

Kaiser Foundation buys Saga headquarters, p. 3

Palo Alto Weekly

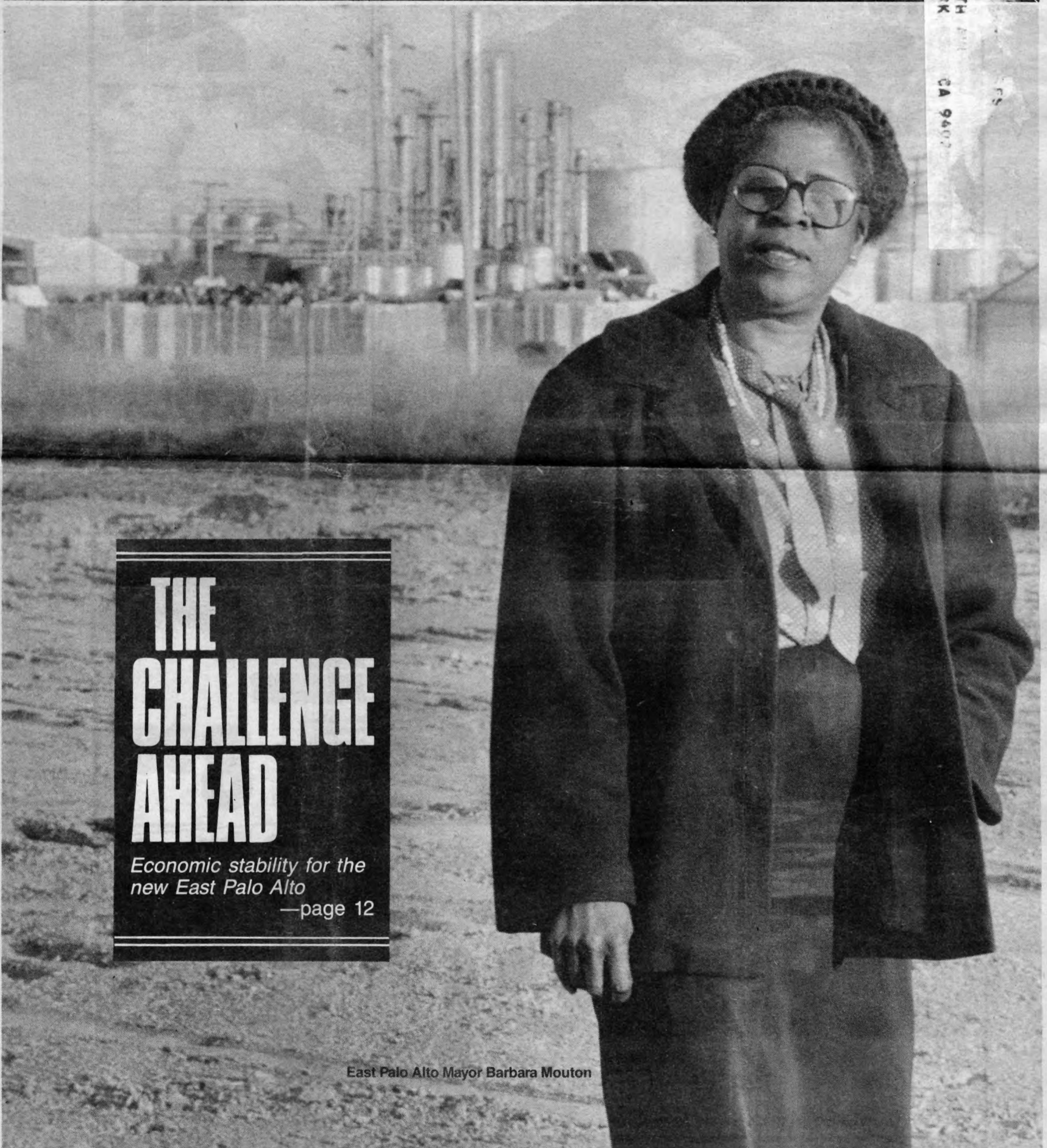
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**THE
CHALLENGE
AHEAD**
*Economic stability for the
new East Palo Alto*
—page 12

East Palo Alto Mayor Barbara Mouton

Story by Don Kazak
Photographs by Renee Burgard

For several decades, East Palo Alto has been the Midpeninsula's anomaly: a mostly black, mostly poor community amidst a mostly white and affluent suburbia. As Silicon Valley grew into a world leader of the high-tech revolution and land values soared, East Palo Alto remained almost stubbornly depressed, an island of economic poverty surrounded by economic plenty—an island seen by white workers as they passed through on their way to and from the Dumbarton Bridge.

