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City of Montebello Los Angeles County

Its Structural Deficit and Poor Operational Processes Threaten the City's Financial Stability and Delivery of Public Services

Summary

Our audit of the city of Montebello revealed significant concerns related to the city's financial and organizational management. The city has struggled to generate sufficient revenues to meet its expenses for much of the past decade and suffers from a structural deficit. Further, the city's enterprise activities, including a municipal golf course, water utility, and two hotels, pose a significant financial risk to its general fund. Additionally, its contracting practices do not ensure that it receives the best value for services. Because we have classified the city as a high-risk local government agency, we will follow up with the city until it satisfactorily implements a corrective action plan.



Risk Designation: **HIGH RISK**

- 2016 Population: **Nearly 63,400**
- 2016 Median Income: **\$47,518**
- 2016 Unemployment Rate: **8.1%**

Key Risks

- **Immediate and long-term challenges:** Because of ongoing revenue shortages, the city has used one-time revenues to balance its budget and avoid depleting its reserve. Its general fund has contributed \$6 million over the last ten years to the golf course fund, its water system needs \$1.6 million in urgent repairs, and its growing retirement costs and health benefit obligations all place pressure on the city's finances.
- **Ongoing risk to the city's general fund through its hotels:** Because the city issued bonds to finance its hotels, it risks paying up to \$3.7 million per year if hotel revenues fall short of expenses. Further, the city's mismanagement of hotel revenues has cost the city at least \$1.6 million, and it continues to enter into agreements that favor the hotel operator's interests rather than the city's.
- **Poor contracting practices and unresolved staffing needs:** Its contracting activities, including its failure to consistently use competitive processes, delayed implementation of recommendations from a 2011 audit, and vacancies in key positions hinder the city's ability to provide services to its residents.

Key Recommendations

To help the city address the risk factors we identified, take steps toward eliminating its structural deficit, and reduce the city's risk for fraud, waste, abuse, and mismanagement, we recommended the city take several actions, including the following:

- Reevaluate selling its water utility and explore alternatives for its golf course.
- Strengthen its financial processes, refrain from taking on certain types of additional debt, and address higher retirement costs and obligations for retiree health benefits.
- Revise contracting practices to ensure the city obtains the best value for services it receives.