Capitola should refinance, consultant says

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CAPITOLA — The city must refinance a troubled bond deal as well as transfer property to the Capitola Redevelopment Agency, concluded a consultant hired to help the city solve its financial problems.

It's the only way the city can avoid a default and meet its obligations to the other agency, according to Tim Schaefer, senior vice president of Evensen Dodge Inc. of Long Beach.

By refinancing the $10.2 million bond and "selling" the Pacific Cove Mobile Home Park to the Redevelopment Agency, the city will produce "cash flow relief" of about $1.6 million to the general fund this fiscal year, he said in his plan.

The city must also continue to take a hard look at selling other land to boost the cash in the general fund, Schaefer said.

"We believe that the city should continue the process of reducing its property holdings," he said in the report's conclusions. "Since the real estate market is languishing at the present time, 'fire sales' should be avoided."

The report was delivered to Capitola leaders Friday. A special meeting with Schaefer is scheduled for 7:30 p.m. Tuesday.

"The proposal is fine as far as it goes," said City Treasurer Glenn Hanna, the city's most vocal critic. "I just don't think it goes far enough."

Hanna thinks it is critical for the city to sell the vacant lot its owns at Clares Street and Wharf Road. It was recently appraised at $2.4 million.

"We need to sell some of this property that we got," he said.

The money from a sale could reduce the remaining $7.8 million on the bond debt, he said.

Refinancing the debt, Hanna said, will not help the city in the next few years when the city is hard up for cash. He points out the earthquake tax, which is expected to generate about $300,000 to the city this year, ends in March 1997.

Much of the savings in the financial plan, he said, looks to occur in the final years of the debt. Under a refinancing plan, the city's debt will not be paid off until 2005.

Both Hanna and Schaefer agree that refinancing the problem-plagued bond will be difficult.

"First, the city's accounting records have only recently been resolved to a point where they can be published," Schaefer writes.

In addition, the city's credit rating from Standard & Poor's Corp. is at risk of dropping to a level below "investment grade."

These problems exist because the city failed to comply with the terms of 1986 certificates of participation, a form of bond financing. For example, the city misspent $1.45 million of the money to buy the five acres at Clares Street and Wharf Road and spent another $700,000 to buy property on Monterey Avenue for a park. These projects were never listed in the original borrowing agreement. At the same time, approved projects were not done, including building low-income housing.

The handling of the deal by city employees and agents are under investigation by the Santa Cruz County District Attorney's Office.

At the same time, the trust company for the bond has indicated that a formal default notice will be sent if the city is unable to deliver a plan to solve its problems.

Schaefer's report is a first step in implementing a plan for the problem-plague bonds.

He strongly recommends that city officials meet with several bond insurers to try to get bond insurance on the refinancing deal.

Refinancing the remaining debt will allow the city to clean up its problems, and reschedule its payments, including $800,000 due in July.

The refinancing looks like it attempts to take advantage of the drop in interest rates, said Mayor Margaret Fabrizio.

Fabrizio said she anticipates Schaefer making a presentation Tuesday and then fielding questions from the council.

The other part of the plan involves the Redevelopment Agency, which works on improvement projects in the 41st Avenue.

Not only did the city misspend bond money, it also owes the agency about $1.6 million. The money