Lighting Project and \$199,968.17 for the 2014 Street Project (rebuilt Dakota Street from Norton to Drake which is a truck route); \$5,449.60 for radius improvements; \$8,047.90 for sidewalk improvements at Municipality Hall; \$39,928.94 for equipment; and \$13,1743.18 in improvements (batting cage, green area, sprinkler expansion & curb/gutter) at the baseball field, paid for with a Legends Grants, other fund raising from the Salem Baseball Team. The Sewer Department installed two (1) block of sewer main on Washington Ave from Highway 81 to Idaho; and (1) new manhole.

In 2013, the General Fund and Sales Tax Fund used \$296,649.98 in local cash for the 2013 Main Street Lighting Project and 2014 Street Project; \$1,502.66 for radius improvements & 6,167.13 for curb & gutter improvements; \$105,640 for equipment; and \$21,663.04 for the building at the softball field complex with all money donated from the Summer Recreation Booster's; \$47,084.53 on the new baseball field grandstand (city money); \$35,267.04 for the baseball field dugouts, crow's nest, fencing & dugouts paid for through Salem Foundation Grants, Legends Grants, other fund raising from the Salem Baseball Team. The Water Department installed two (2) blocks of water main on Dakota Street from Norton to Drake: installed (3) fire hydrants and a new water valve behind City Hall.

The Municipality had \$620,997.15 in the General Fund Capital Replacement Reserve Account at the end of 2015 – specifically for Park Fencing; Summer Rec Complex Improvements; New Fire Hall; Softball Field Complex Playground Equipment; Sidewalk Projects; Pool Renovation Project & Park Playground Renovation; and Street projects. The 2016 Budget placed an additional \$207,610 into the Capital Reserve Account – specifically for Street Projects and Pool Renovation.

## LONG-TERM DEBT

At year-end, the Municipality had \$1,878,075 in SRF Loans (Revenue Bonds), and \$18,316 in other long-term obligations. This is a decrease of 4.6% from 2014 and 8.6% from 2013 as shown on Table A-4 below.

**TABLE A-4**  
**CITY OF SALEM - OUTSTANDING DEBT & OBLIGATIONS**

	Governmental Activities			Business-Type Activities		
	2013	2014	2015	2013	2014	2015
Compensated Absences	11,592	12,754	12,913	5,673	5,226	5,403
Drinking Water SRF Loan 2005	-	-	-	244,362	229,693	214,541
Drinking Water SRF Loan 2008	-	-	-	1,216,462	1,185,265	1,153,041
Clean Water SRF Loan 2003	-	-	-	322,489	297,323	271,265
Clean Water SRF Loan 2005	-	-	-	275,262	257,537	239,228
<b>Total Outstanding Debt Obligations</b>	<b>11,592</b>	<b>12,754</b>	<b>12,913</b>	<b>2,064,248</b>	<b>1,975,043</b>	<b>1,883,478</b>

The Municipality is liable for the accrued vacation leave payable to all full-time and permanent part-time employees who have been employed for more than one year. The up and down between the Governmental Activities and Business Type activities is due to the varying time worked in the funds from year to year and the amount of hours carried over annually (1 week is allowed to be carried over). The Municipality's obligation for compensated absences increased 1.9% from 2014 and 6% from 2013; and the chart reflects a 4% increase between 2014 and 2013.

The Municipality has outstanding \$1,367,582 in Drinking Water SRF Loans and \$510,493 in Clean Water SRF Loans (Revenue Bonds). The bonds are secured and paid for from the Water and Sewer Funds. The Municipality does not anticipate the use of any tax dollars to pay for these bonds. The SRF loan balances decreased \$88,758 in 2014 and \$91,742 in 2015 from debt payments.

