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Santa Cruz suffers drop in tax base

Quake, recession cut sales by 11 percent; city is faced with layoffs, fewer services

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Battered by earthquake damage, the recession and the loss of car dealerships, Santa Cruz has seen its sales tax base shrink 11 percent since 1989. It is the largest drop of any city in Santa Cruz County during the time period, 1989 to 1992.

Santa Cruz businesses recorded \$437.9 million in taxable sales in 1992, down from \$491.9 million in 1989.

Those numbers, contained in a memo last week from city Finance Director Jack Ness to Santa Cruz City Manager Dick Wilson, highlight a deepening concern of city leaders, who are searching feverishly for ways to bring more sales tax money into the city treasury to avoid layoffs and further cuts in municipal services.

"It has been a major problem," said Vice Mayor Scott Kennedy. "Progressives have had to take economic factors much more seriously than we have in the past."

Sales tax makes up nearly one-fifth of the revenues in Santa Cruz's \$30 million general fund, more than property tax, parking tickets or any other source.

Members of the liberal-dominated city council were criticized before the 1989 Loma Prieta earthquake for giving business development less attention than social programs. Today, many liberal leaders are seeking out and supporting projects such as a proposed Costco store in Harvey West industrial park, which would add 130 jobs and \$600,000 a year in new sales taxes for the city.

Sales tax statistics portray Santa Cruz as a city where entertainment spending is on the increase and shopping for general merchandise has plummeted.

Auto sales and repair, for example, totaled \$146 million in 1989. Three years later, in 1992, they were at \$100 million.

The reason: Santa Cruz has lost five car dealerships since the late 1980s. Most moved to Capitola to a new auto plaza off 41st Avenue.

Similarly, spending on furniture, appliances and building materials fell from \$50 million in 1989 to \$40 million in 1992. That loss reflects poor business at major stores, including Haber's furniture downtown and Burdick's appliance store on Soquel Avenue, both of which recently closed.

Clothing sales also are down, from \$12 million in 1989 to \$8 million in 1992. The earthquake destroyed the city's two department stores, Ford's and Gottschalks. Both are gone for good.

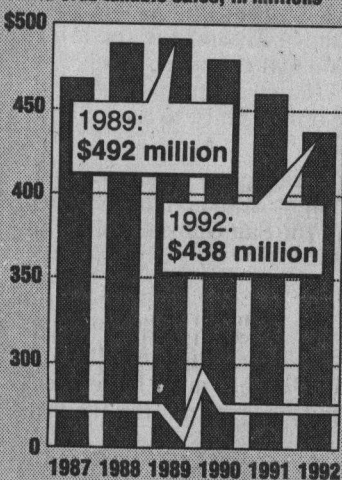
Booming in their place are new specialty boutiques, coffeehouses and restaurants.

"Many of us bemoan the fact

Shrinking sales

Battered by the earthquake and recession, Santa Cruz's retail businesses have sold fewer goods every year since 1989.

Santa Cruz taxable sales, in millions



Source: Santa Cruz Finance Department

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that you can't buy a refrigerator, towels or sheets in downtown Santa Cruz anymore," said former Mayor Mardi Wormhoudt, director of the Santa Cruz Community Credit Union.

Businesses that have shown improvement since 1989 include restaurants, food and liquor outlets, miscellaneous retail shops and drugstores.

Sales tax in Santa Cruz County is 8.25 percent. Cities get 1 percent, and most of the rest is taken by the state. A temporary half-cent sales tax measure was approved by voters in 1990 and brings in additional dollars.

Only Watsonville has suffered losses on a par with Santa Cruz. Since 1989, total taxable sales there have fallen from \$280 million to \$257 million, a drop of 8.2 percent, according to the State Board of Equalization.

Unincorporated Santa Cruz County has remained flat. Taxable sales of \$417 million in 1992 are similar to 1989 totals of \$420 million.

The county's boom towns are Capitola and Scotts Valley. Both suffered little damage in the earthquake and are run by development-minded city councils.

In Capitola, taxable sales increased 26.5 percent, from \$257 million in 1989 to \$325 million in 1992.

Scotts Valley sales were up 34 percent, from \$111 million in 1989 to \$149 million in 1992.

Sales tax will be among the top issues Nov. 2 when the Santa Cruz City Council votes on the Costco plan. The company projects \$60 million in sales during

its first year, which would single-handedly raise Santa Cruz's sales tax base to pre-quake levels.