Today East Palo Alto is no longer the unincorporated community dependent upon San Mateo County government. Since incorporation in 1983 it has been its own city, governed by its own elected city council. The lawsuit challenging the incorporation election is a dead issue, thanks to the recent U.S. Supreme Court decision not to hear the case.

But the question that arose during the incorporation fight remains today: can the city of East Palo Alto attract the economic development that will support city services and allow it to grow into an economically healthy community?

The Weekly learned late last week that a commercial development of startling magnitude may soon be proposed by private developers (see story on facing page). If and when the project comes to fruition, it could be exactly the shot in the arm that the city needs to achieve respect and stability. But with or without the project, East Palo Alto is fighting a legacy of perceptions as a crime-ridden community

of poverty, regardless of the fact that the truth today may be somewhat different from its reputation. The young city has already had some success, but must come some distance to break that legacy of perceptions.

Danny Nelson couldn't believe his eyes, he says now. He had been hired as East Palo Alto's first police chief in December, 1984, and given until the following July to hire, train and organize a department to take over police functions from the San Mateo County Sheriff's Department.

Soon after he was hired, he went out for a ride to take a look at the town and, barely a few hundred feet from the police station, drug dealers were walking amidst rush hour traffic stopped on University Avenue at Bay Road, selling their wares openly to mostly white motorists passing through.

"It was disrespectful," Nelson says now.

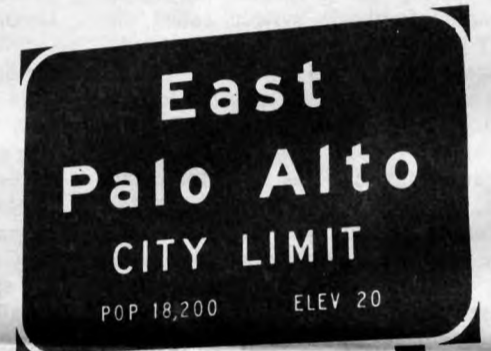
It was also a notorious symbol of East Palo Alto—the dealers would hang out at the boarded-up, desolate former shopping center at Bay and University, itself a symbol of the economic blight of the community, and be a constant reminder of the crime that made East Palo Alto a place to largely avoid, or to pass through quickly.

"You have to break the pattern," Nelson says now, adding that he had never seen anything like that corner at Bay and University in his 19 years as a cop in Richmond, a tough town in its own way.

Breaking the pattern is what the city of

THE CHALLENGE AHEAD

With incorporation battles behind it, East Palo Alto is now setting out to improve its image and attract the development that will ensure its future.



What is now East Palo Alto's Civic Center, the county services building, is flanked by the former Bank of America branch (left) and the edge of the boarded up Nairobi Shopping Center (right), symbols of the community's economic blight.

Renee Burgard

East Palo Alto has been trying to do ever since the June, 1983 incorporation election resulted in a narrow, hotly disputed victory for incorporation. The pro and con rhetoric had been debated for years, with the opponents of incorporation arguing that the city needed to attract some economic development to build a healthier tax base before it could hope to become a self-sufficient city.

Advocates of incorporation argued instead that incorporation would give the people of East Palo Alto more local control and the ability to more directly attract economic development.

With the legal challenges to cityhood past, the question remains: was it the right decision to incorporate a largely impoverished city with little industrial development, where more than half the households have incomes below 50 percent of the county median family income?

Any quick answer would seem to be premature.

On the one hand, there has been no new economic development in East Palo Alto since incorporation. Indeed, there was some loss when Wells Fargo Bank and Glendale Savings closed their East Palo Alto branches, joining the vacant Bank of America branch and leaving the city without a bank or savings and loan.

