

*Grand Jury*

*Oct. 16 '92*

# Grand jury report critical of county borrowing policy

By KATHY KREIGER

Sentinel staff writer

SANTA CRUZ — The county is borrowing too much money without letting the public vote on it, and is doing it with a financial tool that effectively sneaks around tax limits imposed by Proposition 13, the grand jury said this week in a 14-page report.

County officials disputed the report, saying it was wrong from start to finish.

At the same time, candidates running for two seats on the Board of Supervisors were quick to use the report to criticize the incumbents.

---

## ■ *Grand Jury recommendations — A12*

---

According to the report, the county has borrowed \$109 million in the last two years to pay for jails, parks, data processing equipment and its planned Emeline Street health services building.

Wrong, say officials in the county administrative office.

First, that number mixes redevelopment debts and county debts, said Pat Busch of the CAO's office. Second, he said, most of the recent

*Please see GRAND — BACK PAGE*

# Grand

Continued from Page A1

transactions were refinancing of older debts that saved the county \$2 million and the redevelopment agency \$5 million.

In the last two years, the county assumed only \$28 million in new debts, while the Redevelopment Agency's new debt load was \$18 million, Busch said.

Rather than using general obligation bonds, which require two-thirds voter approval, the supervisors have opted to use what are known as certificates of participation to finance long-term debt.

The certificates can be used without going to voters. All that is needed is approval by three of the five supervisors.

"We're not trying to say anything was illegal or that the money was unwisely spent," said jury foreman Ted Faley. "Many of the projects were worthwhile. Our concern is that it's a way to incur long-term debt without the usual voter approval."

For the most part, the report said, the borrowing goes on without the approval or even the widespread knowledge of the average citizen; there is no upper limit to how much can be borrowed; and the rate of borrowing has increased at an alarming rate.

The report suggests that the county pass an ordinance forbidding the use of the certificates for major projects.

County Auditor Gary Knutson said that is "simply unrealistic."

Many projects are required by the state, Knutson said, and the county needs the flexibility provided by the certificates. It's not realistic, he said, to expect that two-thirds of the voters would approve many of the projects.

"We'd end up with voter rejection of the approval and courts ordering us to carry out the project," he said.

Other projects financed by the certificates — such as the county landfill — are fully repaid by the ultimate users, Knutson said, and take no money from the general fund.

Knutson, however, agreed that the county resorts too often to borrowed money to buy such short-term assets as chairs and computer printers instead of setting aside the money in its annual budget.

Pat Busch of the County Administrator's Office said the certificates are widely used throughout the state. Among California counties, he said, 84 percent of the long-term debt is funded through them. Only 1.54 percent of the debt is funded with general obligation bonds, he said.

The report comes on the heels of a study by a local taxpayers' group charging that county workers are paid more than those in the private sector.

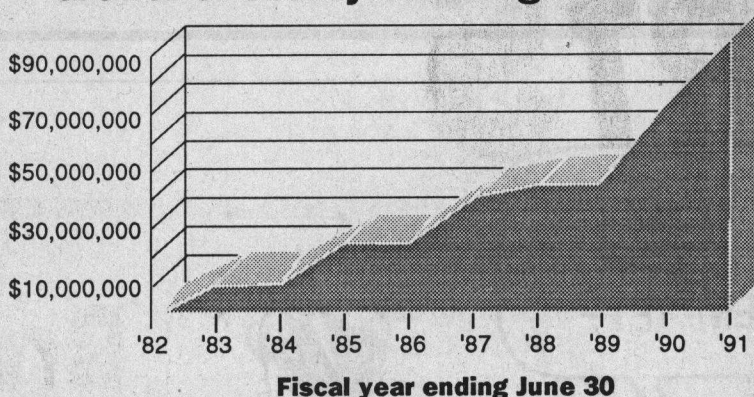
Jury foreman Ted Faley said the grand jury was aware of the potential political fallout from the report.

"It almost caused us to delay releasing it because we didn't want it to be a political issue," Faley said, noting that the jury wasn't singling out any individual supervisor. "On the other hand, we don't know when additional certificates of participation will be issued. We think this information needed to be made public."

Second District Supervisor Robley Levy attacked the report. "The facts are very questionable and the conclusions are very questionable," she said.

Levy said the county has borrowed money for long-term debts in a responsible way, much the

## Growth of County COP long term debt



Fiscal year ending June 30

## Grand jury recommendations

The grand jury's report recommended the following reins on the county's long-term debt:

- Prohibit use of "certificates of participation" to pay for major capital projects. Limit the certificates to short-term loans up to five years, and use the money only to purchase equipment.
- Fund major capital projects with lower-cost general obligation bonds.
- Limit the amount of debt to .2 of a percent of all real and personal property within the county.
- The five supervisors should not continue to serve as the directors of the county Redevelopment Agency, as they do now, but should instead appoint others.
- Establish a committee of four county employees and three residents to oversee the issuing of the certificates.
- Advertise any actions regarding the certificates in local newspapers three to four weeks in advance.
- Use "certificates of participation" issued for a specific project only for that project. If the project falls through, the money should be repaid.

**'Our concern is that it's a way to incur long-term debt without the usual voter approval.'**

— Ted Faley, jury foreman

same as a resident would do in buying a house.

She defended the use of the certificates to repair roads damaged in the string of disasters that hit the county in the 1980s, saying it was the county's responsibility to get the roads repaired "in a timely fashion."

Fifth District Supervisor Fred Keeley criticized the report for confusing county debts with Redevelopment Agency debts. Redevelopment debts don't cost the taxpayer a penny, he said, even if there is default on the loan.

That's only partly true, said Aptos tax critic Doug Kaplan. While Kaplan agreed the county has no technical or legal responsibility, he said it does have a moral obligation to pay the money it borrows.

Keeley contended the real questions over long-term borrowing are "Why did you borrow the money and how much did it cost you? ... Is it important enough to borrow money for flood-damaged roads, to purchase dumps, to get communications equipment for the sheriffs. If the answer is yes, then the only question is whether it was done properly."

All of the money was authorized at public meetings that had been advertised in local newspapers, he noted. In addition, he said, "the budgeting process of the county is one which is entrusted to the elected representatives of the people."

The two challengers for supervisorial seats praised the report.

"The grand jury did an outstanding job," said Second District challenger Walt Symons. "It looks as though they were reading from my platform."

Symons noted that current obligations won't be paid off until the year 2021.

Voters should have a voice in that, he said.

"We are being disenfranchised by the Board of Supervisors putting us into long-term debt which our children and grandchildren will be paying," Symons said.

Fifth District challenger Patrick Dugan said the board had created a shadow government through the county Redevelopment Agency, the Public Financing Authority and the Santa Cruz Public Improvement Corp.

"The grand jury report is a reiteration of the positions that I have taken since long before announcing my candidacy for supervisor," said Dugan. "... (It) is an indictment of the manner in which the Board of Supervisors has chosen to subvert the will of the people."

Dugan, who is running against Keeley, said the report was especially damaging to supervisors Keeley, Levy and Gary Patton. "It is clear evidence that they are out of control and not representing the people of Santa Cruz County. ... They impose financial edicts for which we shall pay and pay dearly."

Kaplan said the report repeated a point he's been trying to make.

"It's wrong that it takes a two-thirds vote of the entire electorate to approve a school bond, but it only takes the vote of three supervisors to borrow \$800,000 to build a homeless center," Kaplan said. "We've neglected the infrastructure of Santa Cruz County. We need to borrow money to rebuild Santa Cruz County but the voters have a right to know what they're borrowing money for."