



LOCAL AGENCY FORMATION COMMISSION

455 COUNTY CENTER, 2ND FLOOR • REDWOOD CITY, CA 94063-1663 • PHONE (650) 363-4224 • FAX (650) 363-4849

June 10, 2009

TO: City of East Palo Alto
Menlo Park Fire Protection District
West Bay Sanitary District
County of San Mateo
Interested Agencies and Individuals

SUBJECT: Municipal Service Review and Sphere of Influence Update for
City of East Palo Alto

The attached draft municipal service review and sphere of influence update is being circulated for review and public comment. Affected agencies, and interested individuals and groups are invited to comment on the municipal service review to assist in preparing determinations regarding the agencies under study as required by Government Code Section 56430.

This report is available on line at www.sanmateolafco.org.

LAFCo will consider a preliminary report at the hearing of June 17, 2009 to be held at 2:30 in the Board of Supervisors Chambers, 400 County Center, Redwood City. Recommended determinations will be considered at a subsequent hearing for which notice will be published.

Comments on the draft report should be submitted to LAFCo by June 30, 2009 at the following address:

Martha Poyatos, Executive Officer
San Mateo LAFCo
455 County Center
Redwood City, CA 94063
650/363-4224 650/363-4849 (FAX)
mpoyatos@co.sanmateo.ca.us

Circulation Draft

Municipal Service Review And Sphere of Influence Update City of East Palo Alto June 10, 2009

Government Code Section 56430 requires that LAFCo complete municipal service reviews and sphere of influence reviews on all cities and special districts. This report is a municipal service review and sphere of influence update for the City of East Palo Alto. The municipal service review is not a proposal for reorganization of agencies, rather a State-mandated study of service provision in regard to the following six areas of determination as set forth in Section 56430:

- Growth and population projections for the affected area
- Present and planned capacity of public facilities and adequacy of public services, including infrastructure needs or deficiencies
- Financial ability of agencies to provide services
- Status of, and opportunities for, shared facilities
- Accountability for community service needs, including governmental structure and operational efficiencies
- Any other matter related to effective or efficient service delivery, as required by commission policy

Once adopted the service review determinations are considered in reviewing and updating of spheres of influence pursuant to Government Section 56425. The sphere of influence, which serves as the plan for boundaries of a city, is discussed in the second part of this report. Simply put, for cities, the sphere of influence indicates which city can best provide municipal services to an urban area. This State-mandated study is intended to identify challenges and opportunities and provides an opportunity for the public and affected agencies to comment on city service, finance and opportunities to share resources prior to LAFCo adoption of required determinations.

San Mateo Local Agency Formation Commission (LAFCo): LAFCo is a State-mandated, independent commission with countywide jurisdiction over the boundaries and organization of cities and special districts including annexations, detachments, incorporations, formations and dissolutions. Among the purposes

of the commission are discouraging urban sprawl, preserving open-space and prime agricultural lands, efficiently providing government services, and encouraging the orderly formation and development of local agencies based upon local conditions and circumstances.

The Commission includes two members of the Board of Supervisors, two members of city councils, two board members of independent special districts, a public member, and four alternate members (county, city, special district and public). LAFCo adopts a budget and contracts with the County of San Mateo for services. The Executive Officer serves as LAFCo staff reviewing boundary change applications and preparing municipal service reviews and sphere of influence studies. LAFCo's net operating budget is apportioned in thirds to the County of San Mateo, the 20 cities in the County and the 23 special districts.

Fiscal Condition of Cities

As noted in The Fiscal Condition of Cities 2003¹, a city's fiscal health is at the core of its ability to deliver local services. Challenges cited in the 2003 report include: city reliance on revenues that in many cases it can't control, including property tax diversion by the State of California; declining sales tax revenues; lack of public support for tax increases; and increasing public safety salaries and retirement benefit costs. Since the 2003 report was issued, the economy and local government revenue picture have significantly worsened. It is therefore important to note that in the midst of the current recession, the housing market collapse and State budget crisis², all California cities and counties are in fiscal crisis, with some cities and counties more vulnerable than others based on diversity of revenue sources, accrued reserves and extent to which cost containment measures can be implemented.

In this context, while the City of East Palo Alto has made great strides in the areas of economic and community development, improved fiscal policy and cost containment, a sustained economic downturn will undermine the City's ability to maintain service levels, eliminate a long standing structural budget

¹ A report prepared by Institute for Local Self Government, a nonprofit affiliate of the League of California Cities, in which California Cities are surveyed on trends and challenges.

² While California voters approved the passage of Proposition 1A in November 2004 to prevent future shifts of local government revenues, the measure provided the exception that the State could do so if the Governor proclaimed a severe state financial hardship. If as part of a State Fiscal Emergency, the State suspends this provision of Proposition 1A, the State could borrow up to 8% of each city and county's prior year's total property tax allocation.

deficit and build reserves. This report therefore focuses on the General Fund and the major challenges in providing essential services.

