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DATE: June 2, 2026
TO: Mayor and Members of the City Council
THROUGH: Kyle Knopp, City Manager
FROM: Travis Sanborn, Finance Director
SUBJECT: Adoption of Fiscal Year 2026-27 City Budget

IT IS RECOMMENDED THAT THE CITY COUNCIL:

Approve Resolution 1671-2026 adopting the Fiscal Year (FY) 2026-27 Operating and Capital Budget and Position Allocation Table.

BACKGROUND AND DISCUSSION:

Staff is bringing the FY 2026-27 budget forward for adoption ahead of the June 30 fiscal year-end. Adopting on schedule preserves continuous expenditure authority across all City funds and avoids the operational disruption that comes with running on a continuing resolution. This year's build began in the spring and included department-level worksheets, salary projections covering all 24 budgeted positions across ten department tabs, capital project reviews coordinated with Public Works and Community Development, and stress tests on every fund balance.

The recommended budget totals \$24,722,849 across all funds. The increase from the prior year is driven almost entirely by the capital program rather than operational growth. The major capital initiatives entering or continuing construction in FY 2026-27 are the Drinking Water State Revolving Fund (DWSRF) water distribution system project, the Painter Street sewer pipe upsized, the WCB Eel River Trail accessible ramp, the Pedestrian Connectivity STIP project, and the five remaining CDAA-funded earthquake recovery projects.

Budget Composition

The total breaks into three components:

Operating Expenditures: \$5,291,085. This covers the cost of delivering core municipal services across all departments and is the figure most directly tied to recurring revenue. City Operations account for \$3,080,382 of this total and Public Works (Facilities and Grounds, Sewer, Streets, and Water) account for \$2,210,703.

Debt Service: \$439,000. Covers scheduled obligations on the Sewer and Water debt service funds.

Capital Projects: \$18,992,764. Heavily weighted toward grant-funded and disaster recovery work. The \$10,000,000 DWSRF water distribution project is the single largest line item, with the Sewer and Water capital funds together contributing another \$6,508,264 of project activity. A

complete project-level listing, including account coding and funding source for each capital initiative, is provided in the attached Capital Projects Summary.

Revenue and Fund Balance Strategy

Projected revenue across all funds totals \$22,172,058. The gap between projected revenue and total expenditures is closed by a planned \$2,550,791 net draw on fund balance. Three things explain the bulk of that draw, and none of them reflect operational shortfall:

The five CDAA earthquake projects are budgeted at a 75% reimbursement assumption per accounting convention, even though the City will continue pursuing 100% reimbursement of eligible costs through CalOES and FEMA coordination. The 25% unreimbursed portion totals approximately \$908,750 distributed across the Sewer Capital, Water Capital, and Water Metro Wells funds. This conservative posture produces a temporary fund balance draw that is expected to reverse as additional reimbursements are recognized.

The remaining ARPA-SLFRF balance of \$475,000 must be fully expended by the federal December 31, 2026 deadline, which falls in the first half of FY 2026-27. The full balance is programmed against four projects: Open Space Facility (\$140,000), Dog Park (\$25,000), Earthquake Infrastructure Damage (\$60,000), and Sewer I&I Repairs (\$250,000).

Several capital funds are drawing down designated reserves that were accumulated specifically to fund projects now entering construction. Spending those reserves on the projects they were set aside for is the intended use, not a structural deficit.

General Fund Position

The General Fund itself remains in strong structural condition. Projected General Fund expenditures of \$1,857,016 are closely matched by projected revenue of \$1,809,625, with an additional \$29,679 transfer to the Building Fund to subsidize that fund's structural revenue shortfall. The combined effect is a \$77,070 decrease in the General Fund balance. The General Fund ending balance of \$1,851,200 sits \$1,294,095 above the Council's 30% reserve target of \$557,105. Public safety remains the largest General Fund commitment, with Police Department operations at \$1,388,062 representing roughly three-quarters of General Fund expenditures.

Staffing

The FY 2026-27 Position Allocation Table holds total City staffing flat at 23.05 full-time equivalents across the Administration, Finance, Police, and Public Works departments. This matches FY 2025-26 staffing and reflects continued discipline on personnel costs while the City absorbs the heavy capital workload described above. The accompanying Organization Chart shows reporting structure and FTE allocation by department.

Forward Outlook

FY 2026-27 is a heavy construction year by design rather than by accident. As the DWSRF project, the earthquake recovery projects, and the major grant-funded improvements close out, the City's capital footprint will normalize and reserve restoration will resume. Operating fund discipline carries through this budget, with departmental requests held to documented service needs and the salary projection workbook reconciled to current MOU terms. Staff will return to Council at midyear with a budget revision that captures actual grant reimbursement timing and any adjustments needed as the capital program moves through construction.

ATTACHMENTS:

- Resolution 1671-2026 with Exhibit A (Budget Summary by Fund) and Exhibit B (Position Allocation Table)
- Capital Projects Summary
- FY 2026-27 Organization Chart
- FY 2026-27 Budget Calendar