On the other hand, the city government is solvent, although operating on a meager \$5 million budget with a deficit that is eroding the start-up funds provided by San Mateo County. And even though nothing new has

been built yet, the city government, which had to build itself first, is setting into place the mechanisms to help bring economic development about, city officials hope.

The city passed its first General Plan last December, determining development priorities for all areas of the city, and will spend much of 1987 working on a redevelopment plan that the city, acting as a redevelopment agency with access to special funding mechanisms and powers, can use to take a more aggressive role in promoting development.

And, in attempting to, in Police Chief Nelson's words, "break the pattern," the city is waiting and hopeful for one successful development that will send a message to bankers and developers up and down the Peninsula that new development is possible and profitable in East Palo Alto, something that can't be proven until it is done.

Whether or not the commercial project that reportedly will be proposed within the next two weeks to the City Council materializes and sends the desired message, almost everyone agrees that the city's crime-ridden reputation has made it extremely difficult to attract development. There is the story, told for years now, about the executive of a Silicon Valley company who at last agreed to build a plant in East Palo Alto. But, when he drove into town, parked his car, and went inside for a meeting to finalize the deal, his car stereo was stolen. No new plant.

One Palo Alto real estate developer said



Renee Burgard

Mayor Barbara Mouton helped lead the effort for incorporation and now must help lead the young city into attracting economic development.

he had been involved in three or four attempts, over the years, to get viable projects going in East Palo Alto without success. "We couldn't get the money together," the developer, who wished to remain unidentified, remembered. "We tried to talk to joint venture people, but there's enormous frustration on crime and prejudice issues. People don't want to go over there. The disparity in land values (between East Palo Alto and nearby communities) is tremendous, but it will take one successful project to change people's thinking."

While several developers say that it is difficult to get a financial institution interested in putting up money for an East Palo Alto project, East Palo Alto Mayor Barbara Mouton goes a step farther. "We've been red-lined by the banks," she says.

One developer who is trying to put together a small housing project in East Palo Alto relates the difficulties he's gone through. "There's no real history of recent development in East Palo Alto," he said, "so when you say you want to build there, (the banks) say why? There's no on-going track record and who wants to live in that area, so they're not going to make the loan."

The developer, who didn't want to be identified because of his on-going relationship with the banks involved in his other Peninsula projects, said he went to three banks to obtain loans for his proposed project. "We weren't turned down per se," he said, "but they kept on wanting more and more documentation until it became clear

they weren't that interested."

The developer said his project will be going forward, since he has obtained financing from an investment group ("at a higher rate"). "After we get the project built," he said, "it will hopefully demonstrate that East Palo Alto shouldn't be red-lined."

One long-time Peninsula banker, who also declined to be identified, admitted that there is some discrimination going on. "But it's not official red-lining," the banker said. Instead, "it's more of a subconscious red-lining." The real culprits, he thought, are Realtors and real estate agents who steer clients to what they think will be more favorable (and higher-priced) cities and neighborhoods on resales of existing houses. "They still do it subjectively," he

East Palo Alto at a glance

Population: 18,191
Households: 6,725
of City Employees: 93
86-87 Annual Operating Budget: \$4,900,000
Government: 5 member City Council,
City Manager
Average Household Income: \$16,621
Home owners: 40%
Renters: 60%

said of real estate agents.

Carl Schmitt of University National Bank in Palo Alto, meanwhile, played down the effect of red-lining and instead claimed that East Palo Alto's economic situation and perceptions in general have been the cause of sluggish economic growth. The irony, he admitted, is that just across the city line in the eastern portion of Menlo Park, which is also a largely poor, largely black area, things are being built and the area, while relatively poor, is at least developing. The difference, Schmitt thinks, is in the confidence developers, bankers and companies have in a city like Menlo Park that has a track record.