- The 2003 bonds were used for the 2003 Street and Utility Project (This project extended water and sewer service on S. Main Street and on Brown Ave; and started the Storm Sewer System in Southeast Salem.) The 2003 DWSRF Loan was fully paid off on January 9, 2012, two and one half years earlier than the scheduled date of July 15, 2014 and the 2003 CWSRF will be fully paid off on July 15, 2024.
- The 2005 bonds were used for the 2005 Street and Utility Project (This project replaced Water main on Nebraska and Essex Streets; extended storm sewer on George Ave and replaced storm sewer on Essex Ave.) The 2005 CW SRF Loan closed in 2006 and the DWSRF Loan closed in 2007. Both are 20 year loans – the CWSRF will be paid off in July 2026, and the DWSRF will be paid off in April 2027.
- The 2008 DWSRF Loan closed in 2009, this is a 30 year loan and will be paid off in 4/15/2039. The loan is specifically for the Water Filtration (Treatment) project, and a Water Surcharge was established to pay off the debt on this bond. Each household pays \$9.90 per month or 118.80 annually to retire the debt.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality's current economic position has continued to increase annually from a slight decline in 2008. The Municipality experienced growth of 1.1% in 2015; .8% in 2014; 1.2% in 2013; 1.4% in 2012; 1.3% in 2011 and 1% in 2010. The growth factor gives the Municipality the ability to increase the amount of revenue generated from property taxes, the increases were \$3,366 in 2016; \$2,395 in 2015; \$3,478 in 2014; and \$3887 in 2013. Under the state mandated property tax freeze, property taxes from one year to the next may increase 3% or an amount based on the Consumer Price Index (CPI) whichever is lower plus the growth factor. The following are tax levy request for the past several years:

- 2015 property tax levy request payable in 2016 increased 2.6% (Growth 1.1%; CPI 1.5%) - \$7,967 up \$1381 from 2014.
- 2014 property tax levy request payable in 2015 increased 2.2% (Growth .8%; CPI 1.4%) - \$6,586.47 down from 2013 - \$2,977.71.
- 2013 property tax levy request payable in 2014 increased 3.3% (Growth 1.2%; CPI 2.1%) - \$9,564.18 down from 2012.
- 2012 property tax levy request payable in 2013 which increased 4.4% (Growth 1.4%; CPI 3%) - \$12,215.00 up from 2011.
- 2011 property tax levy request payable in 2012 which increased 3.4% (Growth 1.3%; CPI 2.1%) or \$9,129.00 up from 2010.
- 2010 property tax levy request payable in 2011 only increased 1% (Growth 1%; CPI 0%) or \$2,660.00.

### 2015 Building Permits Values:

Businesses – Total \$1,000,625; New: \$772,500; Additions/Remodel: \$228,125

Governmental – Total \$1,426,500; New: \$1,426,500;

School – Total \$6,700,000; New: \$6,700,000

Residential – Total \$241,675; Additions/Remodels \$209,000; Accessory Bldgs Fence - \$32,675

Total Citywide - \$9,368,800

Although Governmental & School buildings do not affect our tax base growth figure, it does show commitment by the state and local governments in keeping these critical services in Salem. Property tax revenue accounts for 30% of the annual General Fund Revenues.

One of the primary sources of revenue for the Municipality is taxable retail sales in the community (sales tax). In studying the actual sales tax revenue received (once revenue was received for the entire FY), the following are annual comparisons:

- 2015 vs. 2014 taxable sales base increased 8.161% (\$1,845,506)
- 2014 vs. 2013 taxable sales base increased 1.946% (\$431,616);
- 2013 vs. 2012 taxable sales base decreased 6.117% (\$1,445,390.50);
- 2012 vs. 2011 taxable sales base increased 4.415% (\$999,150).

