

What Does Selling Land Have To Do With The City's Finances?

For nearly as long as Glenn Hanna has been elected to the ceremonial office of Capitola City Treasurer, Hanna has predicted the city was on the ragged edge of bankruptcy. Hanna's claims having been the fodder for years' worth of headlines in one daily paper. Not that the bad press has appeared to hurt the county's smallest minitropolis.

Except for having to live with a somewhat sullied reputation, Capitola has survived a recession-plagued decade better than most cities keeping streets swept and police forces strong, despite spending nearly \$500,000 on audits, new accounting systems, write downs and consultant studies to satisfy a circle of harsh critics.

What hasn't survived six years of state budget cuts are the city's dreams, nor would they have likely survived had Hanna not won his race by a handful of votes.

Simply put, Capitola government doesn't collect sufficient revenues for the region's smallest city to finish all of the city-sponsored projects once conceived, a kind of

future shock that has taken the better part of the past four years for city residents to accept.

Plans for a library have finally been scuttled. The Rispin mansion won't be developed as a new city community center. And, like most every other municipal government in the state, city officials will have to continue to closely watch spending.

Golden Goose Laid Smaller Eggs Than Expected

The annexation of parts of 41st Avenue in the late 1970s marked the birth of Capitola's commercial district, retail development that hit full stride a decade later with the expansion of the county's only indoor mall and the induction of a bevy of new corporate retailers to Capitola's retail ranks. Of the city's roughly \$6 million in yearly revenues, almost one-half is sales tax revenue.

However, before the city could launch its retail expansion plan, roads had to be built, street lights installed and property purchased.

With the growth in sales tax and the city's redevelopment district in 1986,

Capitola bought into new money for capital projects, about \$10 million in securities which also paid to refinance the city's 1982 bonds.

The securities sale obligated the city to make yearly payments to security holders. In a manner which was common for cities on the leading edge of a boom in commercial development, Capitola's financial consultant suggested that the yearly payments start out low (about \$380,000 in 1987), and get bigger (about \$1.6 million in 2003).

The reasoning for this arrangement was simple. By escalating the payments, Capitola could have the money to both construct projects, like the road necessary for the 41st Avenue expansion, and pursue a number of city projects for residents. That was beside sidewalks and streetlights. Capitola's council of five wanted to dedicate parks, purchase historical landmarks and buy up the last few remaining parcels for future generations, a kind of spending spree that then-Capitola City Manager Steve Burrell told them was in the budget.

In an interview with The

Post in 1994, about a year after his resignation from the city, former City Manager Steve Burrell said that he believed the city's revenue growth would keep up with the payments.

"I always thought there would be enough growth there," said Burrell referring to the gains in sales tax revenue. "My feeling was ... that the true economic impact of the expanded [Capitola] mall and the auto mall and all the other development, it never really showed up, and it would."

Burrell and council members bet on that somewhere at the top end of the city's growth curve, enough yearly revenue would be generated from sales tax that the city could pay off debt and take on additional capital spending projects. And, to their credit, to date they have been able to cover their markers. The problem is now there's no money to develop several of the properties held by the city.

A Lot Accomplished

Not to sell city officials short, Capitola had built a gymnasium and community center, bought and constructed

a parking lot for merchants in Capitola Village without displacing permanent residents of the former mobile home park, purchased the abandoned mansion of city pioneer H. Allen Rispin, laid down miles of new and rebuilt roads, paid for a share of major highway improvement projects, opened parks and bought undeveloped land before money began running short.

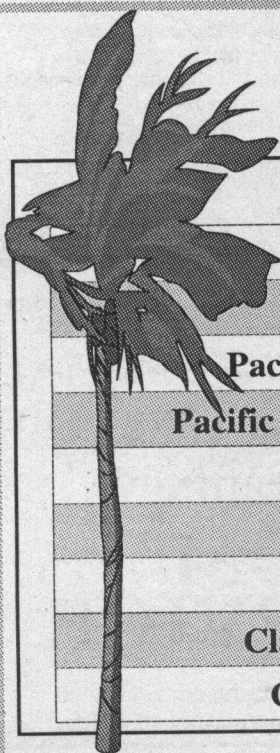
However, with \$6 million in annual revenues, borrowing more money for new capital projects can't be considered, while making payments on the approximately \$8 million in current long-term debt restricts smaller capital projects like the restoration of the city-owned wharf.

The answer to the dilemma has been finally answered this month by city leaders, who have decided to sell some properties to reduce the city's long-term debt. Reducing the city's long-term debt will have the net effect of increasing annual revenues, allowing new small projects to be started.

During the next few months of public hearings, city council members will decide exactly which properties to sell and how to spend the proceeds. □

Money's In The Land In Capitola

1996 Capitola Real Estate Holdings Excluding Cost/Value of Improvements



	Date Purchased	Acquisition Price	Appraised Value
City Hall	1950	\$4,000	\$2,025,000
City Service Yard	1950	\$4,000	\$680,000
Pacific Cove Village Parking	1984	\$750,000	\$1,200,000
Pacific Cove Mobile Home Park	1984	\$750,000	\$810,000
McGregor Shuttle Lot	1984	\$465,000	\$975,000
Rispin Estate	1985	\$1,350,000	\$1,465,000
Monterey Ave. Park	1986	\$700,000	\$1,200,000
Clares/Capitola Road Prop.	1988	\$0	\$1,120,000
Clares/Wharf Road Prop.	1988	\$1,450,000	\$2,455,000