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State Auditor: Del Rey Oaks ranked No. 15 of “high risk” cities facing fiscal challenges

The city acknowledges the data used shows an accurate picture of the city about three years ago but it has made strides since then



The city of Del Rey Oaks was ranked 15 of over 470 California cities at “high risk” of facing fiscal challenges by the State Auditor’s Office in its Fiscal Health Analysis released last week. (James Herrera – Monterey Herald)

DEL REY OAKS – The California State Auditor recently released its analysis and rankings of over 470 cities in the state, listing the 18 “high risk” cities facing fiscal challenges, and Del Rey Oaks is number 15.

According to the state auditor, Del Rey Oaks was at “high risk” for cash position/liquidity, debt burden, general fund reserves, and other post-employment benefits.



Pick

“The city is aware of the report and we take it very seriously,” said Dino Pick, Del Rey Oaks city manager. “The report is based on 2016 data, and the report accurately describes what the fiscal status of the city was in 2016.”

The state auditor’s [Local Government High-Risk Dashboard](#) website has a caveat

Since 2017, Del Rey Oaks has made significant progress to remedy its financial shortfalls, though Pick admits much work continues to be needed.

“The primary reason for the city’s improved economic condition is cannabis tax revenue, which started in 2017,” said Pick. “The council has used this revenue to pay down debt, build the city’s first-ever economic uncertainty reserve, and begin funding a trust account to pay for the city unfunded pension liability.”

In April 2015, Del Rey Oaks was the first city in Monterey County to open a medical marijuana dispensary.

Of Monterey County cities, only Del Rey Oaks is considered “high risk” in the state auditor’s analysis. Sand City is “low risk” along with the city of Gonzales. All other cities in the county are considered “moderate risk.”

“We contacted the State Auditor’s Office on Friday after learning of the report. We provided more current city annual audits for 2017 and 2018, as well as additional information about council policy decisions to stabilize the city’s financial status,” explained Pick.

The auditor’s office did not indicate to Del Rey Oaks when its “high risk dashboard” would be updated.

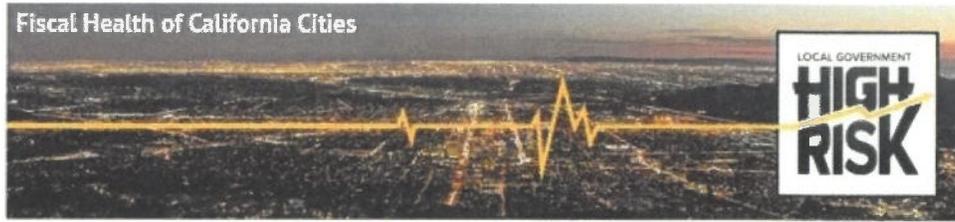
Pick said that while the city has made significant improvements, it is not yet where it needs to be.

“We continue to carry significant debt accruing interest as a result of a failed development during the economic recession, and our pension liabilities continue to require sustained funding,” said Pick. “The city council will consider placing a measure on the March 2020 ballot to make an existing temporary 1% sales tax permanent. This will secure a revenue stream that the city currently depends on for \$600,000 per year.”

The current sales tax rate in Del Rey Oaks is 9.25%.

According to the city manager, the failed development was with Federal Del Rey Associates LLC which prevailed in a lawsuit against the city in 2014.

Fiscal Health of California Cities



The California State Auditor's Fiscal Health Analysis of the State's Over 470 Cities

This online dashboard is part of our high-risk local government agency audit program to identify cities that could be facing fiscal challenges by assessing their levels of risk using various financial indicators. Through this transparent interface, California residents, state and local policymakers, and interested parties will have a data driven view of each city's risk assessment.