The Municipality passed an Ordinance in 2007 implementing an additional 1% tax on gross receipts from the sale of leases or rentals of hotel, motel, campsites or other lodging accommodations; the sale of alcoholic beverages as defined in SDCL 35-1-1; establishments where the public is invited to eat, dine or purchase and carry out prepared food for immediate consumption; and ticket sales or admissions to places of amusement, athletic and cultural events within the municipality. The tax was not payable until January 2008 and was estimated to generate \$11,000.00 in revenue; this revenue can only be used for the purpose of land acquisition, architectural fees, construction costs, payment for civic center, auditoriums or athletic facility buildings, including the maintenance, staffing and operations of such facilities, and the promotion and advertising of the municipality, its facilities, attractions and activities. The actual dollars raised by the 1% gross receipts are as follows:

- 2015 tax revenues were \$21,054.21 an increase of .19% from 2014
- 2014 tax revenues were \$21,010.33 an increase of 13.3% from 2013
- 2013 tax revenues were \$18,543.46 a decline of 9.72% from 2012
- 2012 tax revenues were \$20,538.96 a decline of 13.75% from 2011

The Municipality's 2016 budget does have an appropriation for Economic Development – a contract with SEPF through McCook County. The revenues are in a “Special Revenue Fund” as designated by SDCL 10-45.

The Municipality passed Resolution #2015-006 for the Street Assessment fee increasing the rate to .50 cents per front foot a .10 cent increase - \$8,525. This revenue source is restricted to the maintenance of the city's streets. Street Department – Crack Sealed, Chip Sealed and repairs to City Streets - \$97,770.00 of which \$54,590 came out of the Street Assessment Fund.

The Municipality's adopted 2016 General Fund budget increased 6.1% to \$1,178,500 from the 2015 Supplemented Budget. The 2016 Budget places \$267,610 into the Capital Outlay & Capital Replacement Reserves; provides for the purchase of a sweeper for the skid steer, picnic tables for the shelter area at the baseball field; chairs at the armory and the installation of new playground equipment. The difference between the operating budgets is to provide for the audit to be performed in 2016 and an increase in the Police Contract with McCook County; the widening of the fire hall overhead doors; increase in summer recreation costs due to league & tournament fees; and increase in nuisance abatement costs. The 2016 budget was increased to accommodate a raise for the Municipality's employees (4% full-time & 2% part-time); wages are not set until January.

The Municipality's business-type activities (water and sewer operations) expect that the revenues for the 2016 financials will increase as a consequence of the increase of \$4.20 Water flat fee and .0004 cent per gallon; and \$1.50 Sewer flat fee. The flat fees in the Water Department were increased to accommodate the higher operating costs and for filter replacement in the Water Treatment Plant and water main replacement. The Water Rate Ordinance was changed requiring everyone with a water service connection to a building on their property to pay the base fee even if the water is shut off. The Sewer rate was raised to get closer to the dollar amount required to qualify for SRF Loans & Grants. The UF and NANO filters were replaced in 2015; the NANO header is leaking and will be replaced in 2016. The next major project will involve the replacement of Water and Sewer mains; funding through various sources will be required to finance the project.

The 2016 Water Operating Budget increased 5.8% (\$15,690) from 2015; due to the operating costs of the Water Treatment Plant. The 2016 Sewer Operating Budget decreased 16.7% due to the removal of the Cleaning & Televising Project expenditure.

The Municipality was awarded a SDSU Active Transportation Collaboration Grant for a walking assessment of the community. The SDSU Landscape Architecture Students conducted a meeting with community members and performed a walking community assessment. The SDSU Landscape Architecture students presented their active transportation assessments for the City of Salem on Friday, May 1, 2015; 10:00 a.m. at the Salem Armory. The assessment document and power point presentation are posted on the website. The Council will use the assessment as a planning tool to improve the built environment.

The Council hired Infrastructure Design Group to design the Pool Bathhouse Renovation project. As a part of their contract they conducted a survey on the pool and park renovation. 574 hard copies of the survey were sent out and we received a 46% response or 264. The results of the survey changed the scope of Phase II of the pool project. The survey results revealed the public was not interested in a splash park but an aquatic facility to include various aspects of a standard pool facility along with spray features, zero depth entries, slides, and/or a whole host of available features to suit the community's needs. Phase I is the replacement of the Bathhouse and as the design was being completed the addition of the playground replacement was included. The Pool Bath house and Playground Improvement Project is to be bid in January 2016. The projected costs and funding are as follows:

Pool Bathhouse: The estimated cost of the new 45' x 26' bathhouse, deck, sidewalks and landscaping is \$377,200.00. The balance in the Pool Renovation Fund on July 28, 2015 was \$194,961.92 and the city has approximately \$70,000 in reserves for the pool renovation and added \$100,000 to the reserves in the 2016 Budget.

