



ANALYSIS OF  
DRAFT ENVIRONMENTAL IMPACT REPORT  
TO THE MENLO PARK/EAST PALO ALTO AND DISTRICTS  
SPHERE OF INFLUENCE STUDY

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November 6, 1980

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Introduction

In August of this year, the Institute for the Study of Community Economic Development, on behalf of the East Palo Alto Citizens' Committee on Incorporation, contracted with SRI International to: "Prepare a formal application to the San Mateo County's Local Agency Formation Commission for permission to hold a city incorporation election in the area known as East Palo Alto."

One of the major tasks in our scope of work involves a review and comment on LAFCO's Environmental Impact and Sphere of Influence Report. The attached material is in response to that task.

Assumptions

For the purpose of this review, it is assumed that the two viable alternatives are incorporation or annexation to Menlo Park. It is further assumed that for either annexation or incorporation the entire East Palo Alto area will be included rather than a division between the areas east and west of the Bayshore Freeway.

The reasons for these assumptions are (1) the East Palo Alto area needs some form of government structure offered to them for voter decision, (2) annexation to Palo Alto would involve a very complex County boundary alteration and the potential advantage of such an annexation does not appear worth the effort, and (3) the division of the East Palo Alto area would be detrimental to the remainder of the East Palo Alto area under either the annexation or incorporation alternatives.



## Overview

The LAFCo is strongly opposed to incorporation and is apparently in favor of annexation to Menlo Park. Their position can best be summarized by looking at pages 166-168 under the heading "Unavoidable Adverse Impacts." This section lists 10 adverse impacts relative to incorporation and only 2 relative to annexation to Menlo Park.

The 10 adverse impacts can be summarized into 3 basic issues:

- (1) "...further isolation of the East Palo Alto community from neighboring communities..." (A)
- (2) Negative planning and environmental impacts:
  - "Decrease in quantity and quality of housing..." (B)
  - "...Dumbarton Bridge access would divide the community..." (C)
  - "...The disadvantage of long-term environmental goals..." (D)
- (3) Shortfall of revenues based on projected expenditures (B, D, E, F, G, H, I, J).

Our analysis of the negative impacts relative to incorporation listed by LAFCO are that they are either subjective with limited justification (isolation and negative planning capability) or they appear to be based on incomplete objective information. (Finance)

The majority of negative impacts are based on the assumption that there would be: "A substantial revenue shortfall over the five-year projection period" (page 167). There is also the following statement in the executive summary: "The revenue shortfall shows incorporation to be infeasible at present" (page 13).

Our own financial analysis uses both the "East Palo Alto Fiscal Analysis" prepared by Angus McDonald and Associates and the staff analysis of the McDonald report prepared by Ken Goode and staff for the East Palo Alto Municipal Council.

The LAFCo report relies heavily on the McDonald report and incorporates large portions of it in their material. However, the LAFCo report does not appear to use any of the Ken Goode material even though it is referenced on page 177 of their report under the heading "List of Documents Consulted."



The following is our analysis of the potential fiscal consequences of incorporation vs. annexation to Menlo Park.

### FISCAL ANALYSIS

In this section, we have assembled several elements of comparative fiscal data to evaluate the financial feasibility of incorporation of East Palo Alto into an independent city. The figures assembled in Tables 1 and 2 are taken from the generally high-quality reports by the consultant, Angus McDonald and Associates ("East Palo Alto Fiscal Analysis," October 1979), and the staff of the East Palo Alto Municipal Council under the direction of Administrative Officer, Kenneth G. Goode ("Staff Analysis: East Palo Alto Fiscal Analysis," January 15, 1980). Unfortunately, the Draft Environmental Impact Report of August 1980 did not include the important reanalysis by Goode and his staff of the basic McDonald and Associates' effort in presenting conclusions on the financial feasibility of a prospective new city.

In the Goode report, a careful evaluation of the expenditure and revenue analyses of McDonald and Associates was made. On the expenditure side in particular, the findings were that most of the government staff positions had been assumed to be at rather high starting salaries. Based on a careful review of real staffing needs and likely salaries that need to be paid in a competitive labor market, the Goode report finds that 1980-81 total operating expenditures (in 1979 dollars) for a new city with all the major functions should run \$3,040,600. This ("Scenario IV") estimate--used in the construction of Table 1 below--is \$134,500 (4.2%) below the estimates of McDonald and Associates, \$3,175,100 (labeled "Scenario I" in the Goode report).