Overview: City of East Palo Alto

Governance, accountability for community service needs, including governmental structure and operational efficiencies

The City of East Palo Alto, incorporated in 1983, is a general law city with five council members elected at-large. The Council selects the Mayor and appoints the City Manager and City Attorney. The State Department of Finance January 2008 estimated population for the City was 32,897 persons (Census 2000 was 29,506). East Palo Alto encompasses approximately 2.5 square miles and is bounded by the City of Menlo Park, the San Francisco Bay and the San Mateo-Santa Clara County (City of Palo Alto) boundary. The City sphere of influence is coterminous with city boundaries and there are no unincorporated lands eligible for annexation to the City.

The City of East Palo Alto sphere of influence is coterminous with City boundaries and therefore absent an amendment of the neighboring city sphere, annexation is not an alternative. Since incorporation, the City has taken over service previously provided by the County of San Mateo including East Palo Alto County Water District, Ravenswood Highway Lighting District, and East Palo Alto Drainage Maintenance District. Municipal services provided by other agencies include fire protection and emergency response by Menlo Park Fire Protection District, residential water service to two neighborhoods by two mutual water companies and sanitary sewer service provided primarily by East Palo Alto Sanitary District and the balance by West Bay Sanitary District.

In regard to the degree to which the City keeps residents, property owners and business owners informed about City services, budget and programs, the City Council meets the first and third Tuesday evenings of each month. The City Council is comprised of 5 members, elected at large to serve four-year terms. The Mayor is nominated and elected by the members of the Council and serves a one-year term. Council Agendas are posted in conspicuous locations throughout the City in addition to City Hall and the library at least 72 hours prior to regular meetings, and also are posted on the City's Website. The Agendas are also distributed to a list of subscribers which includes the members of the press, City recognized union leadership,

residents and interested parties. City boards and commissions include: Planning Commission, Rent Stabilization Board, Transportation Advisory Committee, Senior Advisory Committee and Youth Advisory Committee.

The City of East Palo Alto Website (www.cityofepa.org) contains contact information, including materials such as adopted budgets, annual audits, press releases, job position recruitments and other information. Additional information that would be useful to add to the website includes links to the Menlo Park Fire Protection District (www.menlofire.org) and East Palo Alto Sanitary District (www.epasd.com) as well as contact information for the mutual water companies. Copies of the budget, audit and other reports are available on the City's website are provided upon request, for a nominal fee.

The City of East Palo Alto has 101.4 full-time equivalent positions in the 2008-09 fiscal year, including 43 sworn officers equating to 1 fulltime city position per 324 of population or 1 sworn officer per 765 of population.³

Upon incorporation, several independent and County-governed districts remained intact and have since been transferred to the City. These include County-governed East Palo Alto County Water District, East Palo Alto Drainage Maintenance District and Ravenswood Highway Lighting District. The table below summarizes service delivery patterns. Fire protection and paramedic service are provided by Menlo Park Fire Protection District⁴. City services include: public safety (police), public works (roads, traffic signals, street lights, drainage, facility maintenance water planning and building, parks and recreation, landscaping and median maintenance, street lights, general city administration. The City is included in the Ravenswood Elementary School District and Sequoia High School District. Appendix A includes a profile and map of the City.

Service	Provider
Police	City of East Palo Alto
Fire	Menlo Park Fire Protection District ⁵
Streets	City of East Palo Alto
Street Lights	City of East Palo Alto ⁶

³ Compared to City of Millbrae (population of 20,876) with 19,867 incidents in 2007 and 20,674.

⁴ San Mateo County fire agencies participate in the San Mateo County Pre-hospital Emergency Services Joint Powers Authority (ALS-JPA), the San Mateo Operational Area Emergency Services JPA and the Fire Net Six providing centralized dispatch and a move-up-and-cover plan to ensure that systematic fire station coverage is provided during periods of increased service demand. American Medical Response (AMR) and four local fire agencies provide emergency advanced life support transport.

⁵ See separate Service Review for Menlo Park Fire Protection District.

Sewer	East Palo Alto Sanitary District (majority) West Bay Sanitary District (portion) ⁷ (see map)
Water	City of East Palo Alto O'Connor Tract Co-Operative and Palo Alto Mutual Water Companies ⁸ (See map)
Drainage	City of East Palo Alto
Flood Control	San Francisquito Creek Flood Control Zone (Partial)
Park & Rec.	City of East Palo Alto
Libraries	San Mateo County Library Joint Powers Authority
Animal Control	Peninsula Humane Society under contract administered by County of San Mateo on behalf of the twenty cities and the County
Garbage	Allied Waste under a franchise agreement granted by City of East Palo Alto

Growth and population projections for City of East Palo Alto

As noted above, the State Department of Finance January 2008 estimated population for the City was 32,897 persons and Census 2000 population was 29,506. The following table summarizes Department of Finance Data for Census Years 1970 through 2000.⁹

1970	18,727
1980	18,191
1990	23,451
2000	29,506

The Association of Bay Area Governments (ABAG) "Projections 2007" projects population growth of 17,794 over Census 2000 population, or 60% by 2035 for the City of East Palo Alto. The following table summarizes these projections:

Census 2000 & ABAG 2035	2000	2035
City of East Palo Alto	29,506	47,300

In addition to the existing residential population, demands for city services and traffic are impacted by the Ravenswood 101 Retail Center and University Avenue, which serves as a main thoroughfare between the Dumbarton Bridge and U.S. 101.

