



Former City Manager Steve Burrell was 1987's Man of the Year; now he concedes mistakes were made that may have brought on Capitola's financial crunch.

Capitola - 1990

Ex-city chief is blamed for Capitola woes

Council angry as fire, police feel effects

Second in a three-part series

By DONNA KIMURA and MARTHA MENDOZA
Sentinel staff writers

STEVE BURRELL was just 31 when he became city manager of Capitola in 1979.

He and Capitola were an ambitious pair.

Two years after his arrival, the city established the Redevelopment Agency, a separate body of city government formed to eliminate blight around 41st Avenue — Capitola's main generator of sales tax revenue.

Officials in nearby Santa Cruz wondered where the urban decay was in serene Capitola.

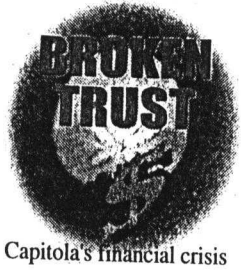
The city and the Redevelopment Agency are supposed to work at arm's length, but in small cities like Capitola it is common for city employees to work on behalf of the agency, and the City Council to sit as the agency's board of directors.

As a result, Burrell simultaneously acted as city manager and executive director of the agency. When Capitola's elected city treasurer died in office in 1982, Burrell assumed that position as well as finance officer for the Redevelopment Agency.

He was both popular and polished. He was named man of the year by the Capitola Chamber of Commerce in 1987. His leadership was credited for bringing about the construction of a \$700,000 community center at Jade Street Park and a \$900,000 community gymnasium at New Brighton Middle School in cooperation with the Soquel Union Elementary School District.

Burrell created projects the public wanted, and members of the City Council, who were asked to approve many of his plans, were rewarded with repeated trips back to office. City Councilman Ron Graves has been in office 25 years; Mick Routh, 23; Stephanie Harlan, nine; Bob Garcia, five; and Margaret Fabrizio, three.

A Sentinel investigation, which has involved examining hundreds of public documents, has revealed that behind the polished veneer, Burrell, with the council's acquiescence, was putting together a complicated



Capitola's financial crisis

"Broken Trust: Capitola's financial crisis" is a Sentinel investigative report explaining how and why city leaders of Capitola squandered public dollars and trust for more than a decade, and what they must do now to remedy the problems. The Sentinel welcomes your comments at 207 Church St., Santa Cruz, Calif. 95969. Fax 429-9620. Email: sentcity@cruzio.com.

SUNDAY: For years, Capitola's leaders have ignored the law and misspent millions of dollars. Now the city's only bond is in default, and what was once the wealthiest community in the county is facing major cuts.

TODAY: Capitola's former city manager Steve Burrell moved to Southern California three years ago, just as proof was emerging that he made grave, and possibly illegal, mistakes with city money. Now in his first-ever interview since leaving office, Burrell takes the blame for problems that may have harmed public safety and public schools.

TUESDAY: Just finding out what exactly went wrong in Capitola is going to cost taxpayers thousands of dollars. In addition, Capitola's leaders face fines, public scrutiny, and possible prosecution for the way city money was borrowed, loaned and spent.

series of financial maneuvers.

In 1986, the city issued \$10.2 million in certificates of participation, a form of bond financing. The certificates are sold to investors with the proceeds going to finance public projects.

Part of the proceeds were intended to fund projects by the new Redevelopment Agency.

What was a shining bond deal has become tarnished with problems.

The now-defunct Pacific Trust Company of San Jose was required to set up six accounts for the different projects. It never happened. Instead, the money was mixed in one account, and a \$1 million reserve fund was not established.

City officials have blamed the problems on the trust company.

"It is very clear that Pacific Trust Company failed to perform its required duties as trustee and co-mingled the money which it held in trust for this COP issue with other money it held in trust for the City of

"Our critics today want us to be more expert than the experts."



City Councilman
Mick Routh

"Sure. Might as well (take the blame.) Ultimately, the city manager is responsible for everything that goes on."



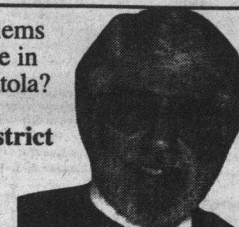
Former City Manager
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City Treasurer
Glenn Hanna

"Will these problems make a difference in fire safety in Capitola? Absolutely yes."
Central Fire District board member Bob Allen



"You cannot loan money on my behalf without my official sanction, and I would be surprised if we agreed to anything."
Soquel Elementary School District Superintendent Carolyn McKennan



Capitola finances

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Capitola," wrote City Manager Susan Westman in January. The former planning director, she replaced Burrell, beginning in 1993.