On the revenue side, the Goode report generally accepts the estimates of McDonald and Associates. The former does add in A.B. 90 funds of \$50,000 in the projections through 1982-83. And Goode reduces the estimates for sales tax collections starting in 1983-84 since Goode did not believe that significant improvements in local shopping centers could be assumed as was done by McDonald and Associates. Thus, by the end of



Table 1

EAST PALO ALTO INCORPORATION  
REVENUE AND EXPENDITURE ESTIMATES:  
FISCAL YEARS 1982-83 THROUGH 1984-85

	<u>1982-83</u>	<u>1983-84</u>	<u>1984-85</u>
<u>Revenues by Sources</u>			
Property Tax	\$ 536.0	\$ 542.0	\$ 550.0
Sales Tax	216.0	241.9	270.9
Business License Tax	47.0	52.9	58.9
Utility Franchise Tax	327.1	374.7	429.9
Licenses and Permits	40.0	40.0	40.0
Fines and Penalties	41.1	41.1	41.1
Use of Money and Property	89.3	93.5	96.6
Property Transfer Tax	16.1	16.4	17.0
Cigarette Tax	48.7	50.7	52.8
Alcoholic Beverage Fees	4.4	4.4	4.4
Vehicle In-lieu Fees	236.2	236.2	236.2
Gas Tax	98.4	67.2	41.7
General Revenue Sharing	261.0	288.0	308.0
A.B. 90	50.0	0.0	0.0
Service Charges and Fees	<u>1,087.0</u>	<u>1,087.0</u>	<u>1,087.0</u>
Subtotal: Annual Revenues	\$3,098.3	\$3,135.7	\$3,234.5
One-time Transfer of Funds for City Start-up by San Mateo County (estimate for 1980-81)	<u>1,263.0</u>	--	--
Total Revenues	\$4,361.3	\$3,135.7	\$3,234.5
<u>Expenditures by Department/Function</u>			
General Government	\$ 321.5	\$ 321.5	\$ 321.5
Police	1,188.5	1,188.5	1,188.5
Community Development	167.9	167.9	167.9
Community Services	180.8	180.8	180.8
Public Works	<u>769.0</u>	<u>769.0</u>	<u>769.0</u>
Subtotal	\$2,627.7	\$2,627.7	\$2,627.7
Animal Control	9.4	9.4	9.4
Civil Defense	3.5	3.5	3.5
Garbage Collection	220.0	220.0	220.0
Street Lighting	<u>120.0</u>	<u>120.0</u>	<u>120.0</u>
Subtotal: Annual Operating Expenditures	\$2,980.6	\$2,980.6	\$2,980.6
One-time City Start-Up Expenses	<u>500.0</u>	--	--
Total Expenditures	\$3,480.6	\$2,980.6	\$2,980.6
<u>Net: Revenues Less Expenditures</u>	\$ 820.7	\$ 155.1	\$ 253.9
<u>Accumulated Funds at End of Fiscal Year</u>			
<u>Contingencies and Capital Improvements</u>	\$ 820.7	\$ 975.8	\$1,229.7

Source: Based on tables and analyses in Kenneth G. Goode, Staff Analysis: East Palo Alto Fiscal Analysis, January 15, 1980. "Scenario IV" expenditure estimates and revenues estimates are assumed. All figures are in thousands of 1979 dollars.



the five-year projection period, the Goode report estimates revenues of \$3,234,500 in 1984-85--\$63,800 (1.9%) below the projection in the McDonald and Associates' report.

Table 1 shows the revised projections in the Goode report for both revenues and expenditures as well as a netting of revenues less expenditures and an estimate of accumulated funds and capital improvements for contingencies at the end of the fiscal year. This table has collected the results of several tables in the Goode report starting with Fiscal Year 1982-83 and added two important elements noted in both the McDonald and Associates and Goode reports but perhaps not made completely clear even in the latter document.

First, Goode's projections indicate that an incorporated East Palo Alto would have regular annual revenues in excess of regular operating expenditures in 1982-83 (\$3,098,300 less \$2,980,600). This year is the first really important one in the analysis since the best timing of an incorporation election (assumed to be successful) would be July 1981 with the new city taking full responsibility for its new functions in July 1982. The new city would then be on a path of increasing positive annual net revenues, according to the projections.