⁶ County Governed Ravenswood Highway Lighting District and East Palo Alto Drainage District were transferred to the City including all district assets, revenues and fund balance.

⁷ The majority of East Palo Alto is served by East Palo Alto Sanitary District and a smaller area is served by West Bay Sanitary District. Please see separate service reviews for these agencies.

⁸ A mutual water company is not subject to LAFCo jurisdiction but is included in this report to the extent information is available.

⁹ Data from 1970 and 1980 based on unincorporated territory prior to incorporation.

Infrastructure and Facilities

The City of East Palo Alto's owned and leased facilities are listed below.

Leased Facilities/Properties

<u>Facility/Property</u>	<u>Location</u>	<u>Condition</u>
City Hall	2415 University Ave.	Good
Maintenance Corp. Yard	150 Tara Street	Good
*Land Lease	140 Demeter Street	Good
1,500 Sq.Ft. in the YMCA	550 Bell Street	Excellent

- City leases the land for the Police Facilities

Owned Facilities/Properties

<u>Facility/Property</u>	<u>Location</u>	<u>Condition</u>
Community/Housing Services	2277 University Avenue	Good
*Police Department	140 Demeter Street	Good
Community Development Dept.	1960 Tate Street	Good
Senior Center	560 Bell Street	Good
MLK Jr. Park Concession Stand and restrooms	MLK Park	Excellent
Jack Farrell Restrooms	Fordham Street	Excellent
Cooley Landing	Bay Road	
Bell Street/Ravenswood Park	University and Bell Streets	Good
Bell Street Community Pool	Bell Street	Need Modification
Joel Davis Memorial Park	Tate Street	Excellent
Wangari Maathai Grove	Newbridge and Bay Road	Good
Bay/East Bayshore Mini Park	Bay Road and East Bayshore	Good
O'Connor Street Pump Station	1180 O'Connor Street	Good

*Buildings owned by City, Land Leased

The City response details needed improvements to both leased and owned facilities and cites limited funding available to complete improvements and upgrades.

Streets

The City of East Palo Alto Public Works Department maintains City streets, traffic signals/signs, and rights of way including sidewalks and paths as well as city owned and leased facilities. Public Works maintains approximately 38 centerline miles of pavement. The majority of the street network is comprised of residential/local streets.

In June 2007, the City received a Pavement Management Program that assessed the condition of the City's streets, determined replacement value at approximately \$43.7 million and found that using the pavement condition index (PCI)¹⁰, approximately 60% of city streets were in good/fair condition and 40% were in poor to very poor condition. According to the report, the average PCI for the entire City street network is 54, which indicates the network overall is in fair condition. The report also cited that the network PCI will drop below 45 by 2011 if a substantial amount of preventative maintenance and rehabilitation is not completed.

The study included a recommendation that the City needs to spend \$15.7 million in pavement maintenance and rehabilitation in the next five years, in order to essentially repair all streets and avoid costly reconstruction in the future. The study also included pavement maintenance and re-inspection strategies and provided examples of funding sources to generate additional revenue to fund needed rehabilitation and maintenance of City streets.

Street Lighting

In 2005, the County-governed Ravenswood Lighting District was transferred to the City along with assets consisting of a fund balance of approximately \$1,004,000; the annual property tax, interest and other revenue of approximately \$140,000 per year; principal and interest proceeds (as of November 30, 2005) in the amount of \$62,600 from an outstanding \$50,000 loan made to Drainage District; and approximately 803 lights. Upon transfer, the County provided an inventory including the location of existing lights as well as all documents associated with the Lighting District.

Drainage & Flood Control

¹⁰ The pavement condition index, or PCI, is a measurement of pavement grade or condition and ranges from 0 to 100. A newly constructed road would have a PCI of 100, while a failed road would have a PCI of 10 or less.

In 2005, the County also transferred the East Palo Alto Drainage Maintenance District to the City. Assets of the Drainage District included a vacant 10,000 square foot parcel that was transferred to the EPA Redevelopment Agency for \$250,000¹¹ and improvements to the property, including the O'Connor Street Pump Station, a fund balance of approximately \$5,600; and the annual property tax, interest and other revenue of approximately \$25,000 per year. The City was also successor to the \$62,600 debt to the Lighting District noted above.

Storm water drains to the San Francisco Bay via pipelines 72" in diameter and to the San Francisquito Creek to the Bay via 54" pipelines. Funding for drainage maintenance has been limited to property tax revenue and interest on fund balance. More recently, where possible the City has required drainage improvements related to new development.