City records show Burrell had asked city staff to review accounts in 1990. The internal audit concluded that Pacific Trust owed Capitola \$50,000. No one seemed to notice that there was no \$1 million reserve. Later that year, Burrell accepted a \$50,000 check from Pacific Trust as a settlement and agreed to hold Pacific Trust harmless for any other errors that might have been made.

With no discernible boundaries on accounts, more than \$2 million was misspent on projects not listed in the 1986 agreement while other promised work was not done.

For example, when five acres at Wharf Road and Clares Street became available in 1988, the city paid \$1.45 million for the land with plans to use the property for low-income housing on behalf of the Redevelopment Agency.

It appears the only large pool of money available was unspent funds from the 1986 certificates, so Burrell used it to buy the land, according to a memo by Standridge.

Burrell agrees.

"There's no question about that," he says, explaining he believed at the time it was a proper use of funds.

The money, however, was never meant to buy this land. In addition, affordable housing has yet to

ing the city could use redevelopment money to buy it as long as funds were put aside for affordable housing.

"We now know it was inappropriate sources," Graves says.

The one thing the council could be blamed for is putting too much trust in staff, he says.

Others on the council say they can't recall the details of a purchase that took place seven years ago.

On his office wall at City Hall, Burrell kept a list of projects the city had going on, remembers Harlan.

In hindsight, the City Council should have reviewed the listed projects and their funding annually, she says.

"The city was moving too fast," Harlan says. "The city manager didn't stay on top of it, the record keeping. There's no assistant manager. Steve was doing everything."

Graves says he's "mad as hell" over the city's problems, but would be even angrier if money was missing.

His longtime colleague on the board, Routh, agrees.

"No money is missing," he says. "Money was spent from one fund instead of another. It needs to be put back."

City Treasurer Hanna, who began questioning the city's financial practices soon after his election in 1992, says there is no missing money, but there may be lost money. He says the city lost about \$600,000 in interest because

"We put a lot of faith in Steve," Graves says. "He did many, many projects Capitola can be proud of."

In a June 12 telephone interview, Burrell says he deserves the blame for Capitola's financial crisis.

"Sure," he says. "Might as well. Ultimately, the city manager is responsible for everything that goes on."

Burrell had come to Capitola in 1979 from Hermosa Beach. In late 1993, he left Capitola and his \$92,000-a-year job to become the top administrator of Hermosa Beach, where he agreed to a salary of \$87,600. His departure came not long after Hanna began questioning Burrell's management.

When he left Capitola, he received about \$60,000 for unused sick days and vacation, according to city authorities.

Burrell answers that the time was right to leave. His daughter had just graduated from high school, and Hermosa Beach was a return to his native Southern California.

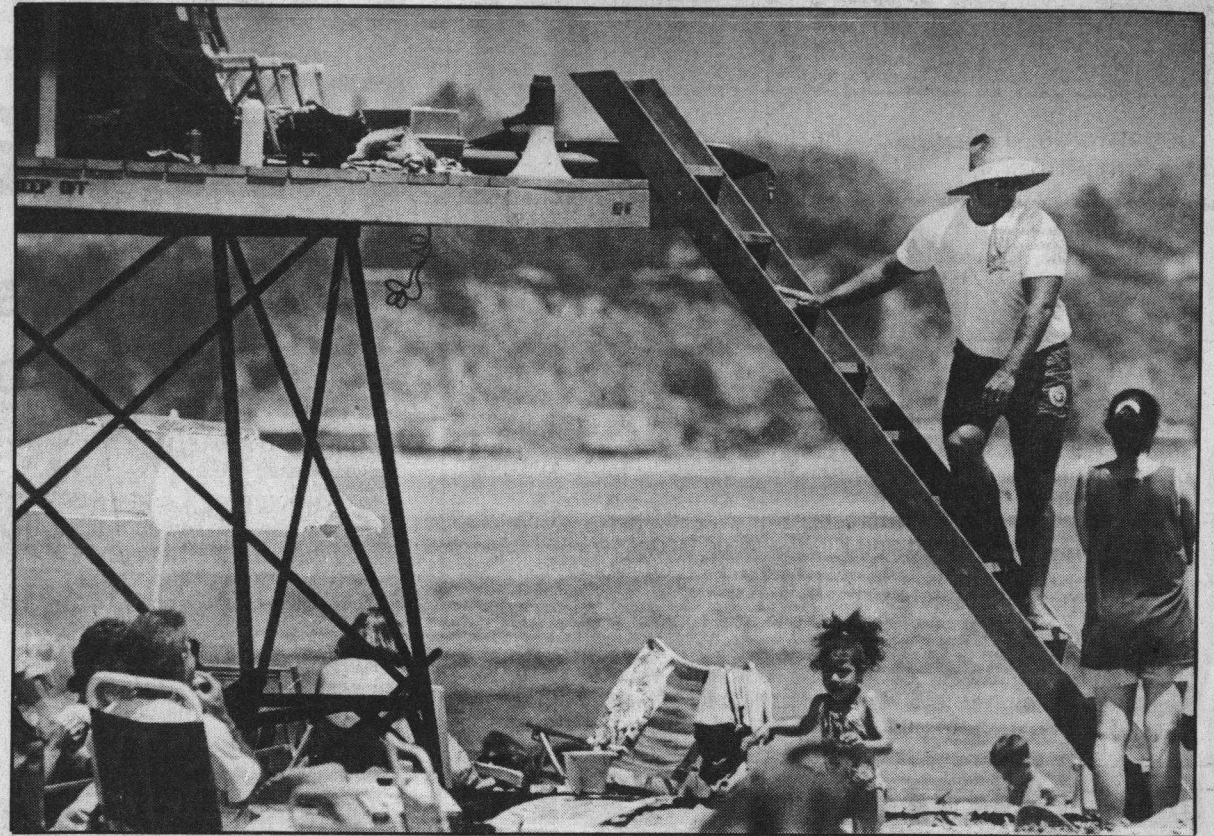
Hanna remembers all the hats that Burrell was wearing in Capitola and all the financial deals taking place.

