

May 26, 2026

To: Mayor, Council and Members of the Shady Cove Budget Committee

From: John Edwards, Interim City Administrator and Budget Officer

Budget Strategy

This budget has been developed to optimize resources, spend conservatively, and maintain critical services. Four specific challenges require thoughtful planning, decision-making and implementation involving changes to prior practices.

In the prior year budget, some restricted resources such as TLT, SDCs, and Oregon gas tax revenue sharing were allocated inappropriately. By Oregon law, these resources shall not be used for general maintenance and operations of City Hall, existing parks, law enforcement. Oregon gas tax revenue sharing funds are restricted to road and street construction, improvement, maintenance, operations, lighting, etc. At least 70% of transient lodging tax must be used for tourism promotion or facilities *that increase overnight stays in the city*. The use of system development charges is restricted to capital improvements related to expanded capacity and serving increased demand, not operations and maintenance; acceptable projects could include street improvements, drainage improvements and park capacity additions. This proposed budget rectifies the planned prohibited use of restricted funds.

1. Staffing - Four staff members are currently employed at City Hall: city administrator, accounting technician, administrative assistant, and planning technician. In-house functions required to sustain daily City Hall operations are city administration, accounting, planning, and recording. To properly assign staff to these roles, City Hall needs a city administrator, accounting technician/administrative assistant, and planning technician/recorder. Restructuring staff responsibilities will reduce one FTE, freeing up resources to address another crucial challenge to the city – funding law enforcement.
2. Law Enforcement – Shady Cove contracts with the Jackson County Sheriff Department for law enforcement services. The City collects public safety fees to pay for these services. Each year there is a significant shortfall between the fees collected and the cost of the contract with the Sheriff Department. In the current

budget, the estimated resources for public safety fees are \$550,000 which includes the expected proceeds at the current rate plus a 3.8% increase (\$1.00) in monthly fees appropriated by Resolution 25-12 in June 2025.

However, the current contract with the Sheriff Department is for \$668,000 and the City will meet with the Sheriff later this year to review service needs and coverage for renewal of our contract.

In our current position, there is a \$118,000 shortfall that can be filled by restructuring City Hall staff.

3. Streets – Shady Cove receives state funds in the form of Oregon Gas Tax Revenue. These funds are restricted to road and street construction, improvement, maintenance, operations, lighting, etc. They cannot be used for general governmental operations, parks, law enforcement or any expenditure not related to roads and streets. Using the rate per capita provided on the State of Oregon website times the estimated population provided by Portland State University, the estimated Highway Trust Fund Revenue for FY2027 is \$250,000.

Wages and benefits for Shady Cove's Public Works employee and his seasonal assistant total \$125,000 which is divided between roads/streets and parks (general fund) leaving \$62,500 in Street Fund requirements. Combined with other materials and services required for roads and streets, this totals \$140,000 leaving \$110,000 of resources available to fund a long overdue city goal: creation and implementation of a street improvement/maintenance plan. The city would need an addition of one FTE to plan, implement and manage this much needed work.

4. Development of Park Property – Spending of the approximately \$75,000 that Shady Cove collects each year in Transient Lodging Tax (TLT) is tightly regulated by state law. Up to 30% can be used for general city services but at least 70% must be used for tourism promotion or facilities that increase overnight stays in the city. The amount of restricted funds for this budget cycle is \$52,500. In addition, the City collect \$10,500 in system development charges (SDCs) for each new home built in Shady Cove: \$1,500 for parks, \$1,500 for storm water and \$7,500 for transportation. The use of these fees is restricted to capital improvements related to expanded capacity and serving increased demand, not operations and maintenance. Acceptable projects could include street improvements, drainage improvements and park capacity additions. Portions of the transient lodging tax and system development charges could be used to begin development of the newly purchased park property if that

development focuses on promotion of Shady Cove tourism and increasing overnight stays. This requires careful planning and grant funding but it could be undertaken in this fiscal year with budget adjustments and approval of a supplemental budget.

The city contracts professional services where it is not practical or possible to employ a full-time staff person. Shady Cove contracts with these business partners:

1. RVCOG provides HR, IT, and professional planner/floodplain management services on a contract basis
2. ADP will be contracted to provide payroll services.
3. RH2 Engineering provides professional engineering services.
4. Sorren Certified Public Accountants, LLP provides audit services.
5. Jeremy Green at Bryant, Lovlien and Jarvin is contracted to provide legal services.

