

# FACT SHEET ON INCORPORATION

VOLUME I, NO. 2

EAST PALO ALTO, CALIFORNIA

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## GENERAL ISSUES

**INCORPORATION** is the establishment of a new city. When **INCORPORATED**, a community elects its own city council and, through its elected officials, controls land-use, zoning, planning and development, city services, and all other municipal affairs.

East Palo Alto is not now a city. It is governed by the San Mateo Board of Supervisors. The East Palo Alto Municipal Council is an elected body that advises the Board of Supervisors on community affairs. The Municipal Council has no authority to set policy for East Palo Alto.

When East Palo Alto **INCORPORATES**, the Municipal Council will be dissolved and replaced by a new city council elected by the residents of East Palo Alto. The new city council will be responsible for the physical, economic, and social development of the community.

The new city will generate sufficient income from a variety of sources — local, state, and federal — which will be more than adequate to pay for the cost of local services (see section on City Revenues). Based upon Proposition 13, property taxes will definitely NOT be increased because of **INCORPORATION**.

This **Fact Sheet** presents information on economic issues related to the **INCORPORATION** of East Palo Alto into a city. It describes the solid financial potential of the proposed new city, and also the probable fiscal impacts of **INCORPORATION** on the residents, property owners, and businesses in East Palo Alto.

## THE ECONOMIC FEASIBILITY OF INCORPORATION

There has been but one *important* question before the San Mateo County Local Agency Formation Commission (LAFCo) and the resident-voters of East Palo Alto — namely, does East Palo Alto have the financial resources to **INCORPORATE** into a city?

To help answer this question, the East Palo Alto Citizens' Committee on Incorporation (**EPACCI**) contracted with the Stanford Research Institute (SRI) International for an independent study of the financial feasibility of **INCORPORATION**. SRI International's basic conclusion is that . . .

*"It is quite likely that East Palo Alto is financially viable as an incorporated city and that annexation (of East Palo Alto) to Menlo Park does not yield the level of financial savings projected by . . . (The San Mateo) LAFCo.*

*"Based upon (SRI's) financial analysis, it would appear that a majority of the negative impacts (of **INCORPORATION**) listed by LAFCo (in the Draft Environmental Impact Report for Menlo Park/East Palo Alto and Districts Sphere of Influence Study) are either not correct or would require additional study or justification before they could be acceptable. . . .*

*"Our analysis indicates that a revenue shortfall is more likely under annexation than under incorporation . . . . (emphasis added)*

*"It is our opinion that incorporation is, in fact, feasible and justifiable for the East Palo Alto area."*

## RECENT INCORPORATION STUDIES

In March, 1981, SRI International completed a comprehensive study of the projected revenues and expenditures for the proposed new city of East Palo Alto. This report, which was based upon 1979 dollar values, was submitted to the San Mateo LAFCo on April 10, 1981, as part of the **EPACCI INCORPORATION APPLICATION**. On the basis of its thorough analysis, SRI International *conclusively* demonstrated that East Palo Alto has the financial resources to **INCORPORATE** into a city.

In April, 1981, Angus McDonald and Associates of Berkeley, California was contracted by the San Mateo LAFCo to prepare an independent financial study of the various alternatives under consideration for East Palo Alto — **INCORPORATION**, annexation to Menlo Park, annexation to Palo Alto, and remaining under the county's jurisdiction (status quo). The McDonald study (July, 1981), which was based upon 1981 dollar values, also demonstrated that East Palo Alto has the financial resources to **INCORPORATE** into a city. The main recommendation in the McDonald

report is that . . .

*"(the LAFCo) Commission approve . . . an incorporated city of East Palo Alto . . . . (This recommendation) is based on a balancing of the advantages of incorporation compared to the advantages of . . . annexing to Menlo Park.*

*"The advantages of incorporation outweigh the disadvantages when the community development capacity of the alternatives were compared, there was a critical and overwhelming advantage for an incorporated East Palo Alto."*

This strong recommendation by McDonald and Associates was contingent upon certain conditions that had to be met by San Mateo County. In September, 1981, the San Mateo County Board of Supervisors unanimously agreed to these conditions, thereby affirming the McDonald recommendations.