"It was kind of like the Wizard of Oz," he says. "This was done with smoke and mirrors and a man behind the curtains."

Services jeopardized

POLICE AND LIFEGUARD services are facing cuts, and fire department administrators say they've already been shorted money.

"Will these problems make a



Bill Lovejoy/Sentinel

Derek Alderson, a Capitola lifeguard for six years, on duty Friday afternoon. Financial problems could force cuts in the city's lifeguard services.

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recreation program left, taking with her the bountiful city of Capitola departure package — more than \$40,000 in unused sick and vacation pay.

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"There's no question about that," he says, explaining he believed at the time it was a proper use of funds.

The money, however, was never meant to buy this land. In addition, affordable housing has yet to be built.

To add to the troubles, the property was placed in the name of the city and not the Redevelopment Agency.

The problems go deeper.

City Accountant Richard Standridge, who was hired in September, further found that city officials were transferring all of the agency's money to the city's general fund for the past several years.

These transfers were supposed to be repayments for bond money the agency borrowed and for the property at Clares Street and Wharf Road.

The trouble is that several projects were not done and the agency did not own the land so there was no debt. As a result, the city had been overcharging the agency for those costs as well as undocumented administrative fees. The city now owes the agency about \$1.5 million.

A City Council that included current council members Graves, Routh and Harlan approved the purchase of the Clares Street/Wharf Road property. Westman was the planning director at the time, and Richard Manning, the city attorney.

They all have come under heavy fire for the city's troubles by City Treasurer Glenn Hanna and from a group of citizens that began asking questions about the city's finances in 1993. The group includes Tony Bugge and Mary Vaage. Both ran for the council last year calling for more financial oversight, but they lost. In the same election, Graves was re-elected to a seventh term.

The veteran council member says he remembers riding in a car with Burrell past the Wharf Road property in 1980s and Burrell say-

"No money's missing," he says. "Money was spent from one fund instead of another. It needs to be put back."

City Treasurer Hanna, who began questioning the city's financial practices soon after his election in 1992, says there is no missing money, but there may be lost money. He says the city lost about \$600,000 in interest because it did not have the proper \$1 million reserve account for the bond proceeds.

Routh defends the council, saying it has made good decisions for the city.

At a recent council meeting, Routh displayed a 1992 appraisal that values the property at Clares Street and Wharf Road at \$6 million.

The city made good land purchases that have become parks, parking lots and other valuable assets, he says.

They were projects the community wanted, stresses Routh.

A councilman since 1972, Routh said he had been considering calling it quits when his sixth term expires next year. Hanna and other critics, however, have him so steamed he is weighing another run at the council.

"As to all those things taking place, the council received assurances it was legal and proper," he says.

"Our critics today want us to be more expert than the experts."

City attorney Manning says he wrote up the purchase contract based on the instructions he was given from Burrell.

"I don't interrogate him and say, 'You sit down and tell me how you are going to pay for this,'" says Manning, adding that it would make as much as sense as him going to the public works director, finding out what projects are going on and then supervising it.

An appraisal on the Clares/Wharf property was prepared for Westman, but she says she was not involved in working out the funding.

Despite the problems, the council members still stand behind Burrell.

with smoke and mirrors and a man behind the curtains."

Services jeopardized

POLICE AND LIFEGUARD services are facing cuts, and fire department administrators say they've already been shorted money.