TOP CITIES FACING FISCAL CHALLENGES

1. <u>Compton</u>	10. <u>Monrovia</u>
2. <u>Atwater</u>	11. <u>Vernon</u>
3. <u>Blythe</u>	12. <u>Richmond</u>
4. <u>Lindsay</u>	13. <u>Oakland</u>
5. <u>Calexico</u>	14. <u>Ione</u>
6. <u>San Fernando</u>	15. <u>Del Rey Oaks</u>
7. <u>El Cerrito</u>	16. <u>Marysville</u>
8. <u>San Gabriel</u>	17. <u>West Covina</u>
9. <u>Maywood</u>	18. <u>La Habra</u>

*Determined that this city has high fiscal risk due to the lack of transparency over its finances



Screen grab of the California State Auditor's online dashboard ranking the top 18 cities facing fiscal challenges with the city of Del Rey Oaks at 15. (State Auditor's Office website)

"The award was \$1.2 million, \$700,000 of which is accruing 5% interest annually," said Pick. "The non-interest portion - \$500,000 - must be paid before the \$700,000 can be paid. The \$1.2 million must be paid when the Fort Ord property is sold. Our plan is to pay it off as soon as possible, which may be as early as fiscal year 2021 if revenues hold steady and the tax measure passes."

After the closure of Fort Ord in 1994, a consequence of Base Realignment and Closure by the federal government, Del Rey Oaks was conveyed land through the Fort Ord Reuse Authority, along with other jurisdictions. Del Rey Oaks officials picked Federal in 2003 to develop a luxury resort on its 360 acres of undeveloped Fort Ord land.

Pick went on to say the city of Del Rey Oaks also continues to control expenditures. He said the Police Services Contract is an example where the city has reduced costs to both the airport district and the city by \$250,000 each, while improving the quality of law enforcement services to both agencies.

The state auditor analyzed financial information for 471 California cities to identify those that may be at risk for fiscal distress by performing various financial comparisons and calculations. The auditor analyzed the finances related to each city's governmental and business-type activities including the general fund or main operating fund. Its analysis used information from audited financial statements prepared in accordance with generally accepted accounting principles obtained through various sources such as city websites, the Federal Audit Clearinghouse, the Electronic Municipal Market Access website, and the California State Controller's Office. It also analyzed unaudited pension-related information from the California Public Employees' Retirement System – CalPERS – and the state controller, according to the state auditor's website.

According to the analysis, a set of ten indicators was selected that enabled an assessment of each city's ability to pay its bills in both the short and long term. It measured each city's cash position or liquidity, debt burden, financial reserves, revenue trends, and ability to pay for employee retirement benefits.

In most instances, the financial indicators rely on information for the 2016-2017 fiscal year with certain limited information dating back to the 2014-1015 fiscal year. The financial indicator results were weighted, and assigned numbers of points based on the state auditor's judgment of each indicator's relative importance, as follows:

1. Liquidity – 10
2. Debt burden – 15
3. General fund reserves – 30
4. Revenue trends – 5
5. Pension obligations – 10
6. Pension funding – 5
7. Pension costs – 5
8. Future pension costs – 5
9. Other post-employment benefits obligations – 10
10. Other post-employment benefits funding – 5

The maximum score possible was 100 and Del Rey Oaks had a score of 40.98 and a ranking of 15.

Comparatively, Monterey had a score of 48.86 and a ranking of 45; Seaside scored a 57.86 and is ranked 117; Marina scored a 65.02 and is ranked 189; Pacific Grove has a 66.04 score and is ranked 198; Carmel scored a 68.53 and is ranked 231; and Sand

The state auditor assigned risk designations to cities based on their cumulative score for all 10 indicators; 0 to 41.76 is considered “high risk” meaning a city has significant risk of experiencing fiscal distress, 41.77 to 71.23 means a city has some risk, and 71.24 to 100 means a city is at low risk of fiscal distress.

In addition, these rankings do not reflect environmental factors such as population trends, unemployment rates, or levels of household income. Consequently, a high fiscal risk designation does not indicate that a city will default on its debt or file for bankruptcy. Similarly, a low-risk designation does not mean that a city is free of financial risk.

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James Herrera has been with The Herald for nearly three decades, during which has has been an ad designer, staff artist, newsroom graphic artist, videographer and now a reporter. He covers business and the cities of Seaside, Marina, Sand City and Del Rey Oaks. Herrera can be reached via email at jherrera@montereyherald.com or by phone at 831-726-4344.

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