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DATE: February 20, 2024
TO: Rio Dell City Council
FROM: Travis Sanborn, Finance Director
THROUGH: Kyle Knopp, City Manager
SUBJECT: Fiscal Year 2023-24 Mid-Year Financial Report

IT IS RECOMMENDED THAT THE CITY COUNCIL:

Receive and file the Fiscal Year (FY) 2023-24 Mid-Year Financial Report.

BACKGROUND AND DISCUSSION

The Finance Director provides reports on the budget to keep the Rio Dell City Council and the public informed on the status of the City's finances. The attached Mid-Year Financial Report for FY 2023-24 summarizes budgeted versus actual amounts as of December 31, 2023, and describes any significant variances.

ATTACHMENTS

FY 2023-24 Mid-Year Financial Report

MID-YEAR FINANCIAL REPORT

Mid-Year FY 2023-24

This Mid-Year Financial Report reviews the City's financial condition for fiscal year (FY) 2023-24 as of December 31, 2023. The report describes the revenues received and expenditures incurred and explains any significant budget variances at mid-year or projected to occur at the end of the fiscal year.

SUMMARY

The FY 2023-24 adopted budget for the City of Rio Dell was \$8.77 million, with estimated revenues of \$7.58 million. Total City revenues received at mid-year were \$2.55 million; expenditures totaled \$3.25 million. This difference is primarily due to expenses incurred on capital projects, grants, and Earthquake repairs yet to be reimbursed by the granting or State agency.

Revenues: The city's major funds had received 43% of revenues as of mid-year. This compares to 40% for the same period last year. There is a slight increase in the percentage of General Fund revenues received at mid-year; 29% was collected compared to 21% in the last mid-year report. Due to the current uncertainties in the economic climate at the local and State levels, the City budgeted revenues lower, most notably in Sales Tax and Cannabis revenue projections.

Expenditures: As of mid-year, City-wide expenditures were \$3.25 million or 37% of the \$8.77 million adjusted budget. Operating expenses were 52% of the budget, 12% more than last year. These increases are directly attributed to the December 2022 Earthquake disaster. Capital project expenditures are increased due to continued work on large grant-funded projects such as the Eel River Trail.

The following table shows budget versus actual amounts by the department and current and prior year variances by percentage at mid-year.

EXPENDITURES BY DEPT.				
OPERATING	BUDGET	MID-YEAR ACTUAL	% EXPENDED	% PRIOR YEAR
Admin Car	1,600	352	22%	13%
Building	125,936	60,138	48%	48%
City Council	27,179	11,013	41%	17%
City Manager	511,828	162,227	32%	38%
Finance	488,235	221,505	45%	40%
Planning	53,463	25,105	47%	44%
Police	1,370,133	708,573	52%	45%
General Government	106,189	37,044	35%	6%
Recycling	18,820	8,166	43%	88%
Sewer	919,893	567,273	62%	54%
Water	645,661	396,375	61%	44%
Streets	218,815	147,077	67%	56%
Facilities & Grounds	161,011	69,294	43%	44%
Total Operating	4,648,763	2,414,142	52%	40%
Debt Service/Payments	488,881	269,414	55%	50%
Capital Projects	3,631,751	562,868	15%	13%
TOTAL	8,769,395	3,246,424	37%	28%

Expenditures in the city's major funds were 49% of the budget as of mid-year.

