City in Peril
Blythe is Dying

Summary

Blythe is dying.

An isolated city of 18,000 residents, including about 5,000 inmates at two State Prisons, Blythe is located in Riverside County at the California/Arizona border. For most of the last century Blythe was a farming community supplying fruits, vegetables and other crops across the Southwest. The city and its people prospered.

However, the fortunes of the community have changed dramatically over the past two decades. Family farms are mostly gone, businesses have left, vacant homes and buildings scar the streets. City tax revenues are stagnant or falling and the younger population, with few opportunities for growth and success, have fled west to the Coachella Valley or east to the expanding suburbs of Phoenix, Arizona.

Many State Prison employees, city staff and other government workers assigned to Blythe have chosen to live elsewhere and make long commutes rather than reside in a city with limited shopping and entertainment opportunities, low-rated schools and rising crime.

In the past decade, while Riverside County’s population has grown 8.5 percent, Blythe’s (non-inmate population) has fallen 19.5 percent.

The Riverside County Civil Grand Jury 2021-2022 (Grand Jury) is tasked to be the “watchdog” for the cities and county government agencies that serve the county.
The Grand Jury was alarmed by several recent reports, including a March 2021 analysis by the California State Auditor entitled “City of Blythe…Inadequate Planning and Other Ineffective Management Practices Hinder Its Ability to Provide Needed Services to its Residents.”

The State Auditor ranks Blythe as 3rd worst of California’s 470 cities for their financial health.

In 2021 the City’s own independent audit report of finances expressed substantial doubt about Blythe’s ability to continue as a “going concern.” The independent audit has issued similar alarms for the past decade.

The Grand Jury began its investigation in the fall of 2021. Members traveled to Blythe and met with city officials and staff, along with leading community members and stakeholders. The Grand Jury found hard-working people who care deeply for their community, but most city officials are in denial about the future Blythe faces.

The city council and staff work hard to “keep the lights on” and “pay the bills” but none offered a long-term plan for the future of Blythe and well-being of the residents.

However, the first step in dealing with any problem is to recognize that you have one.

In this report the Grand Jury offers its findings and several recommendations to address the deteriorating situation in Blythe. The Grand Jury agrees with many of the State Auditor’s recommendations, especially the need for Blythe to hire a full-time city manager with proven turnaround skills.

Ultimately it will be up to the Blythe City Council, and the people of the City, to determine the future of their community.
Background

Geography

Blythe is an isolated city of 27.3 square miles on the far eastern border of Riverside County where California meets Arizona. “It is an agricultural area, part of the Colorado Desert along the Colorado River, located approximately 224 miles east of Los Angeles and 150 miles west of Phoenix, Ariz.” The closest cities are: Yuma, Ariz. (85 miles), Indio, Calif. (95 miles), Riverside, Calif. (172 miles) and Las Vegas, Nev. (200 miles).

Blythe Past

In 1877 Thomas Blythe, a San Francisco financier, established primary water rights to Colorado River water for over 40,000 acres. His estate changed hands several times before becoming part of the present Palo Verde Irrigation District (PVID). By 1916 easy access to an almost unlimited amount of water at minimal cost had facilitated a strong enough agricultural and livestock economy for the 1,622 residents to vote to incorporate the City of Blythe. The farmers and ranchers of Blythe thrived for several decades by producing fruit and vegetable crops, cattle feeds, cotton and livestock.

In its early years, the only roadway from southern California to Phoenix (US 60/70) ran right through Hobson Way, Blythe’s main street. Travelers would need to stock up on supplies, repair their vehicles, and often spent the night in Blythe. Until 1928, when the first automobile bridge was built, the Colorado River could only be crossed by ferry.

The Glory Years

The 1940s, 50s, and 60s were the glory years for Blythe. Longtime residents fondly remember shopping locally on Hobson Way. The city boasted three theaters, a drive-in movie, a JCPenney and a K-Mart. The community was small, but close-knit, with several churches and dozens of community service organizations.

The Times They Are a-Changin’

In 1972 Federal Interstate 10 (I-10) opened greatly facilitating travel and commerce between California and all points east. However, the new freeway bypassed Hobson Way and downtown Blythe.

The local economy started shrinking. The original ranching and farming families were aging. Second and third generations were selling the family farms, often with water rights, to larger corporate farms which could use modern technology to reduce the need for large numbers of farm workers.

