



RIO DELL CITY COUNCIL
SPECIAL MEETING – 4:30 P.M.
MONDAY, MAY 18TH, 2026
City Council Chambers
675 Wildwood Avenue, Rio Dell

A. CALL TO ORDER

The special meeting of the Rio Dell City Council was called to order at approximately 4:30 PM.

B. ROLL CALL

Present:

- Mayor Garnes
- Mayor Pro Tem Carter
- Council Member Woodall
- Council Member Wilson

Absent:

- Council Member Orr (Excused)

Staff Present:

- City Manager Knopp
- Finance Director Sanborn
- Community Development Director Caldwell
- City Clerk Hill
- Additional staff present as noted during discussion

C. PLEDGE OF ALLEGIANCE

The Pledge of Allegiance was recited.

D. CEREMONIAL MATTERS

None.

E. PUBLIC PRESENTATIONS

Mayor Garnes announced the public presentations portion of the meeting. No public presentations were made.

F. CONSENT CALENDAR

None.

G. ITEMS REMOVED FROM THE CONSENT CALENDAR

None.

H. REPORTS/STAFF COMMUNICATIONS

None.

I. SPECIAL PRESENTATIONS/STUDY SESSIONS

1. City Council Budget Study Session for FY 2026-2027 (Item 2026/0518.01)

Staff Report Overview

Finance Director Sanborn introduced the proposed FY 2026-27 Budget, noting that the purpose of the study session was to present the draft budget prior to formal adoption and to receive Council direction. He explained that the packet included a proposed budget for all funds, a revenue summary, department budget worksheets, a capital projects budget, a position allocation table, an organizational chart, and the budget calendar. He noted that the session was intended to be an open forum where Council members and staff could discuss questions, clarify assumptions, and identify any recommended changes to be incorporated prior to the June 2, 2026 adoption hearing.

City Manager Knopp's Overview

City Manager Knopp opened by thanking Finance Director Sanborn and finance staff for their work preparing the budget, noting the added complexity of managing both the annual audit and the budget process simultaneously. He provided the following overview:

- **Regional Fiscal Climate:** City Manager Knopp noted that neighboring jurisdictions, including the County of Humboldt, Fortuna, Eureka, and Arcata, are facing significant financial difficulties, with some running deficits and drawing down fund balances. While Rio Dell's situation is not as dire as some neighboring cities at this time, the City is entering a similar period of fiscal pressure.
- **Fund Reserves:** He acknowledged that past Council direction to maintain adequate reserves has positioned the City well. However, the City is beginning to enter "rainy day" territory, particularly in the General Fund.

- No Major Restructuring Required This Year: For FY 2026-27, no major restructuring or significant expenditure reductions are anticipated, though the Council was encouraged to be mindful of emerging trends.
- Total Budget Size: The proposed FY 2026-27 budget totals approximately \$24.7 million, which City Manager Knopp described as the largest budget in his tenure at Rio Dell—a reflection of the volume of grant-funded capital work underway.
- Capital Projects: City Manager Knopp emphasized that the vast majority of capital projects in the budget are grant-funded, with the General Fund absorbing less than \$25,000 of more than \$18 million in capital project costs. ARPA funds must be fully expended by December 31, 2026. A \$10 million water infrastructure project is grant-funded and expected to proceed.
- Earthquake Recovery: The City anticipates completing many of its earthquake recovery projects during the upcoming fiscal year. The budget conservatively assumes 75% CDAA reimbursement on earthquake-related infrastructure projects, though the City has historically received the full 25% match as well. City Manager Knopp noted that if the worst-case reimbursement scenario occurs, Public Works capital funds could be substantially drawn down, but expressed optimism that the State would make the City whole.

Budget Highlights by Fund

Finance Director Sanborn walked the Council through the budget in detail. Key items discussed included:

General Fund

- The General Fund ends the fiscal year with a projected negative change in fund balance. Beginning reserves remain healthy, but the trend is toward structural deficit spending.
- Approximately 74–75% of General Fund expenditures go to the Police Department.
- Two Community Service Officers (CSOs) will be fully funded by the General Fund this year, having previously been funded in part through Measure Z. This represents a notable year-over-year cost increase for the General Fund.
- A \$297,138 budget is included for the Supplemental Law Enforcement Services Fund (SLESF). The fund is being substantially drawn down this year to exhaust the accumulated balance, as the fund is not intended to carry a large reserve. Future years will reflect a lower annual draw from this fund.

Sales Tax Revenue

- Sales tax revenue has declined significantly. Over the past two years, Bradley Burns sales tax (1% of in-city retail sales) has declined approximately 55%, and total sales tax revenue has declined approximately 35–36% in aggregate, representing a loss of roughly \$200,000 in combined tax revenue.

- City Manager Knopp explained the structural reasons for the decline: online purchases made by Rio Dell residents are often fulfilled from warehouses along the I-5 corridor, directing sales tax to those jurisdictions or to a countywide pool that is redistributed based on brick-and-mortar sales volume—an allocation method that disadvantages smaller cities like Rio Dell.
- Additional contributing factors include the decline of illegal cannabis spending in the local economy, reduced gas station activity, and general regional economic softness.
- The City has engaged Avenu/HDL to audit and maximize sales tax capture, but structural trends are expected to persist. Staff mentioned that other cities, including Arcata, Eureka, and the County, have placed additional sales tax measures on the ballot. Fortuna attempted a similar measure that failed. The Council did not take action on this topic but acknowledged it as a significant long-term challenge.
- City Manager Knopp noted that in 2022, voters approved Measure O, which removed the sunset from the existing transaction and use tax (.75%) in exchange for a slight rate reduction from 1%. This measure provides a stable but currently declining revenue base.