## CITY REVENUES

There are a variety of income sources for a city. The main sources of income include the following:

- *locally collected revenues* — property taxes; sales taxes; licenses, permits, and fees; property transfer tax; revenue from use of money and property; vehicle code fines and penalties; and other voter-approved taxes;
- *state shared revenues* — vehicle in-lieu tax; gas tax; cigarette and liquor taxes; and state grants;
- *federal shared revenues* — general revenue sharing and federal grants;
- *service charges* — water delivery; sewage collection; garbage collection; and street lighting.

In order to justify to the County of San Mateo and the residents of East Palo Alto that **INCORPORATION** is financially feasible, it is necessary to show that there would be sufficient revenue to cover the estimated operating costs of a new city.

## PROJECTED REVENUES FOR THE PROPOSED CITY OF EAST PALO ALTO

The following statement on city revenues was prepared by SRI International. It describes the various revenue sources for the new City of East Palo Alto, the estimated income from each source, and the effect of **INCORPORATION** on these revenues. The revenue estimates are for the year 1983/84, which is potentially the first full year of city operations. The revenue data are taken from the most current projections in the McDonald report, except where revised as a result of recent state legislation.

### A. LOCALLY COLLECTED FUNDS

#### Property Tax . . . \$1,012,000

Under the provisions of Proposition 13 there is a uniform property tax collected by the County. The property tax is then disbursed by the County to all cities and special districts. Although the property tax disbursement to a new city is a matter of some negotiation, it has been reasonably estimated that the property tax payment would be \$1,012,000. The property tax payment in future years would be based on increased assessed value within the city. **There would be no increase in property tax payments based on INCORPORATION.** (emphasis added)

#### Sales Tax . . . \$141,000

Sales tax is collected at a uniform rate throughout the County and is paid to the State. The State returns a share to local government based on where the tax was paid. Currently, the County of San Mateo receives the local share of these taxes for East Palo Alto. After **INCORPORATION** these taxes would be sent to the new city. It is estimated that this would amount to \$141,000 per year. These tax receipts will increase, based on increased taxable sales within the city. **There would be no increase in the tax rate based on INCORPORATION.** (emphasis added)

#### Licenses, Permits and Fees . . . \$49,000

Fees are collected by cities to cover the actual cost of regulatory services. Typically, these fees cover building permits, planning requests, dog licenses, etc. These fees would increase only if there were an increase in the costs for administering these services. These fees are currently collected by San Mateo County. It is estimated that the annual revenues would be \$49,000. **There would be no increase in these fees based on INCORPORATION.** (emphasis added)

#### Property Transfer Tax ... \$16,000

The County currently collects \$1.10 tax per \$1,000 of sales value on all property sales throughout the County. When sales occur in city areas, the County shares one-half of the revenue with that city. After **INCORPORATION** this revenue is estimated to be \$16,000. This revenue will change based on the number of property sales and the value of these sales. **There would be no increase in this tax based on INCORPORATION.** (emphasis added)

#### Use of Money and Property ... \$72,000

Cities typically invest their surplus funds in short-term interest bearing accounts. They may also collect rent on the private use of their property. It is estimated that this income would be \$72,000. **There is no effect on this revenue based on INCORPORATION.** (emphasis added)

#### Vehicle Code Fines and Penalties ... \$50,000

All vehicle code fines and penalties are collected by the County and are shared with cities where the violations occur. It is estimated that this revenue will be \$50,000 per year. These funds are restricted to traffic safety purposes ... **Fines and penalties will not change based on INCORPORATION.** (emphasis added)