Second, the county is required to build up a contingency fund for a new city before the latter takes full responsibility for its own operations. And there are one-time start-up ("front end") costs that will have to be paid while the city hires and trains new staff members /and establishes its operating practices. In Table 1, a one-time transfer of funds from San Mateo County of \$1,263,000 is shown in the first column (1982-83) under Revenues while a start-up cost estimate of \$500,000 is shown in the same column under Expenditures. In actuality, both the one-time transfer of funds and the start-up expenses might take place in the previous year, but they are shown here for convenience as taking place in 1982-83 to suggest that the new city would end its first fiscal year of independent operations with a substantial amount of funds for contingencies and capital improvements (in the range of the \$820,700 shown at the bottom of the 1982-83 column). The estimate of funds available for a one-time transfer is actually for 1980-81 and is likely to be understated.

On the other hand, the \$500,000 start-up cost is only a guess made in the Goode report with no analytical support. Thus, the city is likely not only to be financially viable starting in 1982-83 but also will start off with a rather healthy contingency and capital improvements fund to supplement the projects likely to be completed by San Mateo County and other government agencies. The Goode report shows contingency funds balances of \$736,700 at the end of 1982-83 after certain set-asides for water and sanitary capital improvements.

Table 2 addresses an alternative for East Palo Alto that received encouragement in the "Draft Environmental Impact Report" fiscal analysis summaries: annexation of East Palo Alto to the City of Menlo Park. The McDonald and Associates report devotes a few pages in an appendix to indicating how there might be major economies in annexation to Menlo Park. However, the treatment is highly incomplete. Thus, Table 2 was derived by the present authors from partial estimates by McDonald and Associates of revenues and expenditures for East Palo Alto for 1978-79. The bracketed amounts in Table 2 are drawn from various tables in the McDonald and Associates report that appeared to be consistent with the estimates of the impact of annexation on Menlo Park finances and estimates for the status quo (i.e., East Palo Alto continuing as an unincorporated section of San Mateo County).

Both the McDonald and Associates and Goode reports indicate that there was a net subsidy from the rest of San Mateo County to East Palo Alto in 1978-79 of \$885,700 (\$2,908,100 in revenues less \$3,793,800 in expenditures). Unfortunately, the revenue side derivation for this amount was not laid out clearly in the reports. Thus, it is difficult to reconstruct how this estimated amount of subsidy was determined. The first column of Table 2 (San Mateo County) presents our attempt to indicate revenue flows from and expenditures in East Palo Alto as consistently as possible with the revenue and expenditure categories in Table 1 above. On the expenditure side, the total of \$3,296,900 differs from the above McDonald total expenditures figure by the exclusion of expenditures for fire protection and libraries, government functions that would not be taken over by either a new city in East Palo Alto or by Menlo Park in case of annexation to the latter. The bracketed amounts



Table 2

COMPARISONS OF REVENUES AND COSTS FOR EAST PAOLO ALTO  
FOR PRESENT CASE OF SAN MATEO COUNTY AND SPECIAL DISTRICTS SERVICE  
PROVISION VERSUS ANNEXATION TO THE CITY OF MENLO PARK (1978-79 DATA)

<u>Revenues by Source</u>	<u>San Mateo County</u>	<u>City of Menlo Park</u>
Property Tax	\$ 350.0	\$ 350.0
Sales Tax	151.0	151.0
Business License Tax	n.c.	23.5
Utility Franchise Tax	n.c.	9.8
Licenses and Permits	40.0	40.0
Fines and Penalties	41.0	41.0
Use of Money and Property	50.0	50.0
Property Transfer Tax	15.8	31.0
Cigarette Tax	45.0	45.0
Alcoholic Beverage Fees	3.7	3.7
Vehicle In-lieu Fees	191.0	191.0
Gas Tax	160.0	160.0
General Revenue Sharing	<u>233.0</u>	<u>233.0</u>
Subtotal	\$1,280.5	\$1,329.0
A.B. 90	[50.0]	[50.0]
Service Charges and Fees	<u>[1,087.0]</u>	<u>[1,087.0]</u>
Total Revenue	[\$2,417.5]	[\$2,466.0]
 <u>Expenditures by Department/Function</u>		
General Government	\$ 231.2	\$ 280.0
Police	1,472.1	850.0
Community Development	36.2	80.0
Parks and Recreation	169.7	[169.7]
Public Works (excluding Sanitation)	814.5	[814.5]
Sanitation	<u>280.8</u>	<u>[280.8]</u>
Subtotal	\$3,004.5	[\$2,475.0]
Animal Control	8.4	[8.4]
Civil Defense	[3.5]	[3.5]
Refuse Disposal	160.5	[160.5]
Street Lighting	<u>[120.0]</u>	<u>[120.0]</u>
Total Expenditures	[\$3,296.9]	[\$2,767.4]
 <u>Net: Revenues Less Expenditures</u>	 [(-\$ 879.4)]	 [(-\$ 301.4)]

n.c. - Not collected by San Mateo County

[ ] - Items estimated by the present authors; see text.

