

FOR COMMITTEE MEETING OF: April 15, 2019
AGENDA ITEM NO.: 4a

TO: SALEM CITY COUNCIL FINANCE COMMITTEE

FROM: NORMAN WRIGHT, COMMUNITY DEVELOPMENT DIRECTOR

**SUBJECT: UPDATE TO COUNCIL POLICY C-10 BUILDING AND SAFETY
FUND BALANCE RESERVE POLICY**

ISSUE:

Shall the Salem City Council Finance Committee approve and recommend to the City Council that it adopt revisions to Council Policy C-10 to increase the Service Stabilization Reserve in the Building and Safety Fund Balance from a six-month equivalent to a one year equivalent?

RECOMMENDATION:

Approve and recommend to the City Council that it adopt revisions to Council Policy C-10 to increase the Service Stabilization Reserve in the Building and Safety Fund Balance from a six-month equivalent to a one year equivalent.

SUMMARY AND BACKGROUND:

Revenue and demand for Building and Safety Division services are directly related to economic activity. The Division maintains reserves in the Building and Safety Fund to ensure efficient customer service levels can be maintained when there are slowdowns in the construction industry. Under Council Policy C-10, a portion of the Building and Safety Fund – the Service Stabilization Reserve or operating reserve – must equal six months of budgeted operating expenditures. This proposed revision to the policy would increase that reserve amount to equal one year of budgeted operating expenditures.

During the last recession, the decline of the construction economy lasted more than 12 months. That resulted in a severe shortage of available inspectors and plans examiners statewide. This placed hardships on many building departments, including here in Salem. By increasing the amount of reserves, the Building and Safety Division will be better equipped to continue providing efficient services to the community and maintain a highly skilled work force despite any future declines in the construction industry.

FACTS AND FINDINGS:

The State Building Code is administered and enforced by the State of Oregon Building Codes Division. The State delegates this authority to local governments in many parts of Oregon, including in Salem. In turn, local governments are expected to operate financially independent of the State and provide services that are efficient.

Because the State may not be able to assume a local government's delegated program unexpectedly, requirements have been established within the Oregon Administrative Rules to help ensure the local government's operational and fiscal responsibility. Local governments with state-delegated inspection programs must maintain reserve funds to sustain service levels throughout changing economic periods.

The City of Salem's Building and Safety Division operates within a plan approved by and filed with the State of Oregon Building Codes Division. According to the operating plan, the Building and Safety Division maintains reserves in the Building and Safety Fund to assure maintenance of efficient customer service levels can be maintained during periods of construction decline.

Under Council Policy C-10, a portion of the Building and Safety Fund – the Service Stabilization Reserve – must equal six months of budgeted operating expenditures. This proposed revision to the policy would increase that reserve amount to equal one year of budgeted operating expenditures.

In the last recession, the decline of the construction economy lasted more than 12 months. Currently, local and state governments are experiencing a severe shortage of available inspectors and plans examiners due to the last recession. This shortage of available qualified workforce has placed hardships on many building departments because many left the trades and colleges are behind in training future work force participants.

This proposal to amend Council Policy C-10 policy will allow the Building and Safety Division to maintain qualified inspectors and plans examiners when construction activity and revenue are slow for more than six months. Reserve monies are currently contained within the Service Stabilization Reserve ending fund balance.

In addition to this State-required operating reserve, sound financial management practices include establishing reserves for contingencies and the purchase of capital assets beyond the current budget year.

A reserve policy should also provide for a debt service reserve when one is required by bond covenant.

The table below summarizes how the proposed policy addresses these four types of reserves:

Reserve Need	Policy Provisions (with Proposed Revision)
Operating reserve required by State	The Service Stabilization Reserve shall equal six twelve months of budgeted operating expenditures.
Contingencies	The Contingency Account shall equal budgeted contingencies and shall not exceed ten percent of budgeted expenditures.
Purchase of capital assets beyond the current budget year	The Capital Asset Reserve, if any, shall be recommended by the City Manager, who will, during the annual budget process, provide to the City Council a schedule of capital assets to be funded by the reserve.
Debt service	The Debt Service Reserve, if any, shall be determined by bond covenants or covenants in other debt instruments.

Rebai Tamerhoulet PE; SE
Building and Safety Division Administrator

Attachments:

1. Staff Report and Resolution 2009-30 Adopted May 4, 2009
2. Council Policy C-10 with Revisions