Businesses were leaving the City and were not being replaced. New people were not moving in as older residents moved out to growing cities throughout California and Arizona. Attracting new residents to Blythe was a difficult task as a low-rated school system, minimal health care options and lack of new housing developments discouraged new economic growth.
In the late 1980’s a spark of economic opportunity presented itself when the State of California opened two state prisons in Blythe. Hundreds of high-paying correctional officer jobs would be needed to accommodate the over 5,000 inmates housed in the prisons. Initially, the economy did in fact receive a much-needed boost. However, City officials stated that many of the officers (50-70%) and their families chose to live elsewhere, such as Indio, and commute long distances rather than reside in Blythe. The economic benefits that the prisons promised were only partially realized by the residents of Blythe, City officials told the Grand Jury.

In 1997 the Metropolitan Water Company began testing a fallowing program which pays farmers to leave portions of their fields unplanted to conserve water. A boon for farmers and water conservation, the negative economic impact continues to be felt in Blythe as fewer farm workers are needed. The need for fertilizer, tractors and other farm supplies are reduced for the fallowed fields.

**Blythe in the 21st Century**

- By 2006 the City government recognized the peril caused by dwindling City revenues and began a painful program to reduce expenditures in its $42 million budget. Full time positions were reduced from 130 to 69 over the next few years.\(^1^7\)
- In 2008, Blythe, along with most cities, suffered the impact of the Great Recession and the population continued to decline.\(^1^9\)
- In 2009 railroad service was abandoned leaving Blythe with tracks going nowhere.\(^2^0\) Voters rejected Measure H to increase the Transit Occupancy Tax (T.O.T.) to 13.0 percent.\(^2^5\)
- In 2014 the City explored medical marijuana as a potential revenue source. Voters rejected an increase to the sales tax and, again, rejected an increase to the T.O.T. \(^2^6\)
- In 2017 K-Mart closed leaving the City with sales tax revenue shortfalls and the residents without a local source for basic necessities.\(^6\)

**Blythe Present Day**

Blythe today has not been able to reverse the slow continual decline that has been decades in the making. It suffers the effects of a city that cannot generate sufficient revenues to provide basic city services for the well-being of its residents. Today visitors to Hobson Way see numerous boarded up storefronts and “for lease” signs. Multiple fast food restaurants line the off-ramp streets from I-10. Abandoned buildings, homes, and eyesores are common.

What visitors do not see is the limited police presence, the deferred maintenance of infrastructure, the increasing numbers of the homeless, the exodus of population and the stagnant property values. Health care options are minimal, schools are not highly rated, and new housing developments are non-existent.

The City government has attempted to create a turnaround of Blythe’s misfortunes. Over the years it has reduced the City’s full-time employees by 45%, sold surplus city assets, outsourced the City golf course and deferred infrastructure maintenance. Several department heads now wear multiple hats including the Interim City Manager who also serves as the City Clerk. The
Chief Building Official is also responsible for code enforcement, building inspections and serves as the Fire Marshal. For the most part, these efforts have not succeeded.

The City’s expenditures have exceeded revenues for six of the last nine years for an accumulated loss of over $7.5 million. In 2020 the voters were once again asked to increase the City sales tax and T.O.T. This time the voters agreed.

Blythe’s population continued to decline. The 2020 census put Blythe’s population at 18,317, a figure that includes approximately 5,000 inmates residing in the two state prisons. In the past decade (2012-2022), while Riverside County’s population has grown 8.5 percent, Blythe’s (non-inmate) population has fallen 19.5 percent, according to the California Department of Finance.

If Thomas Blythe had not obtained the primary water rights in 1877 Blythe would have suffered the same fate as other desert ghost towns such as Ehrenburg, Ariz. approximately 4 miles across the Colorado River.

Why this report?

In 2019 the California State Auditor Dashboard ranked Blythe as the 3rd worst of 470 California cities based on their financial health.

In March of 2021 the California State Auditor issued a scathing report entitled “City of Blythe…Inadequate Planning and Other Ineffective Management Practices Hinder Its Ability to Provide Needed Services to Its Residents”. The report designated Blythe as a “High Risk” city.

Among the State Auditor’s findings were:

- “Blythe’s Financial Stability Remains Uncertain Even With Recent Improvements.
- Blythe must address Deficits in Its Enterprise Funds as Well as Unmet Safety and Infrastructure Needs.

