

# Times Tribune

95th Year

Monday, December 19, 1988

25 cents

## Can East Palo Alto survive?

By Michael Shapiro  
Times Tribune staff

In its sixth year as a city, East Palo Alto faces financial troubles that threaten its survival. Some local officials fear the city is on the verge of financial collapse.

"They may be going down," said Bill Schumacher, president of the San Mateo County Board of Supervisors. "If they're insolvent, it's just going to get worse — I don't see how it's going to get better."

Some officials, however, ex-

### Times Tribune special report

pressed hope for the future, saying the key is revenue-producing development.

"East Palo Alto can survive," said Supervisor Tom Huening. "They need some good news related to development."

Since East Palo Alto became a city, its financial outlook has

changed from hopeful to grim. Four years ago the city had a surplus of more than \$1 million, mostly from county grants. Now it is at least \$1 million in the red, and prospects for a quick turnaround are remote.

The city projects a deficit for this fiscal year of \$500,000 to \$750,000, and owes its creditors \$1.4 million, according to city reports.

Critics as well as supporters of the city say these factors led to East Palo Alto's financial woes:

● **Incorporation:** The decision to form a city with a minimal tax base.

● **Lawsuits against incorporation:** Legal expenses to defend itself against challenges to its cityhood.

● **Rent control:** Limited rent increases, which landlords say diminished property tax potential.

● **City police force:** A higher cost than remaining under county

### EAST PALO ALTO'S LEGAL OPTIONS

- Federal bankruptcy Chapter 9.
- Special receivership sanctioned by state legislature.
- Petition San Mateo County for disincorporation.

Please see SURVIVE, A-10



Bill Vines  
... sees crisis as a challenge.

# SURVIVE

Continued from A-1

supervision.

- **Expected grants:** Anticipated millions of dollars in grants that were denied.

- **Financial mismanagement:** Expenditures greater than revenues in each fiscal year.

- **Excessive staff:** 110 employees by 1986.

Until 1983, East Palo Alto was an unincorporated area of San Mateo County. In June of that year after a bitter battle, the area's citizens voted by a mere 15 votes to make East Palo Alto a city.

Gertrude Wilks, who opposed cityhood but was one of East Palo Alto's charter council members, said the area did not have the resources to support a city. Many of its residents are retired seniors on fixed incomes or young people on welfare.

The city is a bedroom community. It has few businesses and takes in just under \$200,000 annually in sales tax, compared with \$3.2 million in Menlo Park and \$12.2 million in Palo Alto.

"People were sold the idea we had plenty — we were misinformed," Wilks said. Many homeowners in the area would like to see the city revert to county administration, she said, because they fear perpetual financial crises if East Palo Alto remains a city.

If the city rejoined the county, the county, under state law, could assess East Palo Altans to pay for any accumulated debt. Wilks said homeowners told her they would rather pay once and "come to a screeching halt," than live in a city that falls deeper into debt and provides fewer services each year.

"I don't want to find myself sleeping under a bridge in the name of cityhood," she said. "We're paying for nothing — we don't like being ripped off."

After attaining cityhood, the new council's first significant act was to establish rent control. While the law has preserved affordable housing, landlords say it has led to stagnation of property values. East Palo Alto cannot afford rent control, said landlord Joe Horwath, because property tax is its main source of revenue.

Councilwoman Barbara Mouton, the city's first mayor, said rent control has not hurt the city. She blamed landlords for many of the city's difficulties. "I'm a landlord. I know rent control doesn't hurt," she said.

The city's growth was stunted by lawsuits against incorporation, Mouton said. East Palo Alto finally won the battle to preserve cityhood but spent \$160,000 in legal fees, while its opponents spent millions, she said.

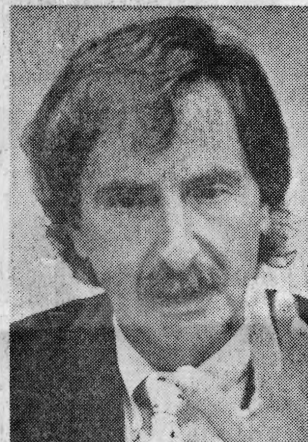
The anti-incorporation suit was a legal challenge to the validity of signatures on the incorporation election petition. It was filed by



Barbara Mouton  
... "Rent control doesn't hurt."



Gertrude Wilks  
... "We were misinformed."



Tom Nolan  
... "Police Department the key."

## OUTSTANDING DEBTS

(as of Nov. 23, 1988)

Worker's compensation fund:	\$454,000
Employee pension fund:	\$398,000
Browning Ferris Industries:	\$307,000*
Payroll taxes:	\$45,000*
Others:	\$192,000*
<b>Total</b>	<b>\$1.4 mil</b>

\* Funded in 1988-89 budget

## What East Palo Alto can do if it goes broke

If East Palo Alto reaches financial insolvency, it faces three options under state law:

- **Federal bankruptcy.** Under Chapter 9, the city could file to reorganize its debts and schedule payments to creditors. Last month President Reagan signed the Municipal Bankruptcy Amendments, making bankruptcy more viable for cities.