Water Service

In 2001, the County-governed East Palo Alto Water District that served the majority of East Palo Alto and a portion of Menlo Park was dissolved and the water system was transferred to the respective cities. The City of East Palo Alto's portion is managed by the Department of Public Works under contract with American Water Company¹². The agreement includes a provision for capital investment by American Water Company of \$8 million or an amount as required for the first ten years of the lease agreement.

In 2005, the City adopted its first Urban Water Management Plan (UWMP)¹³ and has recently issued a request for proposals for the updated plan. The UWMP (available on the City's website) provides information on the City's program and plan to provide a safe, secure water supply in the short and long term. The Plan includes predictions concerning future water demand, contingency planning in case of short- or long-term droughts and catastrophes, and potential strategies to enhance and diversify

¹¹ The proceeds of the transfer were deposited to the County's Housing and Community Development Account.

¹² The City leases the water system to American Water and American Water operates the water system, manages billing and performs routine and emergency repairs.

¹³ As required by the California Urban Water Management Planning Act, cities and districts that have more than 3,000 customers must adopt and update an urban water management plan every five years. The City has issued a request for proposals for a Citywide Water Master Plan Update with the goal of completing the updated plan by October 2010.

East Palo Alto's water supply with recycled water, desalination and water marketing options.

The service area of the City of East Palo Alto's municipal water system covers approximately 2.3 square miles. Two private water companies serve small sections of the city outside the municipal water system: the Palo Alto Park Mutual Water Company and the O'Connor Tract Co-Operative Water Company. The City of East Palo Alto water system receives all of its water from the San Francisco Public Utilities Commission (SFPUC)¹⁴. Other potential water sources include local groundwater and desalinated San Francisco Bay water.

As noted in the UWMP, the City has no water storage facilities. Upon dissolution of the County Water District and transfer of the system, the Cities of East Palo Alto and Menlo Park funded a study of joint water supply alternatives and determined that a joint project was not feasible. The City's 2005 UWMP includes information on water supply and demand and alternative emergency sources. In case of emergency, the City may rely on six 6-inch interties connecting its water distribution system with those of the Cities of Menlo Park and Palo Alto, the Palo Alto Park Mutual Water Company and the O'Connor Tract Co-operative Water Company in order to use interties to supplement any of the four agencies' water supply in the event of a disaster. While the City owns a groundwater well at Gloria Way and Bay Road, it is out of service due to poor water quality.

The 2005 UWMP cites the City's proposal to construct two 500-gallon-per-minute (gpm) groundwater wells and a treatment facility with two one-million-gallon blending reservoirs for disinfection and stabilization with the Hetch Hetchy surface water supply. The treatment works are estimated to cost approximately \$1.925 million and the reservoirs \$2 million each. Proposed funding cited in the UWMP was a grant application for Proposition 50 funding with the California Department of Health Services.

¹⁴ The City of East Palo Alto is one of 28 local agencies that are wholesale water customers of the SFPUC

Private Water Companies

Mutual water companies and co-operatives are not regulated by LAFCo or California Public Utilities Commission or subject to public meeting and records laws. This report includes basic information available on Palo Alto Park Mutual Water Company and O'Connor Tract Co-Operative Water Company in order to address to the extent possible all municipal type services provided to all city residents. As private entities, mutual water companies are governed by a five-member board of directors elected by the shareholders who consist of the owners of property connected to the system. The boards typically meet monthly or quarterly and hold an annual meeting for shareholders.

Systems that serve more than 200 persons are regulated by California Department of Health Services (DHS) to enforce the California Safe Drinking Water Act, which regulates water quality, operator qualifications, maintenance, and systems design. Information contained herein is provided by the companies and contained in documents provided by DHS.

Palo Alto Park Mutual Water Company

Palo Alto Park Mutual Water Company was formed by farmers in 1924 and continued to serve residential users as agricultural uses were discontinued and the land was subdivided.¹⁵ According to the Company's 2007 Annual Report filed with DHS, it currently serves 677 un-metered (flat rate) residential connections, 2 metered residential connections and 20 commercial un-metered (flat rate) connections. The system also includes 77 fire hydrants and 8 inactive connections. The Company's water source is ground water. The Company's Consumer Confidence Report 2007 states that the system includes five source water well pumps located at 2190 Addison in East Palo Alto, that pump the water into the Company's storage tank where it is blended and pumped by two booster pumps that maintain pressure at 68 p.s.i. (pounds per square inch) throughout the distribution system.

Recent correspondence provided by the California Department of Health Services includes a Notice of Violation regarding levels of Iron and Manganese and provides the Company with specific instructions for weekly testing and monitoring.

¹⁵ The 1963 San Mateo County Planning Commission General Plan cites this unincorporated area's 1961 chrysanthemum and cut flower crop at \$1,128,000 or 12.5% of the County's total floral production.

O'Connor Tract Co-Operative Water Company

O'Connor Tract Co-Operative Water Company was formed in 1921 to provide water to member landowners for domestic, stock water and irrigation use.¹⁶ Serving portions of East Palo Alto and Menlo Park, the Company shares a common boundary with Palo Alto Park Mutual Water Company. Service area in East Palo Alto includes territory generally bounded by O'Keefe, Menalto, Green and Euclid. The Company reports 35 metered and 340 non-metered residential connections, 2 irrigation connections and 18 fire hydrants. Water supply is ground water with two wells on Oak Court and a 100,000-gallon tank, a surge tank, and a generator. Correspondence provided from DHS to the Water Company includes recommendations on system maintenance and states that in general DHS finds the water system facilities to be in satisfactory condition.