"The (real estate) market is based on perceptions," Schmitt explained. Before he started University National Bank in 1980, Schmitt worked at a local Wells Fargo branch and helped fund 10 to 15 small business start-ups in East Palo Alto, and he explained a banker's role in economic development. "A lender wants to see strong leases (tenants)," Schmitt said of new commercial developments, "because the leases pay back the loans. You are financing the lease, not the bricks and mortar. It is the quality of the income stream (from the leases) that makes a project financable."

Schmitt says that East Palo Alto is "a community in transition, and it's going to be in transition a long time," with progress coming in "small increments."

Scott Carey, who heads the commercial Palo Alto Weekly • March 4, 1987 • Page 13



Renee Burgard

The East Palo Alto City Council, (from left) Warnell Coats, John Bostic, Mayor Barbara Mouton, Vice Mayor James Blakey, Jr. and Ruben Abrica, haven't healed the divisions still evident from the bitter battle over incorporation.

High rise development for East Palo Alto?

by Don Kazak

East Palo Alto officials are close to announcing an agreement with DeMonet Industries of San Mateo that would bring to the city one of the largest commercial developments on the Peninsula.

Acting City Manager James White, who declined to name the site of the proposed development, told the *Weekly* last week that the project being discussed would include a 250-room hotel and two 20-story office towers, totalling more than 1.2 million square feet of commercial and retail space. The project would occupy about 11 acres and it would create more than 4,000 jobs.

The East Palo Alto City Council is expected to release details of the development within the next two weeks, according to several sources.

To put the massive size of the proposed development into perspective, all the buildings at the Stanford Shopping Center total 1.3 million square feet, ac-

ording to Palo Alto Planning Director Ken Schreiber. And the Palo Alto Square office complex at Page Mill Road and El Camino Real totals 240,000 square feet, he said, making the East Palo Alto project equal to six Palo Alto Squares.

The 20-story towers would be considerably taller than anything in Menlo Park or Palo Alto. The tallest building in Palo Alto is the 14-story office building at 525 University Ave. Palo Alto's City Hall at 250 Hamilton is eight stories, or about one-third the height of the proposed East Palo Alto buildings.

Buildable 11-acre sites in East Palo Alto include one tract near the Bayshore Freeway and another in the Ravenswood Industrial Park, although the latter site would need an access road built to the Dumbarton Bridge access road system.

A project of this magnitude is unprecedented locally, and at an estimated value of \$300 million, would double the value of all the real property now in East

Palo Alto.

Assuming the project goes ahead, the developers would face negotiations with city officials, an extensive environmental impact report (EIR) would have to be prepared, which could take as long as a year, and then the project would have to go through the Planning Commission and City Council for approvals. The environmental impacts of such a project, especially traffic impacts, would be considerable and could be a point of contention in the EIR study process.

Even if the project is proposed, approved and built, there is no guarantee of its success, according to other developers and bankers who note that there is an office glut in Silicon Valley now, although office space in the Palo Alto-Menlo Park area is faring better because of what is considered the prestige of having an address in those towns, and the East Palo Alto project would be relatively close to downtown Palo Alto. ■



Renee Burgard

Mayor Barbara Mouton and great-grandson George Jermeine take a look at the old Ravenswood High School site, soon to be the home of the city government.

division of Cornish & Carey, agrees with others that perceptions of the community—and crime—play a strong role in the future of East Palo Alto. "They've got a difficult road ahead of them," Carey said, "there's no doubt about that. But they've also got the structure (city government) in place."

As a developer, Carey said, "you want to make sure that your investment is going to pay off 10 or 15 years down the line." And, for that to happen, he said the city government has to provide "logical, stable and consistent development."

One of the first steps to doing that, Carey thinks, is for the city to "stabilize the city government," which gives developers some certainty regarding the approval process.

Virgus Streets, an economic development consultant to the city, says that the "redevelopment agency will be the key to economic development" because it can use powers of eminent domain to take over blighted properties, can use financing with tax incentives, set up assessment districts, and use industrial development bonds.