REVENUES BY MAJOR FUND			
	BUDGET	MID-YEAR ACTUAL	% RECEIVED
GENERAL FUND	1,614,600	461,492	29%
STREETS	341,047	201,536	59%
SLESF	150,000	-	0%
BUILDING FUND	56,150	49,366	88%
SEWER	1,470,934	749,436	51%
WATER	1,299,450	639,117	49%
TOTAL	4,932,181	2,100,947	43%

EXPENDITURES BY MAJOR FUND			
	BUDGET	ACTUAL	% EXPENDED
GENERAL FUND	1,971,698	843,593	43%
STREETS	323,881	218,432	67%
SLESF	155,664	93,513	60%
BUILDING FUND	125,936	60,222	48%
SEWER	1,817,577	888,991	49%
WATER	1,373,823	720,522	52%
TOTAL	5,768,579	2,825,273	49%

MID-YEAR FINANCIAL REPORT

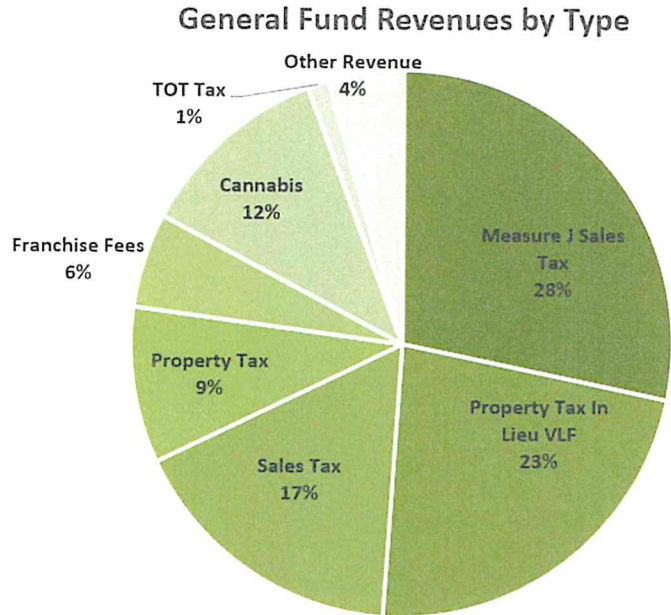
Mid-Year FY 2023-24

GENERAL FUND

As of December 31, 2023, General Fund revenues received were \$461,492, and expenditures were \$843,593.

Revenues: At mid-year, 29% of budgeted revenues had been received, compared to 21% for the same period last year. Property tax and In Lieu VLF funds are typically received from the County in the second half of the fiscal year, which is the primary reason revenues are below estimates at mid-year.

40% of budgeted cannabis revenues were received at mid-year compared to 55% last year. This is due to Ordinance 397-2023, a local ordinance that allowed cultivators on the Dinsmore Plateau to make a one-time tax payment by March 15 as an alternative to quarterly payments during the fiscal year.



Expenditures: Budgeted appropriations for the General Fund for FY 2023-24 total \$1.97 million. This includes \$198,000 for capital and special projects. Total appropriations spent at mid-year were \$843,593 or 43%.

STREETS FUNDS

Revenues: Projected street revenues increased by 3.5% or \$11,846 for the current fiscal year. 59% of those revenues were received by mid-year compared to 37% last year. The most notable increases were in the TDA and SB1 RMRA funds. Gas tax revenues were budgeted 1.7% lower year over year.

STREETS REVENUES	BUDGET	ACTUAL	% RECEIVED
020 GAS TAX	104,517	47,359	45%
021 SB1 RMRA	83,727	28,128	34%
024 TDA	125,803	126,049	100%
026 RSTP	27,000	-	0%
TOTAL	341,047	201,536	59%

GENERAL FUND	BUDGET	MID-YEAR ACTUAL	%
Property Tax In Lieu VLF	456,340	-	0%
Local Sales Tax Measure J	368,000	156,029	42%
Sales Tax	272,000	112,851	41%
Property Tax	149,375	-	0%
Franchise Fees	90,000	21,138	23%
Cannabis	186,000	74,630	40%
Transient Occupancy Tax	20,000	5,097	25%
Other Revenues	72,885	91,747	126%
TOTAL	1,614,600	461,492	29%

The top three revenue sources in the General Fund are Property Tax In Lieu of Vehicle License Fees, Local Sales Tax Measure J, and Retail Sales Tax. Cannabis revenues exceeded property tax revenues for the first time in FY 2020-21 and, despite the industrywide downturn, are anticipated to do so again in the current fiscal year. 'Other Revenues' include Police Services Fees, rental revenues for cell towers, and gains on disposal of assets.

