AUTO PLAZA — S.C.

Auto center catches board in the middle

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• Analysis

SANTA CRUZ — The Skyview Drive-In auto center controversy has caught county supervisors in a vise of conflicting interests.

As members of the Board of Supervisors, Gary Patton, Robley Levy, Sherry Mehl, Fred Keeley and Jan Beautz represent the interests of citizens throughout the county. But as directors of the county's Redevelopment Agency, they are supposed to look out for the interests of residents and taxpayers of the Live Oak-Soquel Redevelopment District.

Supervisors will have to decide whose interests they represent later this summer, when they're finally put to the test of deciding whether to spend $15 million in redevelopment funds to help the owners of four Santa Cruz auto dealerships buy the 14-acre drive-in property.

A hearing on the proposed deal made it clear this week that the county's interests and the Redevelopment Agency's interests aren't compatible.

Live Oak-Soquel Supervisor Jan Beautz, whose supervisorial district is also the redevelopment district, underscored the conflict when she portrayed the auto center deal as a drain on redevelopment funds that would return nothing to Live Oak and Soquel residents.

"Fifteen million dollars gone is $15 million gone," she said at one point.

Assistant County Administrative Officer Pat Busch, the deal's principal architect, sought to steer supervisors away from that kind of thinking.

The Redevelopment Agency's money comes from "tax increments" — increases in property tax revenues derived from new construction and sales of existing homes and businesses, which boost property assessments in Live Oak and Soquel.

A third of the Redevelopment Agency's tax increment revenues is siphoned off from the county's general fund. Two-thirds come from tax receipts that would otherwise flow to the schools.

The Redevelopment Agency is able to collect those revenues because the state pays the schools back. So in effect, the state pays two-thirds of the costs of redevelopment.

Busch tried to keep supervisors' eyes on that bottom line this week — and keep them in their role as board members, as opposed to redevelopment directors — by insisting repeatedly that the cost of the $15 million auto center deal to the county was only $5 million.

He cautioned supervisors several times against weighing sales-tax revenues from the new auto center — projected at $21 million to $27 million over 15 years — against Redevelopment Agency costs. Busch insisted they should be compared instead to the much lower general fund cost.

Comparing agency costs to the sales-tax revenues, which will flow to the general fund rather than the Redevelopment Agency, was like "comparing apples and oranges," Busch told Beautz at one point.

"You have to compare the general fund cost to general fund revenues. That's the comparison we need to operate on, because the other side of that — the state money — is not generally available to us."

Beautz was not persuaded.

"We have to look at that (redevelopment cost) because that state money comes to us because of (the redevelopment district), and we sit here as the board of the redevelopment district, as well as the Board of Supervisors," she responded.

Other board members seemed more inclined to accept Busch's perspective.

Aptos Supervisor Robley Levy went out of her way to stress that a gain to the general fund was a benefit to everyone in the county.

"When we talk about the general fund, we're talking about ... the kinds of things it does," said Levy, who noted that general fund money pays for such things as sheriff's patrols, public health nurses and road crews. "The fabric of services the county provides are supported by the general fund," she said.

"The board is making significant investments in the Live Oak-Soquel area," Levy said. "That's not happening in other areas of the county. One of the issues is the balance of benefits between people who live in a specific area of the county and people who live throughout the county.

"The basis of my decision is going to be some sense of balance of benefits for all the citizens of the county."

Board Chairman Gary Patton, who represents the city of Santa Cruz and the county's north coast, contended early in the hearing that the auto center proposal was a "good deal not just for the general fund, but also for redevelopment."

Advancing a trickle-down argument, Patton noted: "The Redevelopment Agency is totally dependent on the general fund." If supervisors thought the county could not afford to give general fund tax increments to the agency, said Paton, there would be no redevelopment.

"By providing new general fund revenues that stabilize and assist our ability to provide law enforcement and other services to areas outside the Redevelopment Agency," Patton said, the auto center deal would reduce that threat and "insure that redevelopment will be able to do its work."

While Patton and Levy spoke as board members first and redevelopment directors second, San Lorenzo Valley Supervisor Fred Keeley tried to wear both hats at once.

Keeley sought assurances from Busch that auto center deal would not hurt the Redevelopment Agency.

Evaluating the proposal late in the hearing, Keeley said: "The theory here is, 'Let's use a portion of that (redevelopment) money to stimulate revenues to the general fund, so everyone in the county can get some of the benefits.'

"That sounds fine," he continued, "unless you have to tell people in Live Oak, 'You're not going to get the park we promised, or the drainage (improvements).'

"What projects would be delayed or deleted if we go ahead with this?" Keeley asked.

"You're not going to be losing projects in the redevelopment area as a result of the (proposal) before you," Busch replied.

Two ways to look at auto center deal

SANTA CRUZ — The proposed Skyview auto center deal calls for the Redevelopment Agency to pay $9 million of a $10.8 million, 15-year lease the dealers negotiated with the drive-in's owners, and $6 million to buy the property for the dealers at the lease's end. The dealers' total cost is $1.8 million; the Redevelopment Agency's is $15 million.

The payoff — for the county general fund, not the agency — is supposed to be tens of millions of dollars in sales-tax revenues. By the dealers' estimates, the new auto center will generate $27 million in tax revenues over 15 years. By more conservative county estimates, the tax-revenue yield will be about $21 million over that time.

The auto center proposal's beauty is definitely in the eyes of its beholders.

Viewed from Assistant County Administrative Officer Pat Busch's vantage point, it's a "wonderful economic deal," because two-thirds — $10 million — of the Redevelopment Agency's costs are underwritten by the state and only $5 million comes from the county's general fund. Even by the county's conservative estimate, the sales taxes the auto center is expected to generate will mark a 320-percent return on the general fund investment.

In contrast, it's only a 40-percent return on the Redevelopment Agency's $15 million investment.

The contrast is sharpened when the costs of paying off the city of Santa Cruz not to annex the new auto center are thrown into the deal.

A proposed agreement negotiated by County Administrative Officer George Newell and Santa Cruz City Manager Richard Wilson calls for the county to pay the city $4.9 million over the life of the auto dealers' drive-in lease. Those payments would partially compensate Santa Cruz for the sales tax revenues the city stands to lose if the car dealers leave town. And they would buy Santa Cruz' assent to an agreement that would make annexation of the new auto center by a future city council financial suicide.

If the payments to the city are added to the general fund's share of the auto plaza deal's cost, the county's profit — conservatively — is still $11.1 million, and the return on its investment is 112 percent.

That still looks like a good deal from Busch's office.

But the picture looks different from Redevelopment Administrator Tom Burns' office. From that perspective, the deal's cost is nearly $20 million — $15 million in redevelopment funds and $4.9 million in payments to the city, either from agency revenues or from the general fund.

Looking at the deal from that angle, the county is spending $20 million to make $21 million. The deal's bottom line shrinks to $1 million in profits, and the return on investment shrinks to 5 percent.

— *Steve Shender*