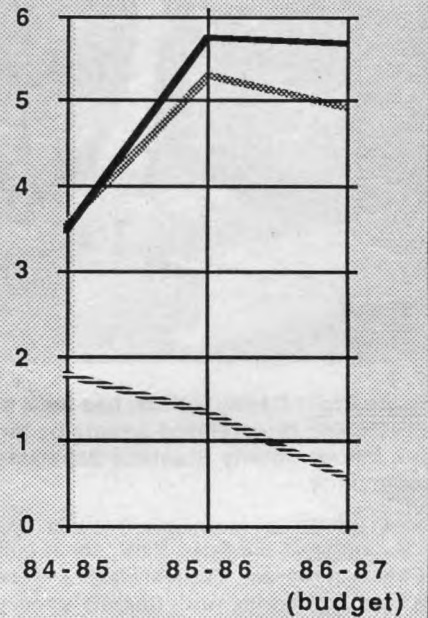
Streets said that the city is attempting to win designation from the state as a "high density unemployment area." If it wins that designation, local businesses would become eligible for state funds and small business loans, and local industries would have priority for receiving state contracts.

The raw numbers suggest that there is the potential for successful development, once the status quo of blight and the alleged hands-off policy by financial institutions ends. On a Midpeninsula running out of vacant land and where land values are soaring, East Palo Alto has a lot of vacant land zoned for industrial development.

There are 143 acres of land in an area

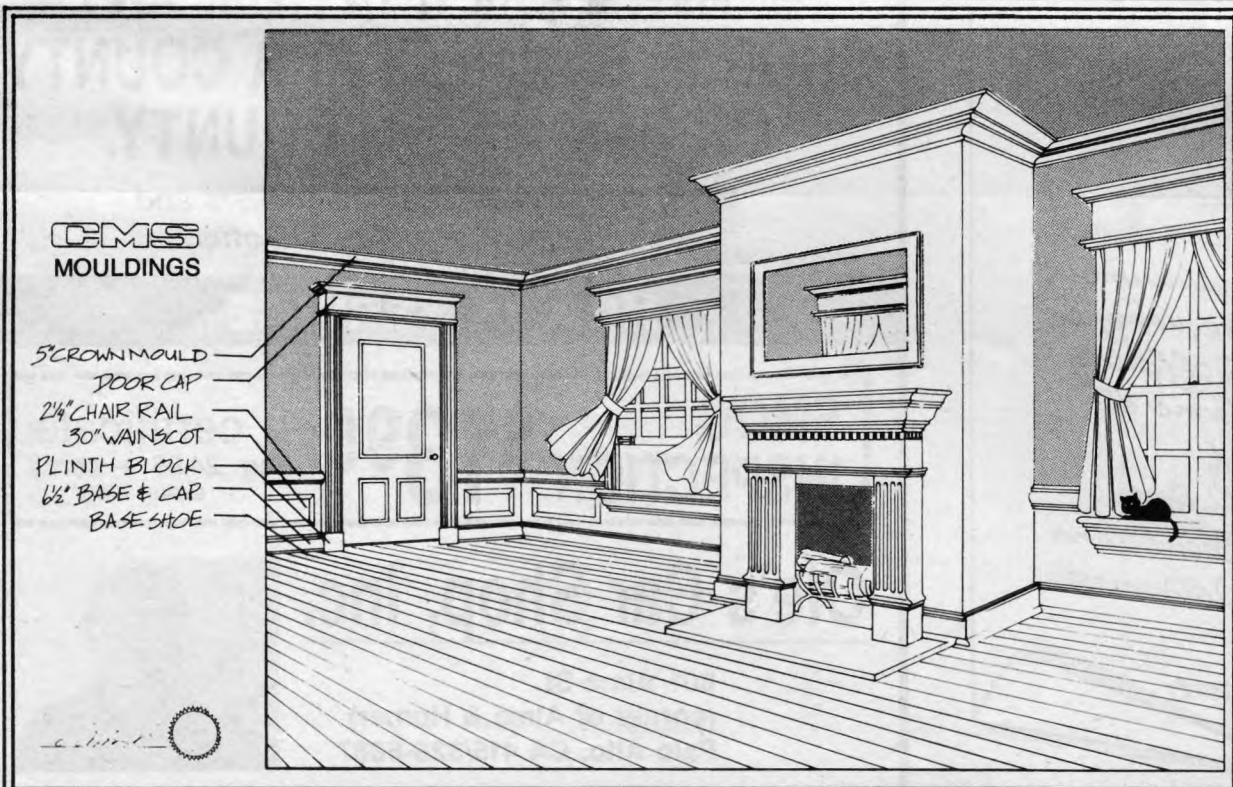
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(dollars in millions)