Playground Reno: The estimate is \$129,940.00 which includes sidewalk access to playground with concrete play curb and access ramp; drain tile and 6" storm sewer running to existing storm sewer on

Main street; play area layered with soil, rock & fabric for drainage with engineered wood fiber on top; playground equipment will consist of or be comparable to a play structure with (2) slides and an upper and lower deck; 3 bay swing set; 2 bay tire swing set; free standing play elements – Fly Wheel Spinner; (3) Saddle Spinners; We-Saw; Double Bobble Spring Rider. The Council had \$50 thousand in reserves and a \$40,000 LWCF grant therefore budgeted for the replacement in 2016.

The Council will be receiving “Requests for Qualifications” in January or February for a Street, Water & Sewer Project. The project was implemented after review of the Sewer Cleaning/Televising Project. The project area is Vermont from Dakota to Pierce; Dakota from Essex to Norton; and Norton from Dakota to Idaho. The project is expected to include the replacement of 9 blocks of sewer main; possibly 2 blocks of storm sewer; 4 blocks of CIP Water Line and to rebuild the streets in the area. A facility plan is required to qualify for funding through grant programs and SRF or Rural Development funds; therefore, the 2016 portion of the project will be to establish the facility plan prior to any funding deadlines in 2016.

The Council increased the Water Flat Fee \$4.20 but provides a \$3.00 reduction to those living alone on social security with no other retirement income. Those residents qualifying are required to file an affidavit claiming they meet the qualifications for the reduced rate with Municipality Hall. The 2016 rates are a water flat fee of \$19.00, .0045 cents per gallon used, plus a \$9.90 Water Surcharge fee. The Sewer Rates are the Residential flat fee of \$23.50, and 40% of the Water Usage Fee but not less than \$23.50 for commercial users. The water rate was projected to increase by the CPI, but the need to replace 28 blocks of 4” CPI water main, filter reserves in the Water Treatment Plant, replacement of the NANO header and the operating costs of the WTP made it necessary for the higher increase (4.20 cents is a 28.4% increase). The Sewer Rate increased \$1.50 as the next project will require the City to borrow funds and the dollar amount to qualify for any funding is \$30.00 per 5,000 gallons.

At the end of 2015, the Water Fund Equipment Repair & Replacement Fund had a balance of \$71,448.94 a 39% decrease. The rate increase did help on the revenue side, but the purchase of 7 UF Filters (\$54,063) and 77 refurbished NANO filters (\$22,715) caused a reduction in the reserves. This fund is necessary for the replacement of water main and the Nano & Ultra Filters at their scheduled life expectancies. The \$4.20 cent flat fee and .0004 per gallon increase was necessary for the water main and filter replacement reserves. The water department allocated \$30,900 to the filter reserve and \$.00 to water main replacement in 2015 short of the \$42,000 filter & \$30,000 respectively budgeted. The 2016 budget is projected to allocate \$41,000 to the filter reserve and \$30,000 to the water main reserve both designated in the Equipment Repair/Replacement Fund.

The Sewer Department rates were increased \$1.50 in 2016. The increase to \$23.50 is still short of the \$30 cost per 5,000 gallons required to apply for SRF Loans & Grants. All rates are reviewed annually. The water & sewer customers saw a \$5.70 increase to flat fees on their monthly bill; or \$68.40 annually.

#### **CONTACTING THE MUNICIPALITY’S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Municipality’s finances and to demonstrate the Municipality’s accountability for the money it receives. If you have questions about this report or need additional information, contact the Municipality of Salem’s Finance Office, 400 N. Main, P.O. Box 249, Salem, SD 57058.