Cannabis Tax Revenue

- Cannabis tax revenue is projected to decline due to the closure of one of the three cannabis farms on the Dinsmore Plateau. The budget reflects reduced cannabis revenue accordingly. Some offset is provided by ongoing cannabis operations at the Rio Dell Business Park.

Water and Sewer Funds

- Two water-related funds—the Dinsmore Plateau Zone and the Metro Wells Fund—are projected to end the year with negative fund balances. The Dinsmore Plateau Zone project remains on hold due to construction costs coming in approximately five times higher than budgeted estimates. Staff noted that a full project may not be completed in FY 2026-27.
- The Sewer Operations Fund continues to deficit spend due to rising staffing costs, insurance increases (budgeted at 10% annually), and electricity costs now exceeding \$200,000 per year.
- A water and sewer rate study is planned for this fiscal year. The City is at the end of its current five-year rate schedule, and Finance Director Sanborn noted that costs are increasing faster than the existing rate structure supports. The rate study will inform new rates through the Proposition 218 process. A staff member from Public Works also commented on the importance of the rate study and the increasing cost pressures on the water system.

ARPA Funds

- The City received \$801,000 in ARPA funds. All funds were obligated by December 31, 2025, and must be spent by December 31, 2026. Allocated uses include completion of the dog park, earthquake-related expenses not covered by CDAA, Sewer I&I repairs, open space facility improvements, and the Monument Road slip-out repair.

Police Department Budget

- The proposed Police Department budget totals \$1,685,200, an increase from the prior year.
- Police Officer wages are currently approximately 18% below Fortuna's pay scale, and also behind Eureka and the Sheriff's Office. The Chief of Police noted that while work environment and culture help with retention, wages are a meaningful factor, and it will be difficult to maintain full staffing if the City does not remain competitive. The Council acknowledged this concern.
- One-time employee stipends have been budgeted to provide some level of compensation for employees in the associations, in lieu of ongoing wage increases that would be difficult to sustain given the current fiscal climate.

Personnel and Compensation

- A full compensation study was completed the prior fiscal year through the Gallagher consulting firm, covering all positions. The results indicated that wages were generally within a competitive range.
- A Public Works employee addressed the Council during the open discussion portion, expressing concern about the risk of losing trained utility staff to other jurisdictions once they obtain certifications, and emphasizing the institutional knowledge held by long-tenured employees. The employee requested that the Council consider additional retention incentives and pay-scale improvements for experienced staff.

Vehicle Fleet and Equipment

- A question was raised regarding replacement of aging Public Works trucks. City Manager Knopp indicated that vehicle purchasing is being deferred given the volume of capital expenditures underway and the uncertainty around full earthquake project reimbursement. He noted that the fleet has improved in recent years and that staff should focus capital resources on grant-funded projects first.

City Council Budget

- The proposed City Council department budget is \$28,500, covering travel, training, and related expenses.
- A Council Member raised the topic of implementing a monthly council stipend, noting that Council members invest significant time and effort, including travel to

represent the City at the state level. City Manager Knopp and Finance Director Sanborn noted that this topic would be appropriate for discussion at a regular Council meeting, as it requires proper agendaing under the Brown Act and was not noticed for this special meeting. The item was noted as potentially appropriate for discussion at the May 19, 2026 regular meeting.

Facade Improvement Program

- City Manager Knopp noted that a Round 4 of the Facade Improvement Program is being brought to the regular Council meeting on May 19, 2026, and has been factored into the budget. He highlighted that program participants, including a barbershop and laundromat, have become some of the best-looking buildings on Wildwood Avenue.

Grant and Infrastructure Update

- Staff mentioned a recent visit by representatives from the University of California system, CalOES, and the State Water Resources Control Board to tour Rio Dell's water and sewer facilities. The visit was described as productive and may support future grant applications, including a possible UV disinfection system upgrade that could also reduce electricity costs through a solar array.

Council Discussion and Direction

Council members asked questions throughout the presentation regarding specific line items, fund structures, revenue assumptions, and long-range planning. The Council did not provide specific direction for changes to the proposed budget, but acknowledged the following key themes:

- The City is entering a period of greater fiscal pressure, particularly in the General Fund and enterprise funds, and responsible reserve management will be essential.
- The rate study for water and sewer is a necessary near-term action to ensure the long-term financial health of those systems.
- Retaining qualified employees—particularly in Public Works and the Police Department—remains a priority and a concern.
- The sales tax decline is a structural challenge that may require longer-term revenue strategy discussions.
- The City is well-positioned relative to some neighboring jurisdictions, due in part to prudent reserve management under prior Council direction.

City Manager Knopp encouraged the Council and public to contact Finance Director Sanborn or himself directly with any additional questions about the budget materials. He noted that the budget will be brought back for formal adoption at the June 2, 2026 City Council meeting.

J. SPECIAL CALL ITEMS/COMMUNITY AFFAIRS/PUBLIC HEARINGS

None.

K. ORDINANCES/SPECIAL RESOLUTIONS/PUBLIC HEARINGS

None.

L. COUNCIL REPORTS/COMMUNICATIONS

None.

M. ADJOURNMENT

The special meeting was adjourned to the regular City Council meeting scheduled for Tuesday, May 19, 2026, at 6:00 PM.

APPROVED:

Debra Garnes, Mayor

ATTEST:

Jessica Hill, City Clerk