Police

The City of East Palo Alto Police Department is located at 140 Demeter Street. The City owns the buildings and leases the land and reports that facilities are in good condition. The East Palo Alto Police Department is committed to providing effective police service for the community through professional, courteous and responsible service. The City of operates with a 2008-09 staffing level of 54 police personnel, of which 43 are sworn officers. The Police Department Operating Budget is approximately \$9,393,458 or 47% of Adopted General Fund Operating Expenditures. The Department includes Administration, Investigation and Operations Divisions and provides community police protection and code enforcement. As noted above, based on the 2008 Department of Finance population estimate of 32,897 the staffing ratio is 1 sworn per 765 of population.

The City receives 24 hours a day seven days a week dispatch services from the San Mateo County Public Safety Communications Center. As noted above, according to San Mateo County Public Safety Annual Statistics for 2007 and 2008, the incidents processed for the City of East Palo Alto Police were 34,541 and 35,659, respectively.

Initiatives to maximize resources include pursuit of grant funding, collaboration with city, county, state and federal resources, use of Measure C funds for the provision of

¹⁶ City of East Palo Alto, Draft Utility Consolidation Study, November 1996.

crime/violence prevention services with an emphasis on youth and families (see budget discussion below), and community engagement including "Crime Prevention Updates".

Parks & Recreation

Park and Recreation is provided via the Community Services Department. The City reports that based on a recommended three acres per 1000 of population or ninety acres of park land, the City needs an additional 21 acres of neighborhood parks based on the existing 16 acres of parks and open space, the City needs an additional 21 acres of neighborhood parks, 19 acres of sports fields (3 softball, 8 soccer, 8 baseball fields and 4.7 miles of multi-purpose paved trails. Limited improvements on existing facilities are proposed to be funded with potential Park-in lieu funds and the City indicates the balance of unfunded improvements will be included in the 5-Year Capital Improvement Plan.

Library

The City of East Palo Alto is a member of San Mateo County Library Joint Powers Agreement (JPA). In 1998, the City joined the County and ten other cities in the JPA to coordinate and expand library services throughout the member agency boundaries. Because the Library fund was levying a tax before Proposition 13, the Fund receives a share of the 1% property tax in unincorporated areas and eleven cities. The JPA is funded primarily from this revenue and provides library services in library facilities owned by member agencies. Maintenance of library facilities is funded by the agencies that own each of the library buildings.

Animal Control

The City of East Palo Alto along with the other 19 cities in the county and the County San Mateo is part of an agreement administered by the County providing for a countywide animal control program under contract with the Peninsula Humane Society & SPCA (PHS), a private, non-profit organization. Under the contract, the PHS, enforces all animal control and anti-cruelty laws and provides sheltering for homeless animals and other services.

Garbage/Solid Waste & Recycling

The City of East Palo Alto, along with Atherton, Belmont, Burlingame, Foster City, Hillsborough, Menlo Park, Redwood City, San Carlos, San Mateo, West Bay Sanitary District, and San Mateo County, is part of the South Bayside Waste Management Authority (SBWMA) which is a joint powers authority (JPA). The goal of the SBWMA is to provide cost effective waste reduction, recycling, and solid waste programs to member agencies through franchised services and other recyclers to meet and sustain a minimum of 50% diversion of waste from landfill as mandated by California State Law, AB 939. Currently, Allied Waste Services,¹⁷ a private company, provides collection, disposal and recycling services for the 91,000 SBWMA residences and nearly 10,000 businesses.

Rates for customers of SBWMA member agencies vary in each jurisdiction based on level of service (number and size of containers, curbside versus non-curbside pick up) and franchise fee¹⁸ charged by the jurisdiction.

Annual garbage collection fees are billed on the property tax bill for residential customers at a rate of \$348.96, which also includes fees for street sweeping and litter control services. The City of East Palo Alto also receives franchise fees from the Allied.

For comparison purposes, the following table reflects residential rates as reported in the December 29, 2008 Hilton, Frankopf & Hobson, LLC (HF&H) Review of Allied Waste Collection Rate Application Final Report, for Cities of East Palo Alto and Menlo Park.

	Menlo Park	East Palo Alto
1 Can/monthly	\$15.74	\$25.13
2 Can/monthly	\$48.71	\$50.26

Rates vary based on curbside or yard service. Cities of Menlo Park and EPA bill standard residential service on property tax bill. City of EPA bills for 1-95 gallon container as standard for residential service.

City Finance

Key revenue streams available to California cities for general fund operations include property, sales and use tax, business

¹⁷ The contract between Allied Waste and 12 local government jurisdictions is set to expire at the end of 2010.