MID-YEAR FINANCIAL REPORT

Mid-Year FY 2023-24

Expenditures: Actual Streets funds expenditures were 67% of adopted budgeted appropriations at mid-year, compared to 50% last year. This increase is primarily due to ongoing emergency earthquake expenditures.

STREETS EXPENDITURES	BUDGET	MID-YEAR ACTUAL	% EXPENDED
020 GAS TAX	102,411	83,130	81%
021 SB1 RMRA	70,257	24,179	34%
024 TDA	127,111	100,829	79%
026 RSTP	24,102	10,294	43%
TOTAL	323,881	218,432	67%

ENTERPRISE FUNDS

SEWER FUNDS

Revenues: The Sewer fund's total budgeted revenues for FY 2023-24 are estimated at \$1.47 million. This includes all fees, charges, penalties, and new connections for sewer service. Actual revenues received at mid-year were \$749,436, or 51% of the budget. Last year, at this time, revenues were \$697,433. The increase in the current year is primarily due to the revised sewer and water rates. Revenues are on target to end the year as estimated.

SEWER REVENUES	BUDGET	MID-YEAR ACTUAL	% RECEIVED
050 SEWER OPERATIONS	1,063,000	493,115	46%
052 SEWER CAPITAL	105,000	64,547	61%
054 SEWER DEBT SVC.	302,934	191,774	63%
TOTAL	1,470,934	749,436	51%

Expenditures: Total sewer expenditures at mid-year were \$888,991, 49% of the budgeted amount. Expenditures in the Sewer Operating fund were at 51%. The treatment plant loan of \$6.6 million with the California State Waterboard will be paid off in 2043.

SEWER EXPENDITURES	BUDGET	MID-YEAR ACTUAL	% EXPENDED
050 SEWER OPERATIONS	1,249,643	637,661	51%
052 SEWER CAPITAL	265,000	99,863	38%
054 SEWER DEBT SVC.	302,934	151,467	50%
TOTAL	1,817,577	888,991	49%

WATER FUNDS

Revenues: The Water Fund's total budgeted FY 2023-24 revenues are estimated at \$1.29 million. This includes all fees, charges, and penalties. Actual revenues received at mid-year were \$639,117, or 49% of the budget. Water revenues are divided between Operations, Debt Service, Capital Projects, Metro Wells, and Dinsmore Zone.

WATER REVENUES	BUDGET	MID-YEAR ACTUAL	% RECEIVED
060 WATER OPERATION	840,500	416,678	50%
061 WATER DEBT SVC.	136,000	67,223	49%
062 WATER CAPITAL	281,375	133,473	47%
063 METRO WELLS	18,375	9,083	49%
064 DINSMORE ZONE	23,200	12,660	55%
TOTAL	1,299,450	639,117	49%

Expenditures: Total water expenditures at mid-year were \$720,522, or 52% of the budgeted amount. Expenditures in the Water Capital Fund were at 145%. This increase resulted from emergency earthquake repairs (\$107,813) and the CalOES grant-funded Eel River Pipeline Seismic Retrofit Project (\$67,012). The water plant loan of \$2.7 million with the California State Waterboard will be paid off in 2029.

WATER EXPENDITURES	BUDGET	MID-YEAR ACTUAL	% EXPENDED
060 WATER OPERATION	960,626	439,755	46%
061 WATER DEBT SVC.	136,000	68,000	50%
062 WATER CAPITAL	138,000	199,449	145%
063 METRO WELLS	29,097	10,660	37%
064 DINSMORE ZONE	110,100	2,658	2%
TOTAL	1,373,823	720,522	52%

BUDGET OUTLOOK

The mid-year review indicates that revenues are largely tracked at budgeted levels, and expenditures are generally on course to remain within budget. However, several factors are anticipated to impact the budget outlook, as outlined below.