California cities retain independent outside auditing firms to review their finances and to report the results. Blythe’s most recent city auditor report, dated December 2021, covered fiscal year 2020-2021 and raised “substantial doubt about the city’s ability to continue as a going concern.” The outside auditor has made similar warnings for the previous 10 years as well.

These two reports drew the attention of the Grand Jury, who then chose to investigate Blythe’s response to the alarming red flags in these reports. It is a unique situation in Riverside County, perhaps in all of California, for a city to be shrinking and in danger of financial distress or even insolvency. The Grand Jury sought to learn how the city plans to adapt to the new reality.

Methodology

To determine the City’s response to the State Auditor’s report of March 2021, the Grand Jury reviewed “City of Blythe, Corrective Action Plan, Response to State Auditor.” The first
“Response to State Auditor” was dated May 2021 and a follow-up response was dated September 2021.

Grand Jury interviews were conducted with all five City Council Members, the Interim City Manager, Finance Director, City Attorney, Police Chief, and Chief Building Official to determine their visions of Blythe’s future.

To better understand the community, visits were made by Grand Jury members to the Riverside County Sheriff’s Department at the Blythe jail, the Riverside County Probation Office in Blythe, the Palo Verde Unified School District, Riverside County Behavioral Health Clinic, Palo Verde Transit Agency, Riverside County Department of Social Services in Blythe, Palo Verde Library, and the Riverside County Animal Shelter in Blythe. In addition, the Grand Jury met with the Blythe Chamber of Commerce, Riverside County Local Agency Formation Commission (LAFCO) and a Riverside County Supervisor.

Discussion

Blythe future

Blythe’s fortunes are the result of the march of time as it bypasses this geographically isolated island in the desert.

Due to its remote location, surrounded by 100 miles of desert in each direction, Blythe must create its own economic activity if it is to continue as a “going concern”. It has an exceptionally heavy burden for the well-being of its’ residents as there are no surrounding cities which can provide jobs, new housing, entertainment, or other quality of life items. This responsibility falls squarely on the shoulders of the Blythe City Council.

All cities depend on tax revenues to provide the funding for basic city services such as police and fire departments, roads, water and sewage, infrastructure, and the salaries of city employees. Revenues are generally obtained through a combination of property, sales, and tourist taxes. When city expenditures exceed revenues, the city falls into a short-term deficit until sufficient revenues can once again be obtained to make up for the deficit. Traditionally, cities find ways to reduce their expenditures to make up for revenue shortfalls. Very few opportunities exist for Blythe to further reduce expenditures.

Blythe officials have tried, but have been unable, to increase revenues on a consistent basis. Property taxes are stagnant and few new homes or commercial developments are being built or contemplated to reverse the downward trend. Sales taxes generated by local retail stores are drying up as more and more residents either leave, travel to distant cities, or are forced to shop online for basic necessities. The City sales tax rate increase, approved in 2020, is yet another financial burden to Blythe’s residents.

The first step to address Blythe’s financial issue is for the City to recognize that there is a problem. During our investigation City officials minimized their current financial situation and quickly pointed out the various actions taken during the past few years to reduce expenditures.
The two new tax increases were frequently mentioned as proactive future revenue sources. In the opinion of the Grand Jury no other sources to significantly improve the City’s revenues for the long-term were presented.

Revenue increases are the lifeblood of any city. Property taxes, based on real estate values, are the most stable method to ensure a revenue stream for many years into the future. New housing brings new families, new demand for goods and services, and new job opportunities to a community.

City services are maintained or improved when revenues are rising. When those revenues are flat, cities are forced to cut essential services. Blythe has been experiencing declining revenues for several years. City services have been cut to the bone as part of a “keep the lights on” budget. The Code Enforcement Department is overwhelmed with over 400 open complaints currently on file and only two employees. There is minimal effort searching for overlooked county, state or federal grants. Eyesores from vacant houses and abandoned buildings dot the city. Infrastructure maintenance has been delayed and the sewer system is crumbling. In short, City residents are suffering from the lack of funding to provide essential services.

The Grand Jury interviewed City officials to learn their plan for addressing the monumental task of turning Blythe around. Several aspirational ideas were floated, such as attracting a logistic center, a giant cannabis cultivation complex, a theme park vacation destination for Colorado River visitors, or a tribal casino. These ideas, and more, have been thoroughly explored, aggressively pursued, and found to be unfeasible by City Councils during the last 20 years. The fountain of new revenue ideas has likely run dry. The prevalent vision was “we’re just trying to keep the lights on”, or “we’re operating month to month” or “we’re trying to dig out of a hole.” None of the officials expressed a turnaround plan or a realistic assessment of the City’s long-term future.

