

Troubled city

Grand jury investigating East Palo Alto

By Mary T. Fortney
Times Tribune staff

A San Mateo County grand jury is investigating the city of East Palo Alto, grand jury foreman Harry Quinn disclosed Tuesday.

The jury had been looking into operations of the city even before receiving a letter last week from the United Homeowners of East Palo Alto requesting an investigation, Quinn said.

The homeowners group asked the grand jury to investigate "implications of misconduct, collusion and malfeasance of public funds."

Quinn said grand jury members already had been looking into the "inner workings between the managers and the council, not necessarily any one individual."

"Now we're taking basically an overview," he said. "We're looking into all the allegations made by the United Homeowners."

Quinn noted, however, that there are only three to four months remaining before the present grand jury goes out of existence.

"I don't know if we have time to really look into it," he said. "There's a possibility it may be carried over to the next grand jury."

Mayor James Blakey said he was not aware of the grand jury investigation.

Pat Johnson, chairman of the United Homeowners' political action committee, said the homeowners group was concerned about the "general decay and suffering that

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Loan prospect is looking very bleak

By Janet McGovern
Times Tribune staff

Prospects for East Palo Alto getting a \$600,000 loan from San Mateo County appeared nil Tuesday after city officials renewed their appeal to the Board of Supervisors for a bailout.

East Palo Alto's city manager proposed three ways he said the loan could be made, including a complicated plan under which the city would sell back to the county for \$600,000 its lease on the county-owned building that the city rents as its municipal building.

Under the most feasible scenario, the county would, in effect, invest in East Palo Alto by buying notes issued with property taxes due in December as security. Ordinarily, agencies that borrow against future taxes go to banks for the money.

But there are legal and financial problems that apparently preclude the county from making the loan.

Under the Government Code section that would apply, the county could loan only "surplus" funds. Controller Gerry Trias said the county, which has to meet a \$5 million payroll every two weeks, faces a "dry period" every year before taxes are due and has no surplus to lend.

Supervisor Mary Griffin said the county isn't arbitrarily withholding funds from East Palo Alto because property tax payments don't come in until December.

"We are not just holding on to

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we are experiencing in the community."

"The air is filled with governmental stench and we need to clear the air," Johnson said.

Gertrude Wilks, a United Homeowners member, said: "A grand jury investigation will clear up some things for people."

Wilks noted that the request for a grand jury investigation was supported by all the group's members, who number more than 100.

"As a taxpayer, I'm certainly concerned about what's happening to all the (city's) money, not just the little bit spent for taking staff out to lunch," Wilks said. She referred to \$3,000 in credit card charges by former acting city manager James White for staff lunches. White is no longer with the city.

"The inability of the council to involve all the people of the community has made people very suspicious of what's going on," Wilks said.

"We're concerned as homeowners about what impact the city's present financial situation will have on us in terms of assessments," Johnson added.

East Palo Alto officials say they are in the midst of a "cash flow" problem and have applied to San Mateo County for a \$600,000 advance on the property tax money normally turned over to the city in December.

In a letter to the grand jury, the United Homeowners wrote, "The economic development and civic progress of East Palo Alto seems to be stagnating by the adverse result of mysterious political and governmental forces emanating from the City Council. We feel that an official grand jury investigation is warranted to determine if corruption exists."

The homeowners also questioned "suspect business arrangements between certain City Council persons and members of the East Palo Alto Planning Commission, peculiar zoning ordinances and negligence to hold public hearings on zoning changes and public good and welfare issues."

Among the questions raised by the homeowners were:

- Whether council members and planning commissioners improperly exchanged knowledge of property for sale or depressed property values through zoning changes.

- What the relationship is between Community Development Institute, a private, non-profit organization, and elected officials in terms of management of governmental activities and city expenditures. City Councilwoman Barbara Mouton is an employee of CDI, which is headed by former councilman Omowale Satterwhite.

- Why there were apparently inadequate fiscal policies on use of city credit cards, travel expenses, petty cash and the unauthorized hiring of consultants.

- Why the city's publicly funded publication, City Connections, is used in an allegedly discriminatory fashion and not made available to announce a broad base of community activities.

The homeowners also questioned why the authority to direct personnel was placed in the hands of the City Council and not the city manager. However, the council changed that policy earlier this year and authority over the staff now rests with the city manager.

Mouton, when told the United Homeowners had requested a grand jury probe, said sarcastically, "My favorite people!"