Earthquake

- The December 20th earthquake and its subsequent aftershock on January 1st inflicted profound hardship upon the City of Rio Dell. Essential utilities like water and power were disrupted for days, and significant structural damage rendered numerous homes uninhabitable. The financial burden of this disaster extends beyond the immediate, impacting future fiscal years. Compounding this challenge, inflationary pressures and escalating service costs cast uncertainty on large-scale infrastructure projects necessitated by the earthquake.

Following CalOES guidelines, Rio Dell is eligible for reimbursement of up to 75% of approved project costs. However, the remaining 25% remains the city's responsibility. Recognizing this fiscal burden, the city has proactively pursued avenues to qualify for CalOES coverage of this 25% share, requiring a case-by-case assessment.

Rio Dell's situation exemplifies the intricate interplay between natural disasters and municipal fiscal constraints. While the earthquake's immediate impact was severe, the city's proactive approach to securing resources and navigating financial complexities underscores its resilience. Moving forward, Rio Dell's ability to secure complete funding and

rebuild its infrastructure will be crucial in ensuring a swift and sustainable recovery.

Cannabis

- Recent cannabis pricing declines and reduced market activity have adversely impacted City revenues in the past growing seasons. This volatility was previously communicated to the Council and remains a concern for future fiscal stability. However, staff remains confident in the City's long-term prospects within the cannabis industry due to several key advantages:
 - ✓ Comprehensive and strategic local regulations: Our regulatory framework fosters a stable and predictable environment for legal cannabis businesses.
 - ✓ Absence of "legacy grow" challenges: Unlike other municipalities, we are not burdened by the complexities and financial liabilities associated with unregulated pre-existing cultivation operations.
 - ✓ Robust municipal infrastructure: We possess the necessary infrastructure to support the growth and needs of the legal cannabis industry.
 - ✓ Attractiveness to professional legal cannabis operators: These factors position us as a favorable location for established and reputable cannabis businesses, fostering sustainable growth and revenue generation.

MID-YEAR FINANCIAL REPORT

Mid-Year FY 2023-24

TPGAA

- The Taxpayer Protection and Government Accountability Act (TPGAA) initiative, currently proposed for the November 2024 California ballot, has sparked significant debate on its potential impact on small cities in the state. Here's a breakdown of the key arguments and concerns:

Potential Negative Impacts:

- ✓ **Reduced Revenue:** The initiative proposes raising the voter approval threshold for local taxes from a simple majority to two-thirds, making it more challenging for small cities to raise funds for essential services like infrastructure, public safety, and social programs. This could exacerbate budget shortfalls and limit their ability to address critical needs.
- ✓ **Increased Litigation:** The initiative expands the definition of what constitutes a "tax," potentially subjecting more fees and charges to legal challenges. This could lead to costly lawsuits and further strain limited resources in small cities.
- ✓ **Reduced Local Control:** The initiative imposes restrictions on how local governments can spend certain types of revenue, potentially limiting their flexibility and ability to prioritize local needs. This could hinder their responsiveness to community concerns and hinder innovative solutions.

Uncertainty and Legal Challenges:

The initiative's potential impact is complex and depends on city size, existing tax structure, and future service needs. Additionally, the initiative faces legal challenges contesting its constitutionality, which could affect its implementation and timeline.

The TPGAA initiative has the potential to significantly impact small cities in California, with both potential negative and positive consequences. It's crucial for residents, businesses, and local officials to carefully consider its potential effects and engage in informed discussions before the November election.