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 * expenditures includes capital improvement budget

source: City of East Palo Alto



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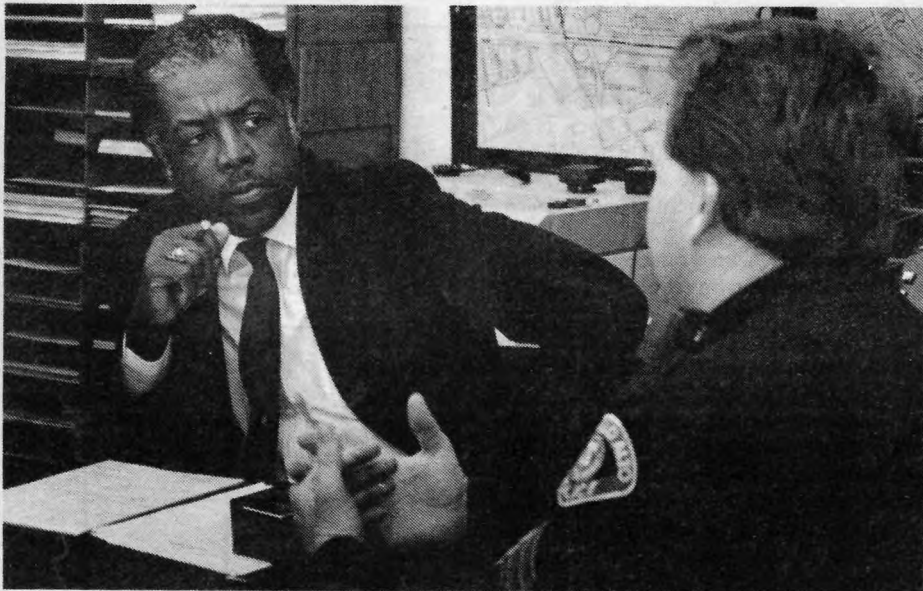
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Renee Burgard

Police Chief Danny Nelson has built a department that has managed to increase arrests and drug-related arrests by large margins over the levels recorded by the San Mateo County Sheriff's Department, formerly responsible for patrolling the community.

known (on a map, more than anything else) as Ravenswood Industrial Park, about half of which are vacant. The remainder is taken up by auto wrecking yards (the city's policy is to get rid of the junkyards, possibly through eminent domain action), a couple of chemical plants (the city turned down overtures to build another chemical plant because of environmental reasons), and some other uses.

East Palo Alto also has some 80 acres in agricultural use, including 25 acres covered by greenhouses. The city would like this land available for residential, industrial and open space development, but notes that 46 of the acres are protected as agricultural

preserves under the state's Williamson Act, which requires at least 10 years to phase out existing contracts.

And then there is the former shopping center at University Avenue and Bay Road. Privately owned, there has been some effort at clean-up in the last year or so, and a liquor store is operating there now. Virgus Streets said the owners of the shopping center "have been cooperative" and it is uncertain whether any work on the shopping center will take place until the city completes its redevelopment plan and the redevelopment agency begins functioning in earnest.

The shopping center is targeted for

Making inroads into high crime

Police Chief Danny Nelson says there are several things an East Palo Alto police officer can be fired for, including lying, racism, using excessive force and drug use, among others.

Nelson tells of two incidents he is particularly proud of. In one, officers approached a man from the rear, who reportedly had a gun. Their guns were drawn, and when the suspect turned around he drew a gun from his waist. The officers did not fire; the gun turned out to be plastic.

In a second incident, three officers were arresting a young man whose father came out and began arguing with them. What the officers didn't see is that the father had a small, very sharp knife concealed in his hand and it wasn't until a brief pushing and shoving match was over that all three officers discovered they had been stabbed. They disarmed the man without firing a shot.