#### Voter-Approved Taxes ... \$00.00

**There are no new taxes required for the INCORPORATION of East Palo Alto.**

### B. STATE SHARED REVENUES

#### Vehicle In-Lieu Tax ... \$390,000

The State of California collects a vehicle in-lieu tax based on the market value of the vehicle or trailer. This tax is then shared with the cities and counties; a city's share is based on its population. It is estimated that this revenue would be \$390,000 per year. This revenue can be increased by increased population based on the census or by increased voter registration based on three-times registered voter count between the census. **This tax is not affected by INCORPORATION.** (emphasis added)

#### Gas Tax ... \$203,000

The State of California collects excise and sales taxes on all gasoline sales. The sales tax is combined with the other sales tax disbursement. The excise tax is shared with cities and counties on a formula based on population, motor vehicle registrations, assessed valuations and maintained road mileage. Based upon recently enacted state legislation, it is estimated that this revenue in the base year of 1983/84 will be \$203,000. This revenue can only be spent on road construction and maintenance. **The tax is not affected by INCORPORATION.** (emphasis added)

#### Cigarette and Liquor Tax ... \$56,000

These taxes are also collected by the State and shared with cities and counties. It is estimated that the revenue from these taxes would be \$56,000 per year. **This collection is not affected by INCORPORATION.** (emphasis added)

#### State AB 90 Grant ... \$50,000

The East Palo Alto area is currently receiving a \$50,000 per year grant for a police community relations program. This grant would probably not be affected by incorporation. **The new city would probably be eligible for other state grants after INCORPORATION.** (emphasis added)

### C. FEDERAL SHARED REVENUE

#### Federal General Revenue Sharing ... \$234,000

The Federal Government shares a part of its general revenue with cities and counties. The revenue is calculated on a formula and the estimated revenues would be \$234,000 per year. The new city would probably be eligible for other Federal grants. However, these grants are not estimated because they are generally used for specific additional programs.

### D. SERVICE CHARGES ... \$1,264,000

The new city would be taking over water delivery and sewage collection from the existing special districts. It would also contract for garbage collection and street lighting. The service charges for these services is estimated at \$1,264,000. This estimate is about 15% over current charges and is based on increased operating and capital costs. **The increased estimate is less than \$1.00 per person per month. These charges will be based on the actual cost of services.** (emphasis added)

A summary of the estimated revenues for the proposed city of East Palo Alto is given in Table I. The principal sources of city revenues are service charges for water, sewage, garbage and street lighting (35%); property tax (29%), and vehicle in-lieu taxes (11%).

TABLE I  
Summary of Estimated Revenues for City of East Palo Alto  
for Fiscal Year 1983/84

(Source: McDonald, July, 1981)

Locally Collected Revenue	Estimated Revenue	% of Total Revenue*
Property Tax	\$1,012,000	29
Sales Tax	141,000	4
Licenses, Permits & Fees	49,000	1
Property Transfer Tax	16,000	1
Use of Money and Property	72,000	2
Vehicle Code Fines and Penalties	50,000	1
Voter-Approved Taxes	NONE	0
Sub-Total	\$1,340,000	38
<b>State Shared Revenue</b>		
Vehicle In-Lieu Tax	390,000	11
Gas Tax	203,000	6
Cigarette and Liquor Taxes	56,000	2
AB 90 Grant	50,000	1
Sub-Total	\$ 699,000	20
<b>Federal Shared Revenue</b>		
Federal General Revenue Sharing	234,000	7
<b>Service Charges</b>		
	\$1,264,000	35
<b>TOTAL REVENUE</b>	<b>\$3,537,000</b>	<b>100</b>

\*Percentages rounded to nearest whole number

### ONE TIME TRANSFER OF COUNTY FUNDS

In addition to the \$3,537,000 in revenues listed above, SRI International estimated that the new city would ALSO receive a one-time allocation of approximately \$1,274,000 from San Mateo County prior to its first year of operation. The actual amount would be based upon a negotiated agreement with the Board of Supervisors. By law, the County is required to continue providing services without cost to the new city from the date of the **INCORPORATION** election until the actual date that the new city begins operation (which could be up to a year following the **INCORPORATION** election). During this period, the new city collects revenues from the indicated local and state sources while the county is legally obligated to pay for and provide city services. Thus, the new city will begin its first year of operation with a robust income estimated at \$1,274,000, part of which will be expended for basic start-up costs (approximately \$601,000).