Additional Resources:

-Cal Cities:

- <https://www.calcities.org/>
- <https://www.calcities.org/news/post/2023/10/04/cal-cities-joins-legal-challenge-against-taxpayer-protection-ballot-measure>

- California State Legislative Analyst's Office:

- <https://lao.ca.gov/ballotanalyses/propositions>

MID-YEAR FINANCIAL REPORT

Mid-Year FY 2023-24

Streets Funds

The City of Rio Dell Street Funds faces challenges from electric vehicles and declining Gas Taxes.

- ✓ Existing state-based formulas for street funding are inadequate, failing to cover maintenance costs fully.
- ✓ The COVID-19 pandemic further exacerbated funding shortfalls.
- ✓ The rise of electric vehicles (EVs) and the decline in gas tax revenue create additional challenges.
- ✓

Impact of EV Adoption:

- ✓ California's commitment to reducing greenhouse gas emissions through EV mandates and other climate initiatives leads to decreased gasoline and diesel consumption.
- ✓ This translates to lower gas tax revenue, impacting state, county, and city funding for streets.

Due to these factors, the Legislative Analyst's Office predicts a \$6 billion decline in gas tax revenue over the next decade.

Mitigation Efforts:

- ✓ Significant General Fund investments have helped offset the revenue shortfall thus far.

However, the long-term sustainability of this approach remains uncertain.

California faces a critical need to reform street funding in light of declining gas tax revenue and the growing adoption of EVs. Sustainable solutions must be identified to ensure adequate funding for essential infrastructure maintenance and improvements.



City of Rio Dell Fiscal Year 2023-24 Mid-Year Financial Report



Fiscal Year 2023-24 Revenues and Expenditures by Major Fund

REVENUES BY MAJOR FUND

	MID-YEAR		% RECEIVED
	BUDGET	ACTUAL	
GENERAL FUND	1,614,600	461,492	29%
STREETS	341,047	201,536	59%
SLESF	150,000	-	0%
BUILDING FUND	56,150	49,366	88%
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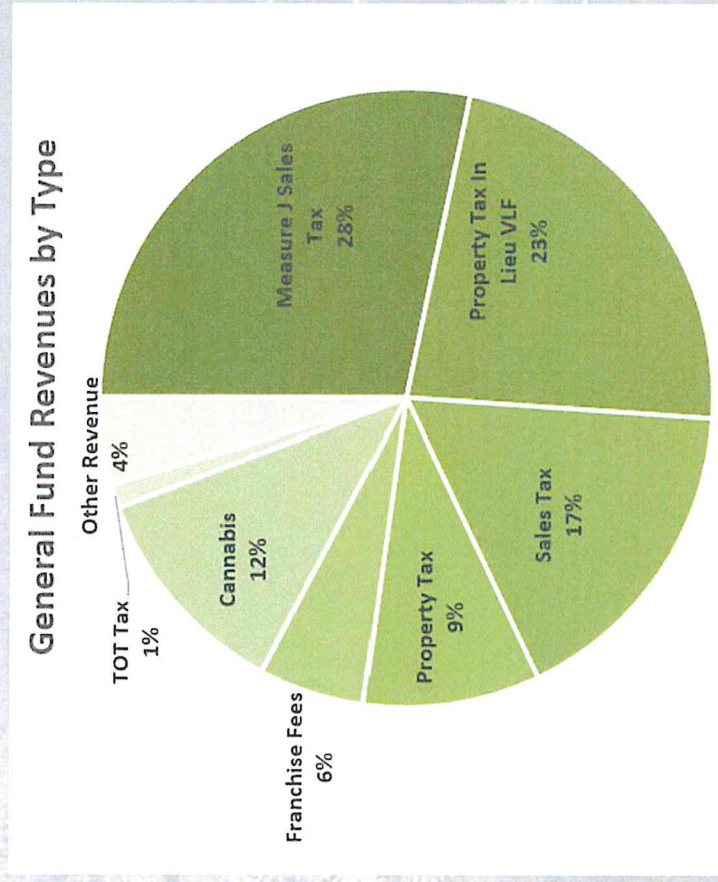
Fiscal Year 2032-24 Expenditures