Nelson noted that in either situation the officers might have been justified to fire first and think about it later. That's the way it might have happened in some communities, but it isn't the way he wants it to happen in East Palo Alto.

The East Palo Alto Police Department, with a \$2 million annual budget, represents almost half of the city's \$5 million budget. There are 42 people in the department, including 32 sworn officers.

One thing going for the police, Nelson says, is that "the crooks are stupid here." He relates how an undercover car

and officers have arrested dealers trying to sell them drugs, and notes that an undercover police car—four-door grey sedan, aerials on the roof, radio in the console, shotgun in the door—is hard to mistake for anything but an undercover police car.

One dealer even rode around in it with officers to three different potential drug sources but came up empty. The cops came away laughing.

Nelson and his police department, by the way, helped clean up what had been going on. "We've generally locked up everyone we could identify," he said, "and have removed several of the largest heroin dealers."

"They said this town was so tough," Nelson remembers, "that we wouldn't last." They've lasted better than some of the bad guys. In 1984, the last full year the sheriff's department patrolled the streets, there were 887 arrests, including 153 drug-related arrests. In 1986, the first full year Nelson's officers patrolled the streets, there were 1,795 arrests (up 102 percent from 1984), including 565 drug-related arrests (up 270 percent from 1984).

Nelson makes no bones about the fact that the city is still a high crime area, but the police are making inroads, Nelson says they have community support, and it's a trend going in a positive direction, "breaking the pattern" that had been the dreary status quo for years.

—Don Kazak



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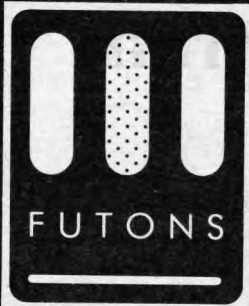
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Rent control issue still divides new city

The city's rent control law, passed immediately after incorporation, has divided the city in three elections since incorporation (with rent control winning every time) and is now the subject of a recently filed lawsuit against the city.

The lawsuit, on behalf of a group of mostly west-of-Bayshore apartment complex owners, charges that the city misled voters in an April, 1986 public vote that implemented a new rent control ordinance because voters weren't fully informed that the new ordinance would also include an 8 percent rent rollback to 1985 rent levels, and was thus illegal.

Mayor Barbara Mouton, noting that the rent control lawsuit was filed soon after the U.S. Supreme Court dismissal

of the incorporation lawsuit, claimed that if the city's opponents couldn't turn back the incorporation, "they'll try to bankrupt us instead" through lawsuits. And Council member Ruben Abrica added that unlike many other rent control laws, East Palo Alto's does not apply to new construction and so shouldn't block construction of new apartment units.

Tony Horwath, one of the property owners who filed the lawsuit, says he is the city's second largest landowner with 124 apartment units. He's bitterly against the rent control law, saying it makes rental holdings he paid \$4.5 million for "worthless."

Horwath said the Palo Alto Park Association, comprised of apartment complex owners, has made an offer to the city to regulate 20 percent of its units

at federal low-income standards (renters who qualify as low income would pay one-third of their income for rent with the government, in this case the apartment owner, subsidizing the rest) if the remaining 80 percent of the units were freed from rent controls.

Horwath claims the program he and the other apartment owners have offered the city amounts to a "gift" of \$50 million worth of rental housing, based on the estimate that 500 to 600 units of the city's 3,000 rental units would be involved. Horwath thought that almost all the city's apartment owners would participate in the program. He said the city staff was scheduled to respond to the proposal at the March 2 City Council meeting (after the *Weekly* went to press).

George Sipel, a former Palo Alto city manager, says that East Palo Alto city officials "have made a good start. Under the constraints they have, budget-wise and wanting to hire people from the community, they've done a good job."

It was, however, somewhat embarrassing when the Council voted 3-2 (Mayor Mouton, Council members Abrica and James Blakey in favor, Council members John Bostic and Warnell Coats dissenting) to ask for the resignation of City Manager Frederick Howell last December.