Sewer services to the city are provided by Rogue Valley Sewer Services (RVSS); operation of the sewer system was transferred to RVSS in 2019. Shady Cove performs the billing function for sewer services in exchange for \$56,650 a year from RVSS (\$55K + 3%). The original sewer construction bond currently has a remaining balance of \$1,410,000 and continues as a long-term liability to Shady Cove. In the agreement transferring the sewer system, RVSS agreed to remit all debt service costs including principle, interest and service fees to Shady Cove in advance of the due date.

The 2025-26 budget included these funds: general, street, sewer, law enforcement, transient lodging tax (TLT), and water project. The sewer fund included both the monthly fee collection and the debt service functions. The FY22-23 audit required that a fiduciary fund be established and used to account for assets (sewer fees) collected and forwarded to RVSS on a monthly basis.

This FY2026-27 proposed budget includes these active funds: general fund, street fund, law enforcement fund, water project fund, sewer fund (fiduciary) and a system development charges (SDC) fund required to account for restricted resources. The existing sewer fund will be used to comply with FY23 audit requirement that a fiduciary fund be established to account for sewer fees collected by the City and remitted to RVSS monthly upon receipt. Sewer debt service accounting will be transferred to the general fund. It is also recommended that the TLT fund be retired and accounting for those resources and requirements be transferred to the general fund.

Accurate fund beginning balances are not available for this budget cycle because of a backlog of audits dated back to FY23-24. Multiple adjustments and lack of bank

reconciliations make it unrealistic to reliably estimate fund balances. Therefore, no beginning fund balances are provided and current year resources and requirements are balanced.

Administrative Allocations

Administrative allocation from the Street Fund is found as a resource in the General Fund. A portion of personnel expenses paid from the General Fund are incurred due to the operation related to the Street Fund. This administrative allocation is shown as a requirement in the Street Fund.

Interfund Transfer

A fund transfer from the General Fund is found as a resource in the Law Enforcement Fund. A shortfall exists between public service fees collected and the cost of contracted law enforcement through the Jackson County Sheriff Department. This transfer appears as a requirement in the General Fund.

Summary

Funds:

| | |
|---------------------------------|------------------|
| General Fund (10) | \$1,076,646 |
| Street Fund (01) | 485,000 |
| Law Enforcement (03) | 668,000 |
| System Development (08) | 10,500 |
| Transient Lodging Tax Fund (11) | General Fund |
| Water Project Fund (12) | <u>1,455,853</u> |
| Total | \$3,695,999 |

Sewer Fund (02) – Fiduciary Fund \$846,000

Fiduciary funds are used to account for funds held by an entity in an agency capacity for other governmental units. These funds are segregated and unavailable as resources for the City’s governmental activity.

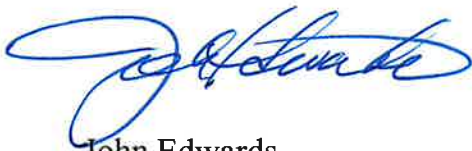
Conclusion

The City of Shady Cove continues to work toward the goal of providing a high level of service to its residents, community associates and business partners. The current financial reporting and staff challenges that Shady Cove has confronted requires changes

to traditional practices and adoption of new methods to meet those challenges. With a commitment to work together, Shady Cove can restore normal operations and move forward in a positive manner.

I sincerely thank you as members of City Council and the Budget Committee for your time and effort. The work required to put a budget together would accomplish nothing if it weren't for this group that comes together annually to review, make recommendations or changes, and make sure that the City is financially addressing the needs of its residents.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "John Edwards", with a large, stylized flourish at the end.

John Edwards
Interim City Administrator

General Fund (10)

Resources:

Franchise fees are based on a contractual agreement between the City and utility and communication companies providing services to Shady Cove residents. Each contract requires a percentage of revenue received from customers within the City be paid to the City for the use of City rights of way.

Licenses and permits are collected from businesses operating in the City. Business license fees are based on 240 licensed businesses at \$85 per license.

Intergovernmental revenue are taxes collected by the state for which the City receives a portion or share.

| | Rate per Capita | Est. Population | Estimated Taxes |
|---|-----------------|-----------------|-----------------|
| Liquor Tax | \$16.10 | 3,096 | \$49,846 |
| Cigarette Tax | \$.56 | 3,096 | \$1,734 |
| Revenue Sharing – Oregon Dept of Administrative Services Letter | | | \$9,732 |

Planning and building fees include floodplain fees and construction related fees collected by the City planning function.