¹⁸ The purpose of franchise fees are typically to cover the costs associated with managing the franchise agreement with the trash collection company and for use of right of way.

license tax, transient occupancy tax (or hotel tax) and utility user tax.¹⁹ Cities may also, with voter approval, assess parcel taxes. In the last decade, city revenues have been drastically reduced because these revenues are directly tied to the economy and housing market and in the case of property tax, subject to State "borrowing". Since Proposition 13 was passed in 1978, control of local revenues has shifted to the State allowing the state to divert local revenues to mitigate State budget shortfalls. On the expenditure side, the cost of the non-enterprise city service operations funded with these revenues have increased, in many years at a higher rate than City general fund revenues.

Alternatives available to cities and counties to balance budgets include: reducing service levels; deferring projects; sharing service and joint power agreements with other agencies; passing new taxes; increasing existing taxes and fees; maximizing grant funding; promoting land use and economic development to increase additional revenue or expand revenue diversity; and drawing down on reserves. In San Mateo County, the County, cities and special districts participate in many joint power agreements for services such as animal control, fire protection, library service, sewage treatment, emergency dispatch, ambulance and transportation planning. As cost savings measures, cities have entered into agreements to share specific positions such as battalion chief, police chief or other positions.

City of East Palo Alto Budget

The City of East Palo Alto Adopted Budget includes the General Fund, Special Revenue Funds, Debt Service and Capital Projects. The General Fund, the focus of the service review, includes basic city services including Administration, Community Development, Community Services (including Parks & Recreation), Library, Police, and Public Works. A summary of the General Fund for Fiscal Years 2006-07, 2007-08 and 2008-09 is shown below.

City of East Palo Alto General Fund			
Revenue	2006-07 Projected	2007-08 Amended	2008-09 Adopted²⁰
Sales Tax	\$2,679,150	\$2,442,420	\$2,491,270

¹⁹ Other revenues such as service fees and charges for city utilities including water, sewer and garbage collection are often the largest source of city revenues, but are restricted to funding provision of these enterprise services.

²⁰ See discussion of Mid-year update for 2008-09 budget.

Draft Municipal Service Review-City of East Palo Alto
 June 10, 2009

Property Tax	6,605,102	8,161,212	8,438,567
Permits, Fees & Charges for Service	2,418,450	2,293,060	2,411,970
Utility User Tax	1,265,320	1,413,160	1,501,400
Transient Occupancy Tax	500,000	500,000	500,000
Other Revenues	1,997,997	1,412,025	1,460,180
Total Revenue	\$15,466,019	\$16,221,877	\$16,803,387
Expenditures			
Personnel	\$9,809,986	\$9,584,926	\$12,043,672
Purchased Services	4,612,084	5,515,661	5,464,785
Supplies & Materials	421,267	463,953	572,500
Other Expenditures	1,426,381	1,501,984	1,836,128
Total Operating Budget	\$16,269,718	\$17,066,524	\$19,917,085
Allocation to Other Funds	(1,142,368)	(1,388,022)	(1,502,068)
	\$15,127,350	\$15,678,502	\$18,415,017

Since incorporation in 1983, the City has operated with a General Fund structural budget deficit that was generally covered by an unstructured loan repayment from the Redevelopment Agency. In recent years, the City instituted measures to mitigate the deficit, including a mandatory 12-day furlough for non-sworn employees, reduction of 15 positions and a 20% target for reduction of overtime (2006-07 Fiscal Year).

On the revenue side, the City's 'Measure C' parcel tax was passed in the 2006-07 Fiscal Year. Measure C is a 10-year special tax that the City can use only for the purposes specified in the tax measure. As approved by the voters, 50% of the revenue generated from this tax is allocated and expended for community and neighborhood policing, training, crime suppression and investigations and 50% of the revenue funds violence prevention services with an emphasis on youth and families, ex-felons, domestic violence and senior citizens, including services that may be provided by City agencies or community-based organizations. This measure also requires an annual independent audit and establishes a 'Crime Fighting Act Committee' to review the annual audits, evaluate the effectiveness of the programs, and make recommendations to the Mayor and City Council regarding programs and administrative regulations.

The special tax is \$100.00 for a single-family residential parcel and \$75.00 for each unit in a multi-family residential parcel. For commercial and industrial parcels, the special tax varies depending on the frontage and square footage of the property. Owners of undeveloped parcels are exempt for each year

that they can prove to the City that their parcel was undeveloped for at least six months of the year. Senior citizens over 65 years of age and disabled persons are exempt, upon application for exemption.

In the 2007-08 Fiscal Year, the Council adopted a Five-Year Financial Plan, realized continued budget savings from vacant positions, received higher than projected property tax revenue, reimbursed Transient Occupancy Tax (TOT) revenues and increased developer fees, and ended the fiscal year with a fund balance of \$3.6 Million. Of this, \$1.2 Million was applied to balance the 2008-09 budget and \$1.3 Million is designated for General Fund Reserve, consistent with the Adopted Financial Plan for a 10% General Fund Reserve. The balance of \$1.1 million unreserved fund balance was designated to offset unforeseen negative impacts in the 2008-09 budget.