### EFFECT OF VOTER REGISTRATION ON CITY REVENUE

Many of the revenues provided by the state are based upon a population formula. In the years between the federal census, the population estimate for a city is three times the number of registered voters, with each registered voter being worth approximately \$70. In other words, the more registered voters, the more money for the new city.

The revenue estimates by McDonald and Associates are based upon the actual number of registered voters (about 6,600 persons) in July, 1981. It is important to note that the McDonald projections assume no increase in voter registration. If, however, the number of registered voters is increased by 1500 to 8100 persons, then the new city will receive an additional \$105,000 from the state.

Based upon the concerted efforts of **EPACCI** and San Mateo County voter registrars, voter registration was increased by several thousand to the current level from February, 1980 to November, 1980. It is almost a certainty that **EPACCI** will reach the goal of 8100 registered voters by the time of the **INCORPORATION** election.

### EFFECT OF ECONOMIC DEVELOPMENT ON CITY REVENUE

It is very significant that the McDonald report assumes that there would be NO new commercial, industrial or housing development in East Palo Alto. To the contrary, a recent study contracted by the San Mateo Board of Supervisors (Recht, Hausrath and Associates, March, 1981) convincingly concludes that there is tremendous potential for such development which, in turn, will provide significant additional revenues to the proposed City of East Palo Alto. The main conclusion of the Recht study is that ...

... *New development will be beneficial to the East Palo Alto community if it incorporates.*"

The potential for local development in East Palo Alto is substantial.

### EFFECT OF FEDERAL AND STATE GRANTS ON CITY REVENUE

As indicated previously, it is virtually certain that the new city of East Palo Alto will receive Federal Revenue Sharing funds and a State AB 90 grant based upon current revenue projections. It is very likely that the new city will qualify for a variety of other federal and state grants for special programs and services.

### SUMMARY OF REVENUES FOR THE CITY OF EAST PALO ALTO

In the first full year of operation (1983/84), revenue for the new city will be about \$3,537,000 from local, state and federal sources. In addition, the city will receive a one-time "transfer" of funds (1982/83) from San Mateo County in the amount of \$1,274,000, about \$601,000 of which is to be expended for basic start-up costs in 1982/83. Thus, the new city will have an estimated net accumulated surplus at the beginning of the 1983/84 fiscal year of approximately \$673,000.

McDonald and Associates projects that city revenues (in 1982-83 dollar terms) will be \$3,480,000 in 1984/85; \$3,468,000 in 1985/86; and \$3,457,000 in 1986/87. When adjusted for the additional gasoline tax revenue resulting from recent state legislation, the revenues are \$3,525,000 in 1984/85; \$3,513,000 in 1985/86; and \$3,502,000 in 1986/87.

The McDonald revenue estimates are based on the assumptions that there will be NO increase in voter registration, NO new economic development, and NO additional federal or state grants. *Therefore, these estimates are very conservative and actually present the "worst case" revenue picture for the new City of East Palo Alto.* Because it is very likely that voter registration WILL increase, that economic development WILL occur, and that federal and state grants WILL be received, the new city's revenues WILL be more than adequate to provide high quality governmental services.

### CITY EXPENDITURES

There are six basic areas of city expenditure. The main areas of expenditure are:

- general government
- public safety services
- community development
- community services
- public works
- other contracted services

### PROJECTED EXPENDITURES FOR THE PROPOSED CITY OF EAST PALO ALTO

The following statement on city expenditures was taken from the SRI International report issued in March, 1981. It describes each category of municipal service and indicates the estimated cost of the service for the City of East Palo Alto during its first full year of operation (1983/84). The actual dollar estimates of city expenditures (in 1981/82 dollar terms) are taken from the McDonald report (July, 1981), since these estimates are the most current projection on governmental costs for the new city.

