

Capitola - 1990

Capitola urged to sell land to pay debt

By DONNA KIMURA
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CAPITOLA — Capitola leaders must take a hard look at selling valuable city property to ease its debt, a financial consultant advised Thursday.

Selling land appears to be the city's best, perhaps only, option because the prospects of refinancing a troubled \$10.2 million bond from 1986 look unlikely, said Tim Schaefer, senior vice president of Even-son Dodge Inc., of Costa Mesa.

Capitola was issued a notice of

default on the bond in April and still owes about \$8.4 million to bondholders.

"My basic belief is the city has to work real hard to dispose of excess assets," he said at a special City Council meeting.

At the same time, officials must beware of cash shortages when bills come due, he said.

He warned council members of a potential "serious liquidity crisis."

A roughly \$1.5 million debt to the Capitola Redevelopment Agency, he said after the meeting, called attention to the problem.

The city, however, isn't about to go bankrupt, both Schaefer and City Treasurer Glenn Hanna agreed.

Armed with 28 years of experience in finance, Schaefer was hired in May to help the city find solutions to the problems with the 1986 debt.

The proceeds from the sale of the bonds were to refinance two earlier debts, build seven units of low-income housing, spruce up streets near 41st Avenue and buy a right-of-way for a loop road joining 41st Avenue with Capitola Road.

'In my opinion, take some bold, brass-knuckle, in-your-face steps.'

— Tim Schaefer, financial analyst

The city, however, misspent \$1.45 million to buy five acres at Wharf Road and Clares Street, spent another \$700,000 to buy property on Monterey Avenue for a park and used \$266,000 to pay other debts. There was no "substitution

clause" in the bond agreement which would have allowed the city to spend the money on other projects.

"It looks like it was put together with a rake," he said, referring to the bond agreement.

Borrowing money to repay the debt appears unlikely, said Schaefer, because lenders look at the city's financial strength and its track record. At this point, Capitola doesn't have the "clean house" necessary to sell new bonds, at least at a good interest rate, he said.

The other option, he said, is to sell land to pay off the debt. He named nine city properties that he reviewed as possible assets to sell — City Hall, Rispin Mansion, Mon-

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terey Avenue Park, the McGregor Drive shuttle bus lot, the city corporation yard, the Clares Street and Wharf Road property, the Pacific Cove parking lot, the gymnasium at New Brighton Middle School and vacant property at Clares Street and Capitola Road.

Many of those, he said, the council probably isn't interested in selling or are pledged to bondholders.

Schaefer, who will prepare a written plan by Aug. 31, said council members need to prepare a list of sites to sell.

In one scenario, he said, selling the two Clares Street properties and the shuttle lot will generate about \$5.8 million based on their last appraisals.

If the city used that money to pay the Redevelopment Agency, it would still have about \$4 million for the debt.

That cash, he said, may tempt bondholders into allowing the city to negotiate an amended agreement that will help the city get out of default.

"In my opinion, take some bold, brass-knuckle, in-your-face steps,"

Schaefer said.

He praised the city for taking a major step in obtaining a necessary 1993-94 audit. City officials had intentionally delayed the financial report for a year to get their records in order for an accurate report.

Hutchinson and Bloodgood, certified public accountants of Watsonville, however, cited uncertainties in several areas of the city's finances.

"It is trench warfare that produces this — the audit, the score sheet," said Schaefer.