- **Special receivership.** The state Legislature could form an ad hoc committee for the city. However, under this arrangement the city would remain fully liable for its debts.

- **Disincorporation.** Under this plan the city would rejoin the county. The process is the reverse of incorporation, said Bill Davis,

executive officer of the county's Local Agency Formation Commission (LAFCO).

Disincorporation involves four steps. First, the city would have to submit a petition for disincorporation from 25 percent of its registered voters, or the City Council would have to pass a resolution for dissolution.

Second, LAFCO would hold hearings on the request.

Third, the city would be required to hold a hearing to allow its residents to protest disincorporation.

Fourth, the matter would be placed on the ballot. If more than half the voters chose disincorporation, the city would rejoin the county.

Under state law the county could assess city residents to pay for any or all of East Palo Alto's debts, depending on the terms negotiated during the disincorporation proceedings.

Mayor Bill Vines said none of the above options are "palatable."

He noted the city has appointed a citizens' task force to make recommendations about solving the city's financial quagmire. The city is also forming a second group comprised of finance experts to make technical recommendations.

"It's going to be a tough shot, but we'll survive," Vines said. "We'll make whatever sacrifices need to be made."

— Michael Shapiro

Wilks and nine other East Palo Alto residents who hired former U.S. Rep. Paul N. "Pete" McCloskey to represent them.

If potential developers had "invested that much in the city's growth, rather than trying to extinguish the city's life, we'd be like San Ramon," a thriving East Bay city which incorporated July 1, 1983, the same day as East Palo Alto.

Mouton said the city's problems began when its staff swelled. In its first three years, the city went from three to 66 to 110 employees, about twice as many as comparable cities. Last year when the financial crisis surfaced, the city had 99 employees and cut 39 positions. This year the city has 65 employees.

An early priority for the city was establishing its own police department. Many in the city viewed an East Palo Alto police force as an essential element of emancipation from the county.

Until 1985, the San Mateo County Sheriff's Department patrolled East Palo Alto at a cost of \$1.5 million annually. The city's own Police Department now costs just over \$2 million, an expense Wilks said "was the cover on the casket."

If the city's financial troubles worsen and its Police Department

is immobilized, the county would maintain order in the area. "If there is a complete breakdown of law enforcement and the city requested it, I could step in," said San Mateo County Sheriff Leonard Carodo.

Supervisor Tom Nolan, whose district includes East Palo Alto, said collapse of the local police force could trigger collapse of the city. "The Police Department is the key. If they're unable to meet the payroll of the cops and they start leaving, then it's an untenable situation."

However, council members said the council would cut any other service to preserve the police force. "The rest of it, we can cut it all, especially if we don't have the money to cover it," said Councilman Warnell Coats.

Councilwoman Pat Johnson said the city could start by cutting the Public Works Department and city staff, even "if we have to keep City Hall open with an answering service."

The first step is for city staff to give the council a clear account of the city's debt, which could be as high as \$3 million, she said.

When a major financial shortfall surfaced last summer, a senior staff member said that under James White, the city's interim city

manager, the city suffered from a lack of spending controls and careless accounting. White has since been convicted of illegally using city credit cards to pay personal purchases.

In its first two budget years, East Palo Alto's expenditures exceeded its revenues by \$1.6 million, consuming the city's \$1.3 million reserve and plunging the city into debt by 1986.

Last month the city released a report that listed \$1.4 million in debts. The city owes payroll taxes to the state and federal governments and has borrowed from its own pension and worker's compensation funds.

A utility tax designed to trim this year's deficit failed in the November election. A second tax to bolster police services was also defeated.

City Manager Stan Hall said that despite the defeats last month, the city's best course would be to place another initiative on the ballot. "It would pass once voters understand the city's financial condition," he said.

Johnson disagreed. The way to restore credibility and accountability, she said, is by making necessary, if painful, cuts. "It's like the depression — you do without until you can do better."

Despite its gloomy short-term outlook, some officials expressed hope for the future. Many believe the key to the city's success is development.

The city has just completed a redevelopment plan for the Whiskey Gulch area, just west of the Bayshore Freeway. East Palo Alto has an exclusive right to negotiate with DeMonet Industries of San Mateo, which has proposed a twin-tower complex that would include a hotel, restaurants, office space, shops and movie theaters.

Although many see development as the city's salvation, it also has costs. The city's redevelopment plan for Whiskey Gulch will almost certainly be legally challenged by residents of Palo Alto, who fear its traffic and visual implications.

If East Palo Alto eventually lures major projects to the city, it must help build the streets and sewers to accommodate them. In order to finance these improvements, cities often float bonds, but unless East Palo Alto gets its fiscal house in order, the interest rates would be staggering.

Mayor Bill Vines said he views the fiscal crisis as a challenge. "Everyone is screaming gloom and doom, but it's an opportunity to make this thing work for the city."