#### A. General Government ... \$367,000

The principal function of general government is to provide the city with legislation through its city council and general administration through its city manager. Other important functions are city clerk, finance administration, management controls, general accounting, purchasing, water accounting, garbage collection, and legal services. The new city would spend approximately \$367,000 on general government services.

#### B. Public Safety Services ... \$1,399,000

The function of the Public Safety Department is to provide for crime prevention, law enforcement, investigation, traffic enforcement, community services, and coordination with the Menlo Park Fire Protection District. The new city would spend approximately \$1,399,000 on these primary services.

#### C. Community Development ... \$198,000

The function of the Community Development Department is to provide for planning, zoning, code development and enforcement. The new city would spend approximately \$198,000 on community development services.

#### D. Community Services ... \$215,000

The function of the Community Services Department is to provide for recreation, cultural and age-group activities, and parks administration and maintenance. The new city would spend approximately \$215,000 on these basic services.

#### E. Public Works ... \$1,128,000

The function of the Public Works Department is to provide street maintenance, purchase and delivery of water, collection of sewage and delivery to the treatment plant, and to maintain all pipes and facilities for the collection and delivery of sewage. The new city would spend approximately \$1,128,000 on public works. SRI International recommends that the city contract for many of these services.

#### F. Other Contracted Services ... \$276,000

SRI International recommends that the new city contract for the following services: legal services, engineering, grounds maintenance, animal control, civil defense, garbage collection, street lighting, traffic signal maintenance, water purchase, and sewage treatment and disposal. The new city could spend about \$276,000 on contracts for animal control, civil defense, and garbage collection. Other contracted services are included in the budgets for general government (legal services) and public works (engineering, grounds maintenance, traffic signal maintenance, water purchase and sewage treatment).

A summary of the estimated expenditures for the new City of East Palo Alto is presented in Table II. It is noted that the principal city expenditures are for public safety (39%), public works (32%) and general government (10%).

TABLE II  
Summary of Estimated Expenditures  
For City of East Palo Alto For Fiscal Year 1983/84  
(Source: McDonald, July, 1981)

Type of Expenditure	Estimated Expenditure	% of Total Expenditure*
General Government**	\$ 367,000	10
Public Safety Services	1,399,000	39
Community Development	198,000	5
Community Services	215,000	6
Public Works***		
Administration (\$189,000)		
Street Maintenance (\$122,000)		
Street Sweeping (\$20,000)		
Street Lighting (\$143,000)		
Water Service (\$385,000)		
Sanitation Service (\$269,000)	1,128,000	32
Other Contracted Services		
Animal Control (\$11,000)		
Civil Defense (\$4,000)		
Garbage Collection (\$261,000)	276,000	8
<b>TOTAL EXPENDITURES</b>	<b>\$3,583,000</b>	<b>100</b>

\*Percentages rounded to nearest whole number

\*\*Includes legal services contract

\*\*\*Includes contracts for engineering, grounds maintenance, traffic signal maintenance, water purchase and sewage treatment.

### SUMMARY OF EXPENDITURES FOR THE CITY OF EAST PALO ALTO

The McDonald report estimates that city expenditures will be about \$3,583,000 per year from 1983/84 through 1986/87. The budgetary projection for the five-year period, 1982/83 through 1986/87, indicates a surplus of \$718,000 for 1982/83 and a deficit ranging from \$46,000 to \$81,000 for 1983/84 to 1986/87. Table III summarizes the five-year budgetary picture for the new City of East Palo Alto.

Thus, the new city would have a cumulative fund balance ranging from \$718,000 to \$463,000 for the first five years of operation. Even when ten percent of the projected expenditures (\$358,300) is set aside in a contingency fund, there is a cumulative surplus ranging from \$359,700 to \$104,700.

In a previous section, it was emphasized that the McDonald projections assume NO increase in voter registration, NO new economic development, and NO additional federal or state grants. As these things occur, the small deficit projection for the city's annual fund balance will be eliminated, and the financial picture will be even more stable.