The Adopted 2008-09 General Fund Budget includes General Fund Revenues of \$16,803,387 and General Fund Expenditures (prior to allocation to other funds) of \$19,917,085 with an offset from the Unreserved Fund Balance. While the adopted budget included conservative revenue estimates based on potential impacts from the worsening economy and real estate market, the City's Mid-year 2008-09 budget update includes projections of a funding gap of (\$300,000) resulting from revenues falling short by \$1.3 million and expenditures being reduced by \$1 million.

Vulnerabilities in Fiscal Year 2008-2009 cited by the City include: unplanned expenditures including current or new initiatives; police department overtime; unfunded state mandates; unanticipated legal costs or settlements; reductions or delays in federal or state funded programs and projects; reduction of revenues including sales tax and property tax as a result of economic decline; unanticipated storm drain expenditures; unfunded liabilities and risk management costs; and unanticipated crime suppression and violence prevention expenditures. More recently, as part of the State budget hardship, Governor has proposed borrowing²¹ from local property tax, if the May 19 State Budget Propositions 1A through F fail. Should this occur, it could result in a \$770,000 revenue reduction to the City of East Palo Alto.

²¹ Under 2004 Proposition 1A, the State can borrow up to 8% of local property tax with a requirement that it be repaid with interest in three years.

It should also be noted that the County Assessor's Office is currently completing a review of decline in value of approximately 50,000 parcels countywide that is projected to result in about 24,000 parcels being reduced by a total of \$2.4 billion. Property tax revenues therefore are projected to, depending on jurisdiction affected, either grow at a lower rate than previous years or in fact decline. The Assessor's office estimates that growth in assessed valuation in City of East Palo Alto for 2008-09 will decline by 9.64% compared to growth of 9.16% in 2007-08 and 13.38% in 2006-07. Property selling at reduced price is also expected to negatively impact assessed valuation.

Status of, and opportunities for, shared facilities

The City cited the following as existing practices of shared facilities with other agencies include:

- The City shares the East Palo Alto Government Center, a County owned facility with the County departments that include Probation, Human Services, Mental Health, and Library, including the Adult Reading Program
- The City provides office and operations at the Government Center and Municipal Corporation Yard for American Water, the contract water operator of the City owned system
- The City has leased city-owned land to the YMCA, a new addition to the service level in the community and the City has 1,500 square feet of programmable space in the new YMCA facility
- The City has an agreement with Senior Center Inc., a community based non-profit organization, to use and program senior service activities at the City-owned Senior Center
- The City, in conjunction with Ravenswood School District, is scheduled to run a Federally Funded After-School program in two Ravenswood School locations with City paid staff.
- The City of East Palo Alto Police Department houses a Captain from the Department of Justice on loan to the City for an indefinite period of time.
- The City and Menlo Park Fire Protection District are exploring the feasibility of establishing a shared Emergency Operation Center as part of the District's plans for expansion of the East Palo Alto Station

- The Ravenswood School District allows the City to share the District's vehicle fueling facility.
- The City currently leases property to the Ravenswood Health Clinic for provision of family health services to East Palo Alto residents.

Opportunities for shared resources include potential reorganization of the East Palo Alto Sanitary District, establishing the District as a subsidiary district of the City of East Palo Alto. Discussed more thoroughly in the Municipal Service Review of East Palo Alto Sanitary District, this would place jurisdiction for sewer service under the authority of the City Council, transfer all assets and liabilities including EPASD facilities. This alternative offers the opportunity to consolidate public works functions in the offices currently used only for sewer functions and could, based on actual operational savings and rate adjustments, provide for transfer of property tax²² currently offsetting sewer operations to fund non-enterprise municipal services such as public safety and community services. The East Palo Alto Sanitary District Service Review is available at www.sanmateolafco.org. The City and District may wish to study in further detail the potential for consolidation of sewer functions as a City function.

²² East Palo Alto Sanitary District Fiscal Year 2008-09 property tax in adopted budget is \$180,000.

Sphere of Influence Review and Update

This section addresses Government Code Section 56425, which specifies that in determining the sphere of influence of each local agency, the Commission shall consider and prepare a written statement of its determinations with respect to each of the following:

1. *The present and planned land uses in the area, including agricultural and open-space lands*
2. *The present and probable need for public facilities and services in the area.*
3. *The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide.*
4. *The existence of any social or economic communities of interest in the area if the commission determines that they are relevant to the agency.*

This sphere of influence update incorporates information and determinations in the municipal service review as well as changes that have taken place since the sphere of influence was originally adopted and provides for public input on the four areas of determination listed above. Comments to LAFCo by affected agencies, organizations individuals are requested in order to be included in the Executive Officer's report to the Commission.

City of East Palo Alto Sphere of Influence:

The sphere of influence designation for the City of East Palo Alto is coterminous with City boundaries and as a city wholly surrounded by the County and or city boundaries and the bay, there are no unincorporated areas eligible for annexation.

