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**Summary of SRI Studies
on**

East Palo Alto Municipal Council

**EAST PALO ALTO SPHERE OF INFLUENCE ALTERNATIVES
(Incorporation, Annexation, or Status Quo)**

Prepared By

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SRI International (formerly Stanford Research Institute), based in Menlo Park, California, has prepared three studies for the Institute for the Study of Community Economic Development during the past year. Each study was co-authored by Phillip E. Vincent, Senior Economist, and Thomas W. Fletcher, Director, Public Policy Department. They are: "Analysis of Draft Environmental Impact Report to the Menlo Park/East Palo Alto and Districts Sphere of Influence Study," November 6, 1981; "Report Supporting Application for Incorporation Election in East Palo Alto," March 17, 1981; and "Menlo Park's Fiscal Relationship to the Belle Haven Community and Implications for Potential Annexation of East Palo Alto," October 1981. Each report has examined the advantages and disadvantages of incorporation, annexation, and/or the status quo for East Palo Alto. Particular emphasis was placed on the fiscal analysis of an incorporated East Palo Alto since financial feasibility is such a critical and widely debated issue.

Analysis of Draft Environmental Impact Report

In this first study, SRI concluded that incorporation was likely feasible and that many incorrect or unsupported conclusions were contained in the Draft Environmental Impact Report issued by the San Mateo Local Agency Formation Commission (LAFCo) in August, 1980.

SRI strongly questioned the potential for annexation of East Palo Alto to the City of Palo Alto as had been discussed in other recent evaluations. Since Palo Alto lies entirely in another county (Santa Clara), a county boundary change would be necessary for annexation, which is a complex and unlikely action. This argument was accepted in the most recent deliberations by the San Mateo County LAFCo.

SRI also indicated that the financial analysis of annexation to Menlo Park was highly incomplete. The LAFCo report appeared to favor annexation over incorporation, although a thorough analysis of the costs and revenues to Menlo Park had not been performed.

Several other issues were addressed in this evaluation. The "jobs/housing imbalance" of the mid-Peninsula, i.e., the favoring of industrial over housing development by existing cities, would not be worsened by the incorporation of East Palo Alto. An incorporated East Palo Alto might tend to seek more job-related development for its current residents. In any case, East Palo Alto does not represent a major part of the land available either for industry or housing when the entire Peninsula is considered.

The problems of access to the new Dumbarton Bridge have divided the various cities surrounding East Palo Alto. But these divisions are likely to continue no matter what decisions are made as to incorporation, annexation, or the status quo.

The authors of the Draft Environmental Impact Report were concerned that incorporation would only further isolate East Palo Alto from the rest of the Peninsula. However, it is quite possible that isolation would not be reduced by annexation to Menlo Park and certainly not by continued existence as a large unincorporated part of San Mateo County.

Report Supporting Application for Incorporation

The main element of the document was a detailed statement of the staffing and budget for a proposed incorporated East Palo Alto.

A financial plan was developed on a departmental basis that showed how an incorporated East Palo Alto could be financially viable. This effort drew particularly on earlier work by the consulting firm of Angus McDonald and Associates (October, 1979) and the analysis of the McDonald report by the East Palo Alto Municipal Council staff (January, 1980).

The major assumptions for the SRI staffing and financial plan were that:

- (1) Present (unincorporated) service levels were to be maintained or improved;
- (2) A sufficient transfer of start-up funds and on-going tax revenues would be negotiated with the County of San Mateo for the new city;
- (3) Proposed business license and utility taxes would be approved by the voters (recent revenue estimates have indicated that no new taxes are required for the new city to be fiscally viable);
- (4) All employees would be hired at intermediate steps on the salary schedules;
- (5) Various services would be contracted with other governments and private agencies, e.g., engineering, animal control, garbage collection, and water.

The various departments for which staffing and budgeting statements were prepared included: general government; public safety (police); community development; community services (primarily recreation and age-group programs); public works (e.g., streets and sanitation); and contract services. Most of the revenue estimates were drawn from previous estimates by Angus McDonald and Associates as revised by the East Palo Alto Municipal Council staff.

Based on the above assumptions, it was estimated that a new city of East Palo Alto would show an annual surplus in the range of \$100,000-\$200,000 through 1984-85 (in 1979 dollar terms). With the net transfer of funds from the county minus the first year start-up costs, the new city would have a healthy accumulated surplus of nearly \$1,000,000 to set aside for emergencies (a contingency fund) and some capital improvements.

Menlo Park's Fiscal Relationship: Belle Haven and Annexation

Since the possibility of annexation of East Palo Alto to Menlo Park was a major alternative under consideration by the San Mateo LAFCo, SRI was further commissioned to evaluate the likely effects of annexation. It was decided that the Belle Haven community of Menlo Park would serve as a possible model for what annexation of East Palo Alto might bring about. Belle Haven lies east of the Bayshore Freeway, as does much of East Palo Alto, which it borders. Belle Haven contains approximately 5,000 of Menlo Park's approximately 26,000 residents (East Palo Alto has approximately 18,000 residents at present).

A detailed analysis of the Menlo Park budget was made to determine what special services might be given to Belle Haven and where services might be lacking.

In addition, Menlo Park department managers were interviewed in order to evaluate both expenditures and staffing patterns in the Belle Haven area and to estimate possible costs of extending Menlo Park services to an annexed East Palo Alto.

The data indicate that in several service areas, Belle Haven has greater city expenditures per capita than the rest of Menlo Park. In the housing section of the Community Development Department, nearly all the resources have been devoted towards upgrading housing in Belle Haven. Although nearly all funding for this effort comes from state and federal grants, the city certainly spends additional amounts of its own resources in managing these special housing grant and loan programs.

In the Community Resources Department, Belle Haven has its own community center, the only such facility outside the main civic center of Menlo Park. Around 40% of the city's Community Resources staff is identified with the Belle Haven facility and a variety of programs for the young, adult, and elderly are provided.

The extent of police patrolling and calls for service range from 25% to 50% above the city average in the Belle Haven area. Some of these services are associated with the industrial area, but most are directed toward the residential area.

Belle Haven is an area of relatively high need compared with the rest of Menlo Park, which is a rather wealthy, well-managed suburban city. Although some Belle Haven residents may sometimes feel that they are short-changed, the direct evidence suggests that the rest of Menlo Park bears relatively high costs of servicing at least the residential part of Belle Haven.

The findings for Belle Haven in relation to Menlo Park were then extrapolated to the possible annexation of East Palo Alto. The results suggest that Menlo Park would find it impossible to service East Palo Alto in the manner it does Belle Haven under current fiscal conditions. If Menlo Park were to respond to legitimate demands by the residents of East Palo Alto that they should be treated equally compared to residents of Belle Haven, Menlo Park would either have to raise taxes significantly (and tax increases generally require a two-thirds voter approval since Proposition 13 in 1978) or reduce services in the rest of Menlo Park. Otherwise the city could face an annual deficit ranging from \$200,000 to over \$1,000,000.

This most recent study by SRI concludes with a re-analysis of the most recent findings by Angus McDonald and Associates and others on the feasibility of incorporation of East Palo Alto. A more conservative approach was taken in this evaluation: that no newly taxes would be imposed in a new incorporated East Palo Alto. In this case, it was found that there would likely be a small annual deficit in the first years of the city's existence under the basic staffing and budgeting assumptions. These deficits would be covered by the major transfer of "start-up" funds from the county in the first year after incorporation. Moreover, the potential revenues from minor staffing and salary structure changes, from increased voter registration, from increased economic development, and from new state gasoline tax transfers are high. Incorporation is financially feasible even with no new taxes.