Also, the new city can adjust staffing patterns in the public safety department which are estimated on the basis of the two person per car staffing pattern used by the San Mateo Sheriff's

**TABLE III**  
**Summary of Revenues and Expenditures For The City of East Palo Alto, 1982/83 Through 1986/87**

	1982/83	1983/84	1984/85	1985/86	1986/87
Projected Revenues	\$2,397,000	\$3,537,000	\$3,525,000	\$3,513,000	\$3,502,000
Projected Expenditures	1,679,000	3,583,000	3,583,000	3,583,000	3,583,000
Annual Fund Balance	\$ 718,000	(\$ 46,000)	(\$ 58,000)	(\$ 70,000)	(\$ 81,000)
Cumulative Fund Balance	\$ 718,000	\$ 672,000	614,000	\$ 544,000	\$ 463,000
Minus Annual Contingency @ 10% of Budget	\$ 358,300	\$ 358,300	\$ 358,300	\$ 358,300	\$ 358,300
Adjusted Fund Balance	\$ 359,700	\$ 313,700	\$ 255,700	\$ 185,700	\$ 104,700

Department rather than the one person per car pattern used in Menlo Park. Such an adjustment will yield substantial savings.

**THE FINANCIAL BURDEN OF INCORPORATION ON PROPERTY OWNERS/BUSINESSES IN EAST PALO ALTO**

East Palo Altans currently pay a substantial amount of state and local taxes and fees that are collected by San Mateo County or returned to the County by the State. IT IS IMPORTANT TO EMPHASIZE that nearly all of the revenues from the sources listed in Table I are now paid by local residents and spent by the county. There would be virtually no increase in the cost of local government under **INCORPORATION** beyond what would occur without **INCORPORATION**.

Table IV presents information on the potential effect of **INCORPORATION** on the residents and businesses in East Palo Alto. It is obviously concluded that there is virtually no financial effect.

**TABLE IV**  
**Analysis of the Fiscal Burden of Incorporation**

Revenue Source	Cost to Businesses Above Existing	Per Capita Cost Above Existing
Property Tax	None	None
Sales Tax	None	None
Licenses and Permits	None	None
Property Transfer Tax	None	None
Vehicle Code Fines and Penalties	None	None
Vehicle In-Lieu Tax	None	None
Gasoline Tax	None	None
Cigarette and Liquor Taxes	None	None
Service Charges	None	Less Than \$1.00 Per Person Per Month

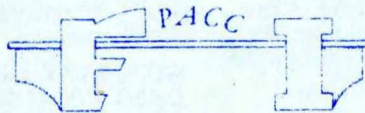
**THE BENEFITS OF INCORPORATION**

*This Fact Sheet discusses various economic issues related to the **INCORPORATION** of East Palo Alto, from which one can reasonably conclude that there is a very strong case for **INCORPORATION**. **INCORPORATION** will result in the election of our own city council and more responsive local government committed to improving city services and creating opportunities for local participation in the process of charting the future of our beautiful community.*

- INCORPORATION** is the only viable alternative . . .
- a locally elected city council
  - local control of planning, land-use, and programs
  - more responsive local government
  - improved city services
  - increased local participation and accountability.

**DON'T HESITATE, INCORPORATE!**

**East Palo Alto Citizens' Committee on Incorporation**  
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The *East Palo Alto Citizens' Committee on Incorporation*, known as **EPACCI**, was formed by the East Palo Alto Municipal Council on January 15, 1980 to coordinate the efforts to incorporate East Palo Alto. **EPACCI** meets each Tuesday evening from 7 p.m. till 9 p.m. in the Municipal Building located at 2415 University Avenue. All meetings are open to the public.

Membership in the **EPACCI** is open to all who desire that East Palo Alto become an incorporated city.

For more information, write to **EPACCI**, P.O. Box 50624, East Palo Alto, CA 94303, or call (415) 327-5846.