Source: Angus McDonald and Associates, East Palo Alto Fiscal Analysis, October 1979.  
In particular, see Tables I-1, IV-1, B-5, B-6, and B-7 and associated analysis.  
When small differences in estimates for revenues existed, revenue estimates for Menlo Park were used. All figures are in thousands of current dollars.



for civil defense and street lighting are our additions that were not in the McDonald and Associates totals yet are budget items included in the Goode fiscal analyses presented in Table 1 above. On the revenue side, A.B. 90 funds and service charges and fees consistent with the data on Table 1 have been added to the revenue data in the McDonald and Associates report. The deviation of the \$2,908,100 revenue estimate by the latter could not be documented by us. Our Net Revenues Less Expenditures estimates, i.e., the effective subsidy from San Mateo County given our reconstruction of the figures, is \$879,400, which is close to the subsidy estimate of \$885,700 indicated in the McDonald and Associates report.

The second column of Table 2 is our attempt to complete the analysis of what annexation to Menlo Park would mean to that city from a fiscal viewpoint. Expenditure increase estimates for annexation to Menlo Park were shown for only three functions by McDonald and Associates--General Government (\$280,000), Police (\$850,000), and Community Development (\$80,000). We have added in the expenditures for the other functions at the level estimated for San Mateo County (first column) for lack of a better procedure. Furthermore, on the revenue side, we added in A.B. 90 funds and Service Charges and Fees for consistency with the estimates for San Mateo County on this table and with the Table 1 array. The striking thing about the McDonald and Associates conclusions about annexation to Menlo Park, accepted and repeated nearly verbatim in the "Draft Environmental Impact Report," is that revenues of \$1,329,000 (page 138) are compared with the total for only three expenditure categories--of \$1,210,000 for annexation and \$1,714,000 for incorporation (page 140)--to support the conclusion that annexation is highly efficient. The major function where such economies are supposed to occur (compared with service provision by San Mateo County) is in police services. There is no discussion of why Menlo Park is either very much more efficient than the (much larger) San Mateo County Sheriff's Department or will have much less demand from East Palo Alto placed on its police Department after annexation compared with the present situation for the county. Police service costs are estimated to drop by \$622,100 (42.3%) with annexation. Other service costs are projected not to rise sufficiently to outweigh the savings in the police area, it appears.



In the other service areas, comparative per capita expenditure estimates presented by McDonald and Associates suggest that the additional expenditures of Menlo Park necessitated by annexation of East Palo Alto would be about the same as those presently made by San Mateo County. Thus, the bracketed items for expenditures in the second column are the same as the expenditure estimates by function in the first column. The end result for our completion of the analysis for annexation is that the Net Revenues Less Expenditures would be a subsidy by (loss to) Menlo Park of \$301,400 per year for 1978-79. However, this estimate should be reconsidered both from a more complete assembly of the appropriate data by McDonald and Associates and/or Goode and Staff and in comparison with the revenue and expenditure projections for the later years. As Table 1 indicates, revenues are projected to be much higher in later years and expenditures significantly lower than the data used for constructing Table 2 suggest.

To summarize, it is quite likely that East Palo Alto is financially viable as an incorporated city and that annexation to Menlo Park does not yield the level of financial savings projected by McDonald and Associates or LAFCo, although some cost savings could well occur. The annexation issue requires a much more complete investigation, comparable to that done for incorporation.

Based on this financial analysis, it would appear that a majority of the negative impacts listed by LAFCo are either not correct or would require extensive additional study or justification before they could be acceptable.

## PLANNING ANALYSIS

### Job/Housing Imbalance

There are a number of references in this report that indicate that the so-called jobs/housing imbalance in the Mid-Penninsula area would be adversely affected if the East Palo Alto area were to incorporate rather than annex to Menlo Park. This assumption is apparently based on the so-called revenue shortfall projected for incorporation.



