

# Landlords' provocative offer

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A landlords' proposal to help the city of East Palo Alto with its financial problems in exchange for modification of the city's rent control ordinance is expected to come before the City Council at its meeting Tuesday.

The subject isn't on the City Council agenda, but the proposal has been distributed to council members for review.

The proposal, advanced by the

Palo Alto Park Association, an organization of East Palo Alto landlords, calls for members of the association to provide financial assistance to the city. In return, the association would expect assurance of an end to rent control. Settlement of the apartment owners' existing lawsuit over the rent stabilization ordinance would be the first step.

The association also is offering to provide assistance to the city in managing its money and is willing

to help oversee the budget and expenditure process, according to a letter to the City Council signed by association chairman Robert A. Saunders.

The association provided a draft resolution that would direct city attorneys to negotiate with attorneys representing the apartment house owners to reach an out-of-court settlement in the suit.

The city attorney is studying the

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legality of such a move and is expected to provide a legal opinion at Tuesday's meeting.

Rent control has been a controversial issue in East Palo Alto, and the apartment owners have battled over the years to abolish controls or at least modify the stringent provisions. They previously offered to provide funds for affordable housing if the city would ease rent controls, but the proposal got nowhere.

"We can't attack the rent control ordinance, but we could talk about modifying things in dispute, particularly the 3 percent rollback in rents," said Councilman John Bostic. "If we can settle out of court we could save litigation costs and possible penalties."

The lawsuit, filed Jan. 28 by a number of East Palo Alto apartment house owners, charged the city's rent control ordinance violates both federal and state constitutions by taking property without just compensation. It asks the court to stop enforcing the ordinance and to pay damages to the landlords.

Apartment house owner Tony Horwath said Friday the lawsuit "is rolling in full force." He estimates

that if the court decides in favor of the apartment house owners, damages just on the rent rollback would be in the millions of dollars.

Councilman Warnell Coats also believes the council should look into working with the group.

"The city can't afford the legal costs to keep defending rent control," he said.

Vice Mayor Ruben Abrica and Councilwoman Barbara Mouton are committed to rent control, and it's doubtful they would support the proposal. Mayor James Blakey might be the swing vote if it ever gets to that stage.

The city's financial situation also is not on the agenda for the council meeting, which will begin at 7:30 p.m. in council chambers, 2415 University Ave., even though Bostic had asked that it be discussed.

However, both Bostic and Coats intend to bring it up during the time allotted for comments and reports by council members.

"We have to face the music," Bostic emphasized. "Either we have to enhance revenue or restrict spending. We don't have subsidies or reserves. It's not a cash flow problem. It's a no cash problem."

Coats sees the financial situation as between "a cash flow problem and being broke." He is going to ask for a projected cash flow pat-

tern for the city and an expenditure pattern for the next three months, but said, "I don't think that with the staffing we have there is the expertise there to draw out that information."

Coats said layoffs of city employees are inevitable.

"Most of the city's dollars go to personnel, and we have to cut in the areas where the large outlays are taking place," he said. The 1987-88 city budget of approximately \$6 million allocates 46.6 percent of expenditures to personnel costs.

The council has hired the Harvey Rose accounting firm in San Francisco to audit the city's operation to obtain hard data on the situation and to come up with recommendations, but that report won't be in until another month or so.

In the interim, there is a difference of opinion on how to handle information about the city's financial situation.

Bostic and Coats want to make public as much information as possible. But City Manager Stanley Hall prefers waiting until the Rose report is ready. He indicated Friday he would advise council members not to respond to questions raised by residents during the community forum, but to take their concerns under advisement.

Hall also has minimized the city's need for money in conversations with San Mateo County super-

visors in discussions of the city's request for a \$600,000 advance on property tax payments due in December.

During questioning at the meeting, Hall indicated the city wanted the money "to build up its investment portfolio as much as to take care of immediate bills."

Bostic painted a more pessimistic picture of the city's finances.

"We have no cash," he emphasized. "We need an infusion of money. Our reserves now won't get us through to December."

"What we did last month and what we are doing this month is dipping into reserves," Bostic said. He reported the city didn't make its quarterly payment to San Mateo County in June for its lease on the Municipal Building, and another one is due in September.

"It's about \$26,000 each shot," he said.

While the city's expenditures were increasing, revenues were going down as federal funding and county support dropped off.

"The first year as a city, East Palo Alto got \$1 million as a general revenue subsidy from San Mateo County," Bostic said. "The city requested the county do something the second year, and received an additional \$500,000. The third year, (1985-86) the city went into its reserves by \$525,000."

"We should have provided fewer

services in 1986-87 but instead services were expanded," he added.

Bostic and Coats sharply criticized the city's decision to buy the old Ravenswood High School and turn it into a civic center.

"We've spent \$800,000 on renovations at the site and you can't walk on it unless you have a tennis racket in your hand," Bostic said, explaining the city only has permission to use the playing fields and swimming pool for recreational use until the purchase price is paid off.

Bostic said a contractor was paid \$146,000 to pave what was to be the city's corporation yard and contractors were hired for architectural work and some demolition.

"It was all for naught," he said. "We won't be able to use the building for two or three years."

The Sequoia Union High School District sold the surplus site to East Palo Alto for \$1,353,000. The city paid the district \$1 million in 1985-86, and \$200,000 in 1986-87, according to Sherrill F. Houghton, assistant superintendent of administrative services.

Houghton said the money came from grants from the federal Housing and Urban Development department, but was limited to recreation uses. He doesn't believe any federal money will be available for renovation of the buildings on the

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site. "The next payment of \$200,000 is due prior to Dec. 31 of this year," Houghton said. "I believe they will be able to get each year's payment from federal money."

The City Council on Tuesday is expected, in light of the financial situation, to vote to reject bids for demolition of buildings on the site, for an estimated savings of \$50,800. The council also probably will reject bids for rehabilitation of streets utilized by transit vehicles, a savings of \$100,000.

Coats, as a member of the council's litigation committee, has focused his attention on what he feels are excessive legal costs. He complains the city has paid out \$333,000 in fees to the city attorney over the period from March 1984 to March 1987, not including \$115,000 paid to an outside law firm for handling the suit challenging the city's incorporation. The city has since moved to limit legal expenses.

Coats also raised the question of whether too much money has been spent paying liability claims against the city, complaining too much discretion was left to city staff to pay claims. Claims paid from July 1, 1986 to July 31, 1987 totaled \$45,303.

The procedure for paying claims will be discussed at Tuesday's meeting.