"The key issue was trust," Council member Abrica said. "There was no question about Howell's abilities, but he didn't follow up on a series of Council priorities, including community cleanup efforts" and "things just didn't work out." The city is now conducting a search for a new manager.

Meanwhile Gertrude Wilks, who was an

outspoken opponent of incorporation and a long-time community activist and educator, remains critical of the young city's chances and of its leadership. Claiming that the city needs \$28 million just to resurface badly neglected streets, Wilks said "it takes money" to run a city, and adds, "I still have some concerns about that."

Arguing that the Council has to "restore the confidence in working together," Wilks said that "we need to be realistic without rhetoric or pointing fingers." She cited the city's major problems as what she termed the Council's attitude towards developers, and crime.

Pete McCloskey has been involved in East Palo Alto for years, first as a congressman, **more recently as the lawyer representing the people who challenged the legality of the incorporation election in 1983.** "They face a lot of constrictions," McCloskey said of East Palo Alto officials, "none of which are overwhelming if they have a Council willing to invite business in," a point McCloskey questions.

"But they have the capacity to do it," he added. "There are marvelous people there, and I just have to hope it will happen. One good project could turn it around, or a good police department could turn it around. Security is the thing that can bring in the tax base."

The cars, meanwhile, continue to stream by on University Avenue, to and from the Dumbarton Bridge, the drivers mostly white, the pedestrians mostly black. The bombed-out look of the former shopping center at University and Bay is pretty much the same, although the drug dealers are mostly gone.

No new economic development is evident, although city officials are hopeful that the mechanisms to encourage such development and make it a reality—the newly approved General Plan, the redevelopment plan that will be prepared this year—will provide the foundation for the economic development that is necessary for East Palo Alto to begin to build a more substantial local tax base to support and expand its city services.

The hoped-for development, as much as it will include neighborhood retail development, would also retain sales tax revenues and make the town a more well-rounded community. There's a sense of optimism and energy at the Civic Center about solving these issues although, as the bankers across the freeway would doubtlessly say, optimism is fine but results are better.

"With a diverse population and limited income," Mayor Mouton said, "if we can make it, anyone can make it."

And what exactly did Police Chief Danny Nelson do to end the wide-open drug dealing in and around the former shopping center at University and Bay?

"We had a couple of our biggest cops walk through the crowds there," Nelson said, who were mostly alcoholics but with a fair number of drug dealers. The large policemen walked back and forth and, Nelson said, "it broke the pattern." ■

neighborhood shopping district development, and is ranked as the single highest priority in the city's economic development element in its General Plan. The city estimates that local residents spend \$76 million each year on consumer goods outside the city, and the city's goal is to retain as much of that sales—and sales taxes—as possible. The city's goals specifically are to develop an additional 150,000 square feet of neighborhood commercial space, upgrading an existing 20,000 square feet in the boarded-up shopping center and building 130,000 square feet of new space.

Can the city pull all this off? Virgus Streets, Mayor Mouton and others certainly think so. In fact, there is a palpable feeling of optimism at the present Civic Center (soon to move to the former Ravenswood High School site, which the city has purchased from the Sequoia High School District for \$2 million).

Acting City Manager Jim White notes that "we're on target with the budget, tax revenues will increase (through development)" and the budget revenues are more stable than those of cities that have grown up depending on fluctuating federal revenue-sharing. White also noted that the city has longer range plans to acquire the local water and sanitation districts to provide "more complete services" to city residents.

City Council member Ruben Abrica is hopeful that, with the incorporation lawsuit now a memory, development can really begin to occur. He said the lawsuit had a "chilling effect" on possible development since, as he put it, why would someone want to do business with the city of East Palo Alto when it wasn't certain that East Palo Alto would remain a city?

Abrica also noted that despite reports of

a 3-2 vote split on the Council, all five Council members were able to agree on the young city's top five priorities during a goal-setting session run by George Sipel and George Barbour of the Center for Excellence in Local Government. The five priorities were: economic development, renovation of the former Ravenswood High School into the new Civic Center, acquiring utility districts, reducing crime, and determining if any county-owned lands in East Palo Alto could be turned over to the city.