By Department

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TOTAL	8,769,395	3,246,424	37%	28%



General Fund - Revenues



GENERAL FUND	BUDGET	MID-YEAR ACTUAL	%
	Property Tax In Lieu VLF	456,340	-
Local Sales Tax Measure J	368,000	156,029	42%
Sales Tax	272,000	112,851	41%
Property Tax	149,375	-	0%
Franchise Fees	90,000	21,138	23%
Cannabis	186,000	74,630	40%
Transient Occupancy Tax	20,000	5,097	25%
Other Revenues	72,885	91,747	126%
TOTAL	1,614,600	461,492	29%



Streets Funds

020 Gas Tax, 021 SB1, 024 TDA, 026 RSTP

STREETS REVENUES			
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TOTAL	323,881	218,432	67%



Enterprise Funds - Sewer

SEWER REVENUES	BUDGET	MID-YEAR ACTUAL	% RECEIVED
050 SEWER OPERATIONS	1,063,000	493,115	46%
052 SEWER CAPITAL	105,000	64,547	61%
054 SEWER DEBT SVC.	302,934	191,774	63%
TOTAL	1,470,934	749,436	51%

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TOTAL	1,817,577	888,991	49%



Enterprise Funds- Water

WATER REVENUES	BUDGET	MID-YEAR ACTUAL	% RECEIVED
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061 WATER DEBT SVC.	136,000	67,223	49%
062 WATER CAPITAL	281,375	133,473	47%
063 METRO WELLS	18,375	9,083	49%
064 DINSMORE ZONE	23,200	12,660	55%
TOTAL	1,299,450	639,117	49%

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062 WATER CAPITAL	138,000	199,449	145%
063 METRO WELLS	29,097	10,660	37%
064 DINSMORE ZONE	110,100	2,658	2%
TOTAL	1,373,823	720,522	52%



Budget Outlook

- Earthquake
- Cannabis
- TPGAA – Taxpayer Protection and Government Accountability Act
- Streets Funds

EARTHQUAKE LIST OF PROJECTS

PROJECT	COST ESTIMATE	25% CITY COST SHARE	FUND
DEBRIS REMOVAL	75,000	18,750	GENERAL
DISTRIBUTE AID / LAC	10,000	2,500	GENERAL
BUILDING INSPECTION	2,500	625	GENERAL
EMERGENCY SANITATION	130,000	32,500	WATER
EMERGENCY SEWER	10,000	2,500	SEWER
DONATED MATERIALS	25,000	6,250	GENERAL
METRO WELLS #1	1,000,000	250,000	WATER
EMERGENCY WATER REPAIR	300,000	75,000	WATER
PAINTER STREET TANK	1,600,000	400,000	WATER
PAINTER STREET SIDEWALK	50,000	12,500	GENERAL
HYPOCHLORITE GENERATOR	250,000	62,500	SEWER
CONTACT BASIN	6,000,000	1,500,000	SEWER
HWY101 SEWER PIPES	10,202,272	2,550,568	SEWER
FERN LIFT STATION	50,000	12,500	SEWER
HWY 101 WATER PIPES	5,835,364	1,458,841	WATER
DAMAGED COLLECTION SYSTEM	5,000,000	1,250,000	SEWER
DAMAGED DISTRIBUTION SYSTEM	5,000,000	1,250,000	WATER
DAMAGED ROAD REPAIR- PAINTER LIFT	15,750	3,938	GENERAL
DAMAGED ROAD REPAIR 1285 EELOA	6,000	1,500	GENERAL
DAMAGED ROAD REPAIR 1267 EELOA	13,500	3,375	GENERAL
DAMAGED ROAD REPAIR 1111 EELOA	9,750	2,438	GENERAL
INFILTRATION GALLERY	400,000	100,000	WATER
TOTAL	35,985,136	8,996,284	



Questions?