Mouton and the homeowners were divided over the issue of the city's incorporation in 1983 and continue to be on opposite sides of most issues.

Mouton refuted the suggestion that CDI influenced her actions on the council, declaring, "That's just bunk. I'm a good listener but I make my own decisions."

In raising the question of inappropriate actions by the council and Planning Commission, the homeowners' letter to the grand jury mentioned a "housing development project purchased through the guise of newly formed development corporations comprised of council members, planning commissioners and an ex-councilman who is close to the sphere of association to get inside information."

The reference was to the Paul Robeson Court, a nine-unit planned development on Weeks Street. The project is a joint development of Serr Corp., Foster City, and Community Opportunities Corp., an East Palo Alto-based nonprofit organization headed by Omowale Satterwhite, a former councilman.

Mouton said there were no planning commissioners involved in the project, adding, "There was just me, and I didn't vote for it."

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your property taxes and raking in interest," she said. "They have not come into our coffers."

County Manager Dave Nichols said a prudent investor would want to know the fiscal condition of the agency issuing the notes. County officials have been reluctant to ask — and East Palo Alto officials haven't explained — just how deep the crisis is or what caused it.

"What we would be doing is making an unsecured loan to you, and I'm a little bit at a loss without a financial statement," said Supervisor Bill Schumacher.

A week ago, newly appointed City Manager Stanley Hall appeared before the supervisors to ask for a "\$600,000 minimum" advance against future property taxes until he could set a sound fiscal management program in place. City officials insist they can get the "temporary cash flow" problem in hand.

At the time, District Attorney Jim Fox advised the supervisors that he saw no legal basis for making such a loan. Hall insisted there were several.

Fox said he was open to persuasion, and last Thursday, his chief civil deputy, Tom Casey, met with Hall and other East Palo Alto officials.

East Palo Alto City Attorney Tesfaye Tsadik and Acting Finance Director Russell Boulligny prepared a memo outlining three proposals.

Under the leaseback scheme, the county would arbitrarily place a \$600,000 value on East Palo Alto's leasehold in the county building, Casey said. The county would eventually recover the money through a leaseback arrangement.

Hall said the city now pays \$100,000 a year to rent the space, and only has a small part of the building. The county houses some social service agencies and a branch library there, as well.

But county manager Nichols said the leaseback idea "just doesn't make sense to me at all. We own the building. They need the space," he said, adding that there is no reason to change the arrangement.

The other two ideas were variations on language in the Government Code that East Palo Alto contends would allow the county to invest surplus funds in notes issued by the city.

Last week and again on Tuesday, Nichols pointed out that East Palo

Alto already has the ability to issue notes in anticipation of future taxes and sell them to private investors. The financing tool is commonly used by government agencies, and Nichols offered the help of one of his assistants, Joanne Kutzler, in preparing the issue.

Hall responded that the city can't wait the 60 to 90 days it would take to sell the notes to private investors.

Instead, East Palo Alto wants the county to buy the notes.

City officials apparently believe they can invest the money at a higher rate of interest than the county will charge them, Casey said.

Nichols said East Palo Alto could probably get a better interest rate from a bank than from the county. Furthermore, Casey said, before tax anticipation notes are issued, investors want to see three years of audited financial statements and other documents.

Asked about a worst-case scenario if the county made the loan, Casey said in the "extremely unlikely situation" that the city lost money on the invested funds and declared bankruptcy, the county could become a creditor in bankruptcy court.

After listening to the problems with loaning county funds, Board of Supervisors President Tom Nolan emphasized his desire to help in other possible ways, including seeking special state legislation, if needed.

"I want desperately to help East Palo Alto," he said. "It's in our interest. It's in your interest to help East Palo Alto."

Although Nolan said he wanted to avoid opening "a can of worms" by involving the county in the city's internal business, he suggested that a meeting be held as soon as possible with city officials and members of Nichols' staff. Nolan and Supervisor Schumacher will also attend.

The supervisors offered last week to help the city by deferring payments until April on a new \$218,000-a-year contract for dispatching services.

Nichols said the city could pay the county back with interest later and use the 10-month grace period to get its fiscal house in order.

But Hall surprised the supervisors last week by sticking with the original contract, which requires \$20,000-a-month payments.

By the end of Tuesday's meeting, though, Hall said he was, indeed, interested in renegotiating the agreement to postpone the payments.