

COUNTY OF SAN MATEO

INTER-DEPARTMENTAL CORRESPONDENCE

DATE October 13, 1981

TO: Local Agency Formation Commission

FROM: Jay Gellert, Assistant County Manager

SUBJECT: East Palo Alto Sphere of Influence

This memo outlines county staff analysis of the East Palo Alto Sphere of Influence issue. Major conclusions of the county staff analysis can be summarized as follows:

1. The county foresees serious problems in maintaining the status quo in East Palo Alto for an extended period.

Exhibit 1 which follows, outlines the degree to which the county utilizes county-wide revenue sources to support municipal services in East Palo Alto. As you will note from the exhibit, over \$2.2 million of county-wide revenues are utilized to subsidize services in EPA on an annual basis. More than \$500,000 of this amount comes from General Fund sources. It will become increasingly difficult in future years for the county to maintain this level of subsidy in the face of federal and state budget reductions. A portion of these revenues will very likely be necessary to meet mandated countywide health, welfare, and justice functions.

Even with this subsidy, questions have been raised about the effectiveness of county services. The Sphere of Influence study consultant specifically pointed to problems that the county has had in managing the community development function in East Palo Alto.

2. Significant new revenues would become available for municipal services in East Palo Alto if the area were annexed or incorporated.

Exhibit 2 which follows, outlines a series of new revenue sources that would become available for municipal services in East Palo Alto if the area were either annexed or incorporated. The exhibit indicates that between \$800,000 and \$1.5 million of new revenue would become available, primarily from state and federal sources. None of these revenue sources are available as long as the area remains unincorporated.

Exhibit 1

ANALYSIS OF COUNTY MUNICIPAL EXPENDITURES IN EAST PALO ALTO

Fiscal Year 1980-81 (in thousands)

	<u>Cost of Service</u> (1)	<u>Revenue Attributable</u> (1)	<u>Net Cost</u> (1)	<u>Source</u>
General County	897	382	515	Sphere of Influence Study
Service Area 5	429	429	0	Sphere of Influence Study
HCD (2)	370	325	45	HCD
Road Fund (2)	<u>1,885</u>	<u>185</u> (3)	<u>1,700</u>	Public Works
Total	3,581	1,321	2,260	

1. User-fee-financed services not included.
2. Based on three-year average.
3. Estimated city gas tax funds, all not taken from the county.

Exhibit 2

NEW CITY REVENUES

<u>SOURCE</u>	<u>STATUTORY SOURCES</u>	<u>ANNUAL REVENUE</u>
Motor Vehicle In-lieu		390,000
Federal Revenue Sharing		234,000
Cigarette Tax		44,000
Gas Tax		150,000
Franchise Fee		12,000
TOTAL		<u>830,000</u>

	<u>OPTIONAL SOURCES</u>	
Utility Fees		186,000
Utility Users Tax		260,000
Business License Tax		23,000
Additional Subventions (1)		<u>180,000</u>
TOTAL		<u>649,000</u>

(1) Assumes voter registration is increased by 2,000

3. Significant problems exist with the separation of the east and west parts of East Palo Alto.

County staff has discussed with Menlo Park city staff the issue of the annexation of the west-of-bayshore area. In order for an annexation to occur in that area, a property tax agreement would have to be reached between the city and the county. It appears quite unlikely that that agreement could be developed for a number of reasons.

First, separation of the east and west parts of East Palo Alto will result in an increase in total municipal service costs of between \$100,000 and \$350,000 a year. Second, if the west-of-Bayshore area were annexed to Menlo Park, the county would lose between \$95,000 and \$340,000 worth of revenue which is presently utilized for services in East Palo Alto. No service cost reductions are likely. As a result, the county subsidy would have to be increased or a service reduction of between 5% and 20% would be necessary. Third and most importantly, it appears that a separation with the financial consequences described above would make it impossible to reach a comprehensive resolution of the East Palo Alto issue in the foreseeable future. Both the incorporation and the annexation options would likely be foreclosed on the east side of Bayshore for many years.

4. A comprehensive resolution of the East Palo Alto issue which can actually be implemented in the near future is necessary.

The Sphere of Influence consultant has indicated that annexation and incorporation are both viable fiscally and are preferable to the status quo. These options are of particular import in light of the vital development decisions that will be made in the community in the near future. The county staff believes it is vital that the sphere be awarded in a manner which allows for annexation or incorporation of the entire East Palo Alto area in the foreseeable future.

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cc: Board of Supervisors
B. Sherman Coffman, Executive Officer, LAFCO