The realistic vision for Blythe is the continuation of declining or stagnant revenues. The California State Auditor and the contracted City auditor are raising the alarm and questioning whether Blythe can continue as a “going concern.” Most City officials dismissed the alarm and preferred to envision a brighter future where revenues increase, reserves are built, and City services restored.

City officials in Blythe have deep roots in this small city. They are well known, respected citizens and have been deeply intertwined into the social fabric of the community for decades. None of them want to face their friends and neighbors and explain that Blythe is failing. The Grand Jury found hard-working people who care deeply for their community, but most City officials are in serious denial about the future Blythe faces.

The City is failing. The agrarian economy that supported Blythe for decades now consists of international farming companies and a dwindling number of family farms. Blythe is competing with cities throughout the southwest to attract jobs, housing, industry and recreation. It cannot win this competition as Blythe’s remote location and limited amenities discourage businesses and families from relocating there. Blythe is also competing with all the other cities in Riverside County for county, state and federal funding. For a small city, Blythe has been receiving a
disproportional amount of service dollars from the county. For the Fiscal Year 2019-20 Blythe’s taxes contributed $1.0 million to the County’s general fund. In return the County provided $3.3 million of services to Blythe.\textsuperscript{16}

Blythe needs a visionary leader with a long-term strategic plan and the power to execute it. The plan should support the quest for greater revenues and should be realistic about the future of a shrinking Blythe. What steps will Blythe take if revenue does not grow but drops 10\%, 20\%, 30\% in the coming years? What reserves are needed to survive a downturn of the economy, or a sudden economic emergency caused by a potential prison closure, or lawsuit judgment? Can Blythe continue as a “going concern” after a significant exodus of the population? What will that population look like in the coming years when 25\% \textsuperscript{19} of the population already lives in poverty? Is there a plan to avoid or sidestep insolvency?

This Grand Jury does not believe that such a visionary leader exists in Blythe today. Civic pride and an underlying distrust of outsiders hampers efforts by well-meaning persons to be heard by those in charge. The City Council disagreed with the two alarming audits but chose to act upon some State Auditor recommendations. However, Blythe continues to remain in the State Auditor’s “High Risk” category.

Where might such a visionary be found? Some potential sources:

1. Permanent City Manager. Among the recommendations by the State Auditor was that the City “\textit{should begin the process for hiring a permanent City Manager.}”\textsuperscript{15} The City has responded saying that it “\textit{does not agree and is confident in the abilities of the Interim City Manager. The recruitment of a permanent City Manager will occur when appropriate by the Blythe City Council.}”\textsuperscript{3} A permanent City Manager with knowledge and experience with distressed cities could create the strategic plan needed to avoid or sidestep potential bankruptcy. Importantly, the City Manager, with the Council’s backing, could implement some of the difficult steps that may be needed for survival.

2. Municipal law firms with demonstrated experience dealing with distressed cities. “\textit{Lessons from the San Bernardino Bankruptcy for City Attorneys}”\textsuperscript{16} recommended:
   - \textit{Cities should fully understand the nature of their financial problems and take whatever steps possible to address them, as early as practicable.}
   - \textit{At an early juncture, a troubled city should hire experienced bankruptcy counsel and financial consultants, a process that will likely involve the city attorney.}

   The Grand Jury was not presented with any evidence that the City’s contracted law firm was providing financial advice to the City.

3. Third party turnaround specialists. To improve Blythe’s financial condition turnaround specialists can bring much to a city that lacks the necessary financial experience, fails to adapt to changing market conditions or may be hampered with internal biases. Often, the specialist will bring experience dealing with distressed municipal governments.
4. The Government Finance Officers Association, the California Society of Municipal Financial Officers, and other associations are available to provide expert assistance to distressed cities.

