

Capitola - 1990

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# Capitola asks state probe of bond deal

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CAPITOLA — The City Council will ask the state Attorney General's Office to determine whether any criminal activity occurred in connection with Capitola's troubled 1986 bond deal.

The council unanimously voted Thursday to send a city accountant's report revealing more than \$2 million in improprieties to the state's highest law enforcement office.

"This community is owed an answer about many questions," said Mayor Margaret Fabrizio.

Anyone with a title or a letterhead on the financial documents is open to possible investigation, she said.

The council is also asking the attorney general to advise whether a civil case can be filed against anyone on behalf of the city.

The Santa Cruz County District Attorney's Office reviewed the matter more than a year ago and determined there was no justification for criminal prosecution of any city official.

The City Council's move, however, follows a new report by Richard Standridge, an accountant hired by the city to retrace the steps taken in the bond deal.

An examination of records between 1989-90 and 1993-94 "revealed numerous errors, undocumented

accounting transactions, and unsubstantiated charges to the (Redevelopment) agency. For that five-year period, more than \$2 million of such improprieties exist," he wrote to City Manager Susan Westman.

The problems, he said, may indicate "one or more of the following: lack of oversight; intentional falsification of accounting records, ineptness of responsible staff, conscious disregard for legal and contractual requirements; disregard or ignorance of reasonable, appropriate accounting principles, standards and procedures."

The \$10.2 million bond was supposed to pay off two earlier debts and cover about \$4.8 million in new projects, including several by the Redevelopment Agency.

The agency is a separate branch of city government which works to stimulate economic growth in the 41st Avenue area. The City Council sits as agency's board of directors.

In January, Capitola officials reported that the city misspent more than \$2 million in funds from the deal, including \$1.45 million to buy property at Wharf Road and Clares Street, \$700,000 to acquire the Monterey Avenue park site and about \$266,000 to pay other debts.

These projects were not among those listed in 1986 when the Capitola issued its certificates of participation, a form of bond fi-

nancing. At the same time, \$2 million in projects that should have been completed under the agreement were not.

Standridge found numerous other problems with the bond deal, such as erroneous allocations for salaries, benefits and automobile allowances.

An early accounting report shows that as much as \$700,000 was spent on administration since 1981. Standridge said the costs were "significantly overstated, and were undocumented for the years audited. It is likely that many prior year costs are not justified."

Since the city and the Redevelop-

ment Agency share the same staff, the city was simply charging the agency a flat amount, for example 15 percent of an employee's salary, if he or she worked on redevelopment business, explained Westman, who replaced longtime city manager Steve Burrell last year.

As a result, the city will likely owe the Redevelopment Agency between \$500,000 and \$1 million.

Several Capitola residents faced council members Thursday to tell them they should have listened when residents questioned the city's financial practices.

Whoever is responsible should make a public apology and resign, said resident Lee Vaage.