

# As expected, grim budget news

By BUD O'BRIEN

If Santa Cruz County government was a private business, it would be right on the edge of bankruptcy.

That was the grim, if not entirely unexpected, news the Board of Supervisors heard last Wednesday when it gave final approval to the precariously balanced budget for the 1982-83 fiscal year.

County executives had warned the supervisors during June budget sessions that the figures they were working with at that time were speculative, depending as they did on (1) the budget the state Legislature would finally adopt, and (2) the general state of the economy.

In neither category, as it turned out, did the county make out very well.

County Administrative Officer George Newell told the supervisors that the final state budget would mean about \$500,000 less in revenue than the earlier estimates had anticipated. And the continuing economic recession, according to Newell, Auditor-Controller Art Merrill and Treasurer-Tax Collector Bill Murphy, has eaten so deeply into estimated revenues from other sources that the county's total "shortfall" may approach \$2.5 million.

The general anemia in the national economy

strikes in various ways at the county's economic structure, the men who monitor its financial condition told the board.

The most dramatic example is perhaps occurring in the startling growth in the property tax delinquency rate. As recently as four years ago, Auditor-Controller Merrill said, late payers of their property taxes amounted only to about 5 percent of the total.

The delinquency rate right now is running at about 10.25 percent, he said, and it is estimated that for the coming fiscal year as a whole, the delinquency rate will be at least 11 percent.

Merrill said a quick analysis of the delinquency rate indicates that a large share of the delinquent taxpayers are homeowners who just don't have the money in these straitened times to pay their taxes. But there are a number of businesses that are delinquent, he said, whether because of financial problems or the desire to invest their money in high-interest accounts.

For example, he said one of the 10 largest taxpayers in the county (later identified at the Santa Cruz Seaside Co., operator of the Boardwalk) was two years behind in its tax payments.

Treasurer-Tax Collector Murphy said the

county's ability to force payment from the delinquents is "hamstrung" by state laws that are designed to protect homeowners from quick foreclosures. But he noted that as of July 1 the interest rate on delinquent taxes went up from 1 percent a month to 1½ percent.

The recession, combined with high long-term interest rates, has also cut into county revenues because of its effects on construction, property sales, auto sales, etc. This has in turn meant less income from fees for various county services that are performed in many such transactions.

Ironically, the sudden drop in interest rates over the past couple of weeks has cost the county money, too, because of its effects on the short-term investments the county has been making.

What all this means, at a minimum, according to CAO Newell, is that a mid-year reduction of at least \$500,000 in the budget will have to be made and the necessary reductions over the year could amount to \$2.5 million.

There are two possible sources of added revenue, Newell said. One would come with the "settlement of the county's differences with the city of Watsonville

concerning their redevelopment agencies." Newell said that "Watsonville has taken approximately \$1 million in county funds for its West Side and downtown redevelopment agencies" and that obtaining that money would greatly improve the county's financial outlook.

Newell also said that recent state legislation makes it possible that the county will receive as much as \$800,000 as a "one-time dividend" from the accumulated interest on the Public Employment Retirement System.

Right now, Newell said, he has "tightened" the already existing county hiring freeze, "frozen fixed asset expenditures pending a re-evaluation of all purchases, and have instructed my staff to begin planning for a major mid-year reduction effort."

Auditor Merrill underlined the grimness of the situation by pointing out that the county began the 1981-82 fiscal year with nearly \$3.5 million in carry-over funds, which had dropped at the beginning of this fiscal year to slightly more than \$100,000. That means the county had spent \$3 million-plus more than it took in last year.

Merrill also noted that the CAO's request that the \$1.7 million reserve

fund set aside in June be transferred to "contingencies" — meaning it could be dipped into practically at will — was a tell-tale sign.

He said if the county government were a private business, "I would be telling you that was the first step toward bankruptcy."

The supervisors, two of whom (Gary Patton and Wayne Moore) were absent, approved the budget of \$105 million as submitted, with instructions to Newell to return in October with the reductions made necessary by the latest information.

Newell assured the board that it wasn't his intention to recommend using the reserve funds for some of the impacted programs, but to cut the programs themselves.

And Merrill declared that this was not a one-shot problem, but that indeed worse days lie ahead. He said the real crunch, barring a dramatic upturn in the economy or an about-face by the state in its attitude toward funding local governments, would come in the 1983-84 fiscal year.

The supervisors agreed that there seemed to be no alternative to the county cutting services, perhaps even services that had always been considered critical.