

# Financial problems on horizon for city, says report

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SANTA CRUZ — The city ended last fiscal year "in fairly strong financial condition" but still faces several major money problems, says City Finance Director Robert Shepherd in a report just released to the City Council.

Foremost among the future problems is the high cost of liability insurance, the reports says.

But Shepherd said he is "confident" the League of California Cities will succeed in its efforts to minimize insurance difficulties for Santa Cruz and other cities facing the same high liability costs.

Other problems on the financial horizon include the potential loss of federal revenue-sharing funds — now being used to fund social-service programs — and a potential loss of sales-tax revenues from a flight of car dealerships from Santa Cruz to other areas of the county, reported Shepherd.

The report covers the 1984-85 fis-

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cal year that ended last June 30.

Overall government expenses increased by 13.5 percent over the previous year, the report states.

General government revenues increased "substantially" by 32.2 percent over the previous year, totaling \$24.7 million for 1984-85, according to the report.

The city's major revenue source — sales and use tax — increased by a "healthy" 10.1 percent over the previous year. The transient occupancy tax (a tax on motel and hotel rooms) showed a "sizeable" 29.5-percent increase over the previous year, states the report.

The bulk of the increase in motel-room tax revenues was attributed to more tourist activity, says the re-

port.

A 5-percent tax on utilities that became effective as part of a tax package July 1, 1984 accounted for \$1.3 million in revenues during the first year of the taxes.

Revenues from the utility tax comprise 5.2 percent of total revenues.

Revenues from other taxes comprise 2.1 percent of total revenues, representing a 91-percent increase in taxes over the previous year.

Here are highlights from the report:

- Property taxes accounted for 13.4 percent of total revenues; sales and use tax, 19.2 percent; transient occupancy tax, 5.8 percent; utility tax, 5.2 percent.

- Property-tax revenues increased 5 percent over the previous year; sales and use taxes, 10.1 percent; transient occupancy taxes, 29.5 percent.

- Revenues for enterprise funds (water, sewer, refuse, parking, wharf, and golf course) increased by 4.6 percent over the previous year.

The wharf fund increased by 48.6 percent over the previous year due to increased rent from new wharf businesses and the receipt of grants relating to a wharf renovation project.

Parking revenues increased by 30 percent over the previous year due to a reimbursement for capital spending in connection with land acquisitions.

- Outstanding debts were reported at \$20.3 million for certificates of participation; \$8.5 million for revenue bonds and \$2.75 million for general obligation bonds.

- Public safety expenses increased by 16.7 percent; cultural and social services, by 24.5 percent.

Shepherd reported cash not needed during the year was invested in time deposits, treasury bills and notes, the state Local Agency Investment Fund, city water revenue bonds and repurchase agreements.

Overall investment income totaled \$1.8 million, representing an increase of \$458,000 over the previous year, says the report.

Shepherd noted interest rates have remained fairly constant over the

past two years and attribute the "large" increase in interest income to the "sharp" increase in the amount of average daily deposits.

The report also attributes the investment portfolio increase primarily to a delay in construction of many water projects, pending the issuance of certificates of participation.

Overall interest earnings for the year were reported at slightly more than 10 percent.