The financial survival of the City of Blythe for the foreseeable (5 years) future may not yet be in grave jeopardy but the long-term (5-20 years) future is. As long as there is an almost unlimited supply of inexpensive water, the agriculture businesses in Blythe will continue to thrive even while the population and the non-farm economy continues to decline. Absent the City’s ability to affect a financial turnaround, the residents of Blythe will be faced with even greater reductions of City services and greater increases of City taxes to fund their government. Should the financial distress lead to municipal bankruptcy, it is questionable whether Blythe could successfully emerge as other cities have done. If it does not emerge, the City’s debts could potentially be passed on to Blythe’s property owners.

The community of Blythe is very passionate about supporting each other. The Elks Lodge, Lions Club and many other service organizations hold dinners or fundraisers for the local community. The Chamber of Commerce functions as a booster for local businesses. This year the entire community turned out to cheer the Palo Verde High School Yellow Jackets football team for an outstanding season. Even the prison associations donate funds for recreational activities in Blythe. The residents are the heartbeat of Blythe. They deserve more from their City officials. They need to understand what Blythe will look like for future generations.

The unthinkable option: Disincorporation

The Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 provides the “sole and exclusive authority and procedure” for the disincorporation of a California city. The disincorporation of a city, which several officials mentioned in their interviews with the Grand Jury, is an extremely rare and complex process that, if completed, would result in the absorption of a city by a county or larger entity.

No city in California has disincorporated since Cabazon in 1972 and Hornitos in 1973. Never has a disincorporation involved a California city as large or complex as Blythe. The Grand Jury does not propose disincorporation for Blythe but it remains a possibility in the future. In the opinion of the Grand Jury, Blythe may be the only city in Riverside County that could possibly demonstrate the need for disincorporation.

The process is extremely lengthy, complex and expensive involving petitions, deadlines, meetings, studies and reviews by LAFCO. It entails the unravelling of a city’s debts and assets, likely court challenges, and finally, a vote by the citizens to disincorporate.

In the highly unlikely event that the disincorporation process was successful the following would change:

- Blythe’s official status would change from the City of Blythe to the Unincorporated Community of Blythe.
- The City government would be dissolved and all government functions would be managed by the County of Riverside.
• City assets would be transferred to the County and all debts would be assumed by the County.
• City services would be determined by the County.

What would not change?

• All Special Districts would remain unchanged as they are not part of city government.
  o Palo Verde Unified School District
  o Palo Verde College
  o Palo Verde Transit Agency
  o Palo Verde Library District
  o Palo Verde Health Care District
  o Palo Verde Cemetery District

The unincorporated community of Blythe would join the other 40 unincorporated communities within Riverside County.

**Findings**

**F1:** Blythe’s completely isolated location in the middle of a desert stifles its growth and makes it unattractive to new sources of badly needed investment.

**F2:** There is no coordinated effort searching for overlooked county, state, or federal grant opportunities.

**F3:** Blythe has been dealing with deficits to its Operating Fund for nine years and must increase its sustainable revenue base to maintain minimum levels of City services.

**F4:** One-time windfalls, such as funding from county, state and federal programs, will benefit Blythe in the short run but will not solve long-term issues.

**F5:** Serious questions continue to arise as to whether Blythe can remain as a “going concern.”

**F6:** Blythe officials have not yet produced a strategic long-term financial plan for the City’s survival.

**F7:** Internal biases and civic pride have created challenges to accepting external input and ideas.

**F8:** In the opinion of the Grand Jury a great need exists for a visionary leader with proven experience dealing with distressed cities to guide Blythe away from potential insolvency.

**F9:** The Grand Jury did not find that disincorporation is an option that should be considered part of any strategic plan for the foreseeable future.
**Recommendations**

**R1:** The Grand Jury concurs with many of the State Auditor’s recommendations, especially the need that a permanent City Manager be hired. The current Interim City Manager splits her time as City Clerk and has performed both positions admirably under difficult conditions. However, Blythe is facing an existential threat that screams for a full-time permanent City Manager with proven turnaround skills and experience. The recruitment effort should be completed no later than December 31, 2022 in order to allow time for creation of a new strategic plan prior to the Fiscal Year 2023-2024 budget process. Expected cost $200k - $300k. (F6) (F8)

**R2:** Blythe should aggressively explore all new potential sources of revenue including government and non-profit organization grants. The cost for this important function could be revenue neutral through the new grants obtained. It should be included in the collateral duties of the City Clerk or Finance Director by December 31, 2022. (F1, F2, F3, F4, F5)

**Required Responses:**

Blythe City Council (F1, F2, F3, F4, F5, F6, F7, F8, F9) (R1, R2)

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