Debt service reimbursement includes principle, interest and service fee payments required by the sewer construction bond obligation that was not transferrable when operation of the sewer plant was transferred to RVSS.

Other resources include interest earned on Shady Cove's investment account with Local Government Investment Pool, RVSS payment to the City for performing sewer fee billings and other miscellaneous resources.

Taxes estimated to be received are based on the City's fixed tax rate of \$.5474 per \$1,000 of assessed value of the City (\$368,953,740) with Jackson County. Calculation of taxes is based on Jackson County's collection rate of 94%.

Requirements:

Personnel services are based on staff wage estimates factoring in the Collective Bargaining Agreement and salary surveys of wages in comparable cities in the local area. Benefits include:

| | |
|----------------------|--|
| Social Security | 6.20% |
| Medicare | 1.45% |
| PERS | 16.92% |
| Workers Comp | .60% |
| Disability Insurance | \$117.96 per employee |
| Health Insurance | \$25,964 per employee – 90% of total premium |

Materials and services are expenditures required for day-to-day operations. These include computer hardware and software expenses, contracted services, cost of maintaining physical property, liability insurance, and operation of City Hall. It also includes an administrative allocation to support the law enforcement contract.

Sewer bond debt service includes principle, interest and service fee payments required by the sewer construction bond obligation; the City is reimbursed by RVSS.

Park costs are required for maintenance and operation of Aunt Caroline's Park.

Planning costs include the cost of the RVCOG contract planner along with publications and notices required for the Planning Commission.

Other requirements include council training and conferences, tourism and operation of the radio station.

Reserve for future expenditures is 70% of TLT restricted to use for tourism promotion or facilities that increase overnight stays in the city. TLT could be used for development of the new park property if the focus is limited to promoting tourism.

Street Fund (01)

Resources:

Oregon gas tax revenue sharing funds are restricted to road and street construction, improvement, maintenance, operations, lighting, etc. The budget estimate is based on:

| | Rate per Capita | Est. Population | Estimated Taxes |
|----------------|-----------------|-----------------|-----------------|
| Oregon Gas Tax | \$80.74 | 3,096 | \$249,971 |

The Small City Allotment Grant has been submitted to pay for street and drainage improvements.

Requirements:

Personnel services are for the addition of one FTE to plan, implement and manage the creation of a street improvement/maintenance plan.

Materials and services are expenditures required to maintain and improve roads and streets. Facility repair and maintenance was renamed street repair and maintenance. Administrative allocation to the general fund is a portion of personnel expenses paid to the General Fund for staff time related to the Street Fund.

Capital outlay is to fund the street improvement and drainage project.

Sewer Fund (02)

Resources:

Sewer billing are fees collected by the City on behalf of RVSS.

Requirements:

Sewer billing to RVSS is sewer fees collected by the City and submitted to RVSS by wire transfer each month.

Law Enforcement Fund (03)

Resources:

Public safety fees are collected by the City to pay the law enforcement contract with the Jackson County Sheriff Department. The monthly rate per household will be \$30 based on the 2025-2026 rate of \$29 plus a 3.8% increase appropriated by Resolution 25-12 in June 2025.

Transfer in from the general fund is to bridge the gap between public safety fees collected and the cost of the law enforcement contract.

Requirements:

Materials and services include the negotiated cost of the Jackson County Sheriff Department contract. The current contract ends on July 1, 2026 and there is a material risk of a higher cost for the current services or a reduction in services.

System Development Charges Fund (08)

Resources:

System development charges for new structures are \$7,500 for transportation, \$1,500 for storm water and \$1,500 for parks. The estimated resources are based on one new home start.

Requirements:

Resources collected are restricted to capital improvements related to expanded capacity and serving increased demand, not operations and maintenance. In the absence of a capital plan, the reserve for future expenditures is available to invest in capital projects such as the new park land development.

Water Project Fund (12)

Resources:

In 2024, Shady Cove received \$1,500,000 in grant funding for a water system feasibility study. Original funds were allocated as part of Senate Bill 1530. Of the original allocation, the remaining balance is \$1,455,853. Revenue will be recognized as drawdown payments as requested and received.

Requirements:

Capital outlay for the remaining portion of the project is budgeted with Business Oregon for \$1,455.853. Expenses will be recognized when invoices are paid.