Water and Sewer Rate Increase Background

The City of Salem authorized a water rate increase by the Salem City Council at the June 7, 2021 Council meeting. The rate increase is the first increase in the water and sewer rates in the last 13 years. The cost to treat the raw water to make it potable have seen a steady increase during that time. Other expenses paid for out of the funds collected through the water and sewer include repairs to the water distribution system infrastructure and repairs to the water treatment hardware.

In the past, the City of Salem has been able to utilize surplus funds from prior years to cover the increases in expenses for the water and sewer department, however the increasing cost of water treatment and the cost of emergency repairs to fix leaks in the distribution system as well as the raw water line coming from Carlyle Lake impacted these funds. These items along with rising payroll expenses, and the cost to repair sewer main breaks have created more expenses per year than the old water and sewer rate format had been generating. The surplus funding used to cover the shortfalls in prior years has been reduced to the point that it doesn’t provide adequate resources to cover the cost of a potential major repair and the fund balance needs to be restored to a higher amount and not be used to cover large shortfalls in income over expenses. In a comparison of costs and revenues from April 30, 2010 to April 30, 2020, we find the following information. Income from water sales reduced from $2,719,674 in 2010 to $2,539,756 in 2020, a decrease of $179,502.70 which is probably due to a reduction in population. The general administration and shared personnel expenses rose from $661,607.49 to $1,481,365.14 (including $613,430.28 in depreciation, for a net increase of $206,327.37 in the same time frame. Cost for water treatment services including payroll, professional services, equipment and maintenance cost and chemicals along with facility improvements and repairs but excluding depreciation increased $246,876.52 in the ten-year period going from $608,143.04 to $855,019.56. System maintenance and improvement costs ballooned from $383,761.50 in 2010 to $529,765.76 in 2020. Equipment to handle the services ranging from water treatment, waterline maintenance and repair and wastewater treatment had been upgraded over this time frame as well and accounts for some of the cost increases as well. Wastewater treatment cost increased from $430,116.85 to $529,926.26 or a total of $99,809.41. Raw water piped in from Carlyle Lake costs including repairs to the main feeder line also saw an increase from $21,303.24 to $48,198.31 for an increase in cost of $26,895.07. All of these changes in revenue and expenses over the ten years reviewed show a net increase in expenses of $760,467.98. The totals for the April 30, 2020 figures show expenses over revenue by $912,610 which include capital asset depreciation of $613,430 for a net figure of $299,180. The spreadsheet shows that while no two years are exactly alike, the trend has been that costs have increased from prior years and revenues have not kept pace. Some line items have reduced expenses due to more of the work being handled by certified City employees and their awareness of budgetary constraints, but the overall totals show that our cost have increased.

A water rate study was commissioned with Curry and Associates to determine how much of a rate change would be necessary to cover the expenses involved per year and anticipated expenses for major repairs and ongoing upgrades in the Salem system. The study and the current decreases in the fund balance demonstrated a need for an increase in the water and sewer rate by as much as 40% to meet the average expenses incurred in the last few years. (See attached Curry and Associates report)

The current billing amounts are comprised of a base rate on the first 1,000 gallons of water used (shown as 1.0 on the billing cards) for residential customers and a smaller rate per 1,000 gallons above that mark. The total utility bill also includes charges for sanitation and leaf vac for many households as well as natural gas usage for many households. Assuming an average usage rate of 4000 gallons of water in a household per month the cost for water and sewer under the current rate would generate a monthly expense of $49.66. The 25% rate increase for the same usage would increase the water and sewer portion of the bill by $12.42 per month. The 40% rate would have increased the water and sewer portion of the bill by $19.85 per month. Each household’s usage will determine their own costs.

The Salem City Council implemented an increase of 25% in the water and sewer charges beginning in the month of August of 2021 with reviews of the balances each year beginning in January of 2022 to be able to review with the year’s budgeting process.