

Financial expert offers his view of incorporation

By Chris Kenrick
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REDWOOD CITY — A new city of East Palo Alto could balance its books, but not without risk.

If all went smoothly, the new city could end up with a surplus of \$2.4 million after five years.

But if the new city were poorly managed or if the state suddenly cut its aid to local governments, East Palo Alto could end up in a sea of red ink.

That is the conclusion of financial expert Angus McDonald, who presented his findings Wednesday to the San Mateo County Local Agency Formation Commission (LAFCO). The commission, which oversees the formation of local government entities, is considering the possibility of incorporating East Palo Alto. It also is considering whether to recommend that Menlo Park annex all or part of East Palo Alto.

If LAFCO and the Board of Supervisors give the go-ahead, incorporation, which voters narrowly defeated in April, could reappear on the ballot as early as June.

The question of incorporation has dominated East Palo Alto politics for the past several years, and LAFCO's public hearing Wednesday brought out partisans on both sides.

Cityhood backers pointed to McDonald's findings and urged LAFCO members to give incorporation a chance.

"All of what happens in life hinges on a risk and, yes, there are risks involved" in incorporation, said Keisha Williams, an East Palo

Ravenswood Recreation and Parks District. "I think it is time for us to take that risk because it's based on some documented and pretty reliable premises."

But opponents of incorporation took issue with the McDonald study, saying its premises were flawed.

While he concluded that incorporating all of East Palo Alto would produce a surplus, McDonald found that annexation would produce deficits for Menlo Park. McDonald's projections are based on the assumption that a city of East Palo Alto would provide the same level of services that San Mateo County provides to unincorporated East Palo Alto. Under annexation, McDonald assumes that Menlo Park would provide a Menlo Park level of services to the East Palo Alto territory it acquired.

Cityhood opponent Arn Cenedella argued that McDonald's report presents an unfair comparison of the annexation and incorporation alternatives.

"For incorporation, Angus McDonald considers the current level of service in East Palo Alto," Cenedella said. "For annexation, he considers a Menlo Park level of service."

"It's no surprise that it will cost more to provide a Menlo Park level of service to the people of East Palo Alto rather than the current level. McDonald's tables aren't comparing the same thing."

McDonald said the fiscal projections are more optimistic for incorporation than for annexation because "the law is basically set up to

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help a new city and not necessarily to help in annexation."

Under the law, he noted, a new city would enjoy one year of county-provided services to get it on its feet. In addition, the Board of Supervisors has pledged \$468,000 from its Special District Augmentation Fund for a new city but not for an annexing city.

McDonald also pointed out that because of its low per capita income, a city of East Palo Alto would attract considerable federal revenue sharing funds.

"Last year, while incorporation was feasible, it was the shakiest proposed incorporation I've ever seen in my practice," said McDonald, who runs a consulting firm in Berkeley. "This year, it looks much better."

McDonald gave several reasons for the improved outlook.

Since the amount of state aid a city gets depends on the number of registered voters, a massive voter registration drive in East Palo Alto over the past two years means the new city would get extra revenue. The state esti-

mates population at three times the number of registered voters, and in East Palo Alto that number is more than the actual population, as measured by the 1980 census.

Another reason for the better outlook for incorporation is that a more favorable formula would govern the sharing of county property taxes with the new city. A third reason is that a new state law provides cities and counties with revenues from the diesel tax.

In testimony Wednesday evening, a number of apartment-dwellers who live on the west side of Bayshore in East Palo Alto urged LAFCO to support incorporation.

Landlord Joseph Horwath, however, urged the panel to recommend annexation of the west side of Bayshore.

"If it's in East Palo Alto, no matter what you do to it in terms of upgrading, people don't want to live there," he said.

A state Court of Appeal, ruling on an attempt to block piecemeal development in Santa Cruz County, this week barred annexations and the creation of new cities in counties that have not adopted a state-required "sphere of influence" plan. San Mateo County has adopted such a plan, so the ruling has no effect on the East Palo Alto issue.

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