"Will these problems make a difference in fire safety in Capitola? Absolutely yes," says Bob Allen, member of the Central Fire District board. Central Fire's jurisdiction includes the city of Capitola.

Allen says the fire department fronted money to the city, and the city kept it.

In 1982, fire department administrators agreed to allow the city's Redevelopment Agency to collect all new taxes for a decade, instead of allowing the money to go to schools, the fire department, libraries and the general fund. The taxes would be used to develop new commercial businesses near 41st Avenue.

During that time, the fire department's budget remained flat while a cow pasture near 41st Avenue was developed into a booming, vibrant mall.

A deal negotiated between fire and city officials, said the fire department would receive its share of taxes, or a piece of property for a new fire station, after the 10 years were up.

Three years ago the fire department asked for its money. Stormy debates and eventually litigation ensued about exactly how much money had been paid in taxes. City and fire department administrators settled in 1993, and the city agreed to pay the fire department about \$776,000 over the next 10 years. The fire district gets its first payment this month.

Now Allen says there is enough new information coming from accountant Standridge to warrant another look at the books. He would like more money, to pay for more firefighters, fire engines, a new firehouse roof, and other equipment.

"The new development has pushed us awfully close to need-

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— *Stephanie Harlan, councilwoman*

ing an entire new truck company," said Allen. "When you're protecting an area as big as the mall, you need to have people standing by all the time."

Police captain Tom Hanna (who is not related to City Treasurer Glenn Hanna) says his department has lost one police officer from the 14-member patrol force.

That cut, he says, jeopardizes officer safety and public safety.

Council members had hoped to maintain staffing for police.

"Public safety is a top priority," says Councilman Routh. But even the lifeguard funding is tenuous.

The Lifeguard Department, which provides one supervisor and three lifeguards to the Capitola Beach, reduced its program to Memorial Day through Labor Day. In the past, lifeguards had patrolled the beach from early spring through nice weekends in the fall.

On June 19, City Manager Westman wrote to redevelopment agency attorney David Beatty in Sacramento, asking what would happen if she reopened negotiations with the fire department.

The City Council is deciding this month whether to cut police. And the fire district board will be deciding later this summer whether to take the city to court to get more money.

Schools drawn in

THE FINANCIAL PROBLEMS may hit children as well.

Fifteen years ago, the City Council members shook hands

with the Soquel Elementary School District trustees and formed a joint powers agency, which would provide parks, gyms, sports teams and classes for Capitola's youngsters. Or at least they thought it would.

Once again, Burrell was in charge, and once again, the book-keeping was not quite in order.

None of the required forms were ever filed with the Secretary of State. The agency was not audited each year, as required. There wasn't even a separate bank account.

All the fees that parents paid for the community classes — from watercolor painting to junior lifeguards — were slushed into the city's general fund, and then paychecks for the four employees were cut from the city's payroll.

A ledger at City Hall kept track of what came in and what went out of the JPA.

The city and the school district agreed to pay \$12,000 a year to the agency. That money went into the city coffers.

"This was a real grassroots effort when it got started," says Jim Maxwell, an original member of the JPA. "In hindsight, I guess we should have set up a different bank account, but then we would have had to get a treasurer and auditor and all that."

At first, there were no problems with this haphazard arrangement.

But around 1990, a chain of events soured the finances.

First, the employee heading the

recreation program left, taking with her the bountiful city of Capitola departure package — more than \$40,000 in unused sick and vacation pay.

Then the school district hit financial straits and cut its contribution in half, to \$6,000 a year.

At the same time, the economy took a downward swing, and fewer children signed up for classes.

The city continued paying the salaries and benefits of the four employees.

The city kept paying for the annual recreation class brochure to be printed.

And the city still offers the programs. Teens will learn to be lifeguards this summer, children will dabble in art classes, and senior citizens will exercise.

Last year, when Standridge began reviewing the books, he found the city might have advanced \$125,000 to the JPA. Now Capitola city leaders are squeezed as well, and say they want their money back.

Standridge is recommending the JPA "execute a promissory note payable to the city for the repayment for these advances."

He plans to look for proof of a loan later this year.

Half of that money, according to city documents, would come from the school district.

Soquel Elementary School District Superintendent Carolyn McKennan has no money to pay Capitola. Students in her five schools receive about \$54 less a year than most students in the state. Just a few weeks ago, local property owners rejected a proposal to increase property taxes \$19.50 a year to pay for schools. She's not about to pay back any money without firm proof that it is owed.

And there probably isn't much proof.

"You cannot loan money on my behalf without my official sanction, and I would be surprised if we agreed to anything," she says.

The JPA is scheduled to meet June 29 to continue hashing out an agreement.