There are a number of difficulties in trying to reconcile this LAFCO conclusion. The first problem is that our analysis indicates that a revenue shortfall is more likely under annexation than under incorporation. The second problem is that San Mateo County currently has under preparation a comprehensive plan for the East Palo Alto area. This plan would include housing, commercial, and industrial elements. In reference to this plan, the LAFCo report, beginning at the bottom of page 4, states: "Staff further recognizes that the East Palo Alto Community Plan, when complete, will provide the basis for future planning decisions for the area under any of the alternatives considered in the Sphere of Influence Study. The East Palo Alto area is mostly urbanized and, as such, equivalent levels of service would be required under each alternative. Land use policies will vary little from those set forth in the Community Plan, whichever sphere of influence is adopted by LAFCo. The Plan, after review and acceptance by the local community, should guide the physical development of East Palo Alto, regardless of the governmental structure that is eventually decided upon by LAFCo and the community." This would seem to indicate that LAFCo itself does not believe that incorporation would have that severe an impact.

The third problem is that it is difficult to see how an area that has only 250 undeveloped acres left could have an impact one way or another on a job/housing imbalance for the entire Mid-Penninsula area.

A fourth problem is that LAFCo apparently believes that the East Palo Alto community is not concerned about the preservation and improvement of their own housing stock. Indications are that this area is already involved in a major local effort to revitalize and protect this housing area. There are also strong indications that the neighborhoods in East Palo Alto will not tolerate adverse industries and commercial intrusion within their area.

A fifth problem is the apparent contradiction in the LAFCo report relating to housing. On page 85, they state: "East Palo Alto is one of the few areas in San Mateo County where persons of low and moderate income can afford to live. The impact on affordable housing, therefore, could be significant if enhancement of the tax base is a prerequisite to incorporation." However, on page 86, two of the suggested mitigation measures state: "D. Give extensive consideration to applications to convert apartments to condominiums

so as to lessen the displacement effect on persons of low and moderate income. E. Encourage higher income housing to balance the East Palo Alto community and generate new income." Also on page 132, Menlo Park is encouraged to: "E. Menlo Park should develop policies to encourage the construction of higher income housing in East Palo Alto." These statements would seem to indicate that LAFCo is desirous of reducing the available low and moderate income housing in the East Palo Alto area in order to achieve this job/housing imbalance.

#### Dumbarton Bridge Access

One of the unavoidable negative impacts (6.2.c-page 167) listed for incorporation is the problem of access roads to the new Dumbarton Bridge. This is not listed as an unavoidable negative impact relative to annexation (6.3-page 168). However, the referenced mitigation solutions for both incorporation and annexation are basically the same (pages 89 and 133).

#### ISOLATION

The remaining unavoidable negative impact listed relative to incorporation is (6.2.a-page 167): "The further isolation of the East Palo Alto community from neighboring communities." This comment has been made a number of times throughout the report, but there appears to be no justification for this conclusion. At present, the East Palo Alto community has a directly elected municipal council that has been in existence since 1967. Although they have only advisory authority, they nevertheless represent an opportunity for political involvement within San Mateo County and the so-called neighboring communities. Incorporation would assure a continuing representative participation within the southern San Mateo County area. Annexation, on the other hand, does not appear to offer a similar assurance of representation. There is a recommendation on page 135 which seems to indicate that Menlo Park would have to amend its charter to provide for additional council members and go to district elections in order to prevent so-called isolation. This was not done when the Belle Haven area was annexed in 1948, and is there any reason to expect the Menlo Park residents would be willing to change their government structure in



order to accommodate the East Palo Alto area? It should also be pointed out that if this solution were to be recommended it would then require an affirmative vote by both East Palo Alto for annexation and by Menlo Park for charter change. The risk would be run that the area could be annexed without charter ammendment. Based on this, it would appear that potential isolation would more likely be an unavoidable negative impact relative to annexation rather than incorporation.

#### CONCLUSION

Based on the above analysis, it would appear that almost all of the "unavoidable negative impacts" listed in the LAFCo report relative to incorporation (page 167) are either incorrect, unsubstantiated, or purely subjective. On the other hand, it would appear that there should be a substantial increase in the so-called unavoidable negative impacts listed under Menlo Park annexation. This is particularly true, based on our financial and planning analysis. It is our opinion that incorporation is, in fact, feasible and justifiable for the East Palo Alto area.