City of East Palo Alto

2415 University Avenue
East Palo Alto, CA 94303

Contact Person: Alvin D. James
City Manager
650/853-3100
650/853-3115/FAX

Date of Incorporation: July 1, 1983

City Council: Five-member town council elected to four-year terms

a. Membership and Term Expiration Date: Ruben Abrica, Mayor, David E. Woods,
Vice Mayor, Carlos Romero, Laura Martinez, A. Peter Evans

b.

b. Compensation: Total council compensation for meeting attendance and
benefits in adopted budget: \$12,597 per council member

c. Public Meetings: 1st & 3rd Mondays each month at 7:30 pm
City Council Chambers, Municipal Services Building
2415 University Avenue, East Palo Alto

Services Provided: Administration, police, community development, redevelopment, rent
stabilization recreational services, water, street maintenance, streetlights and
drainage

Area Served: 2.5 sq. miles

Estimated Population: 32,897 (DOF, 2008)

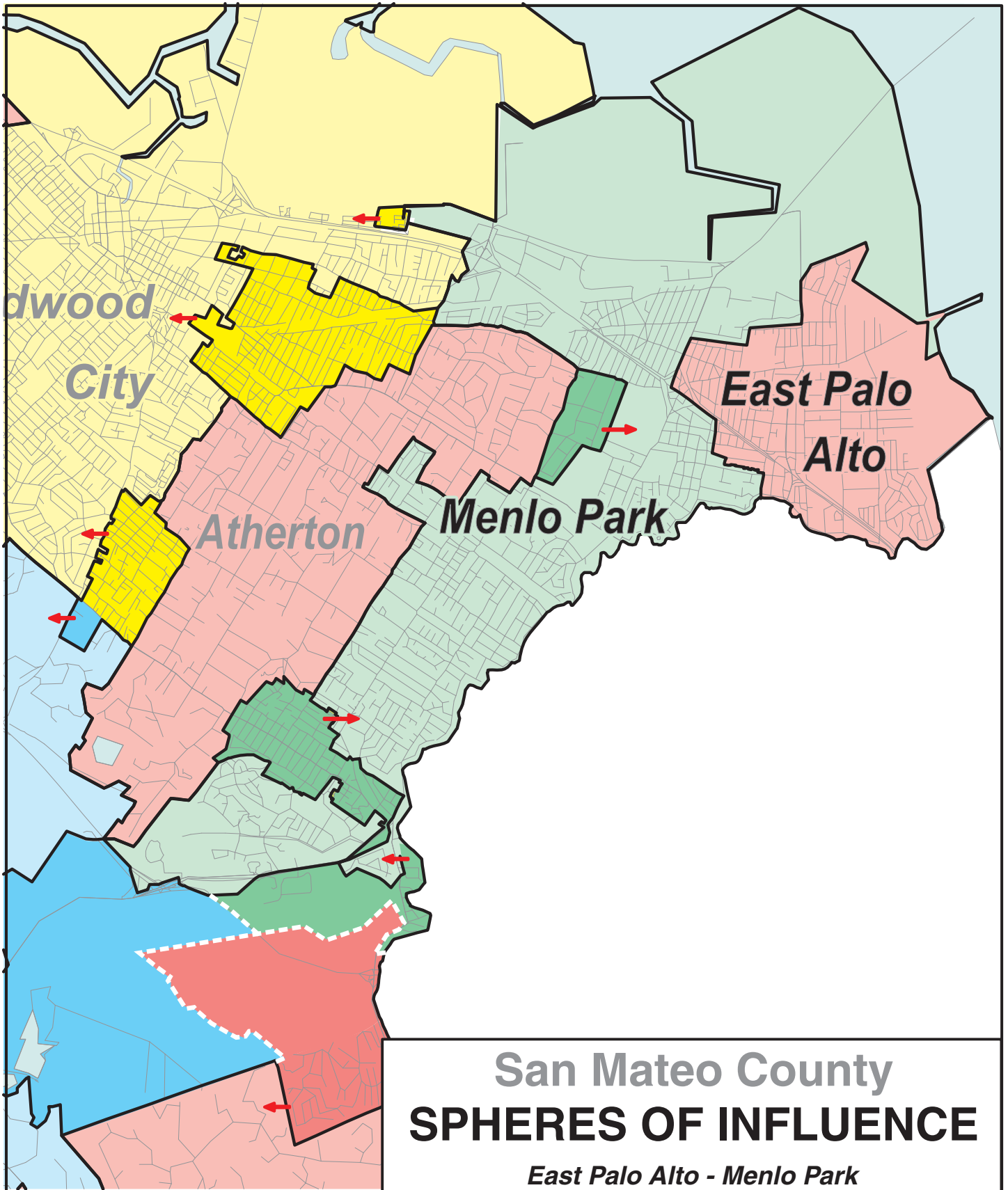
Contractual Arrangements: Operation of City Water Service by American Water

School Districts: Ravenswood Elementary School District, Sequoia Union High School
District, San Mateo County Community College District

Sphere of Influence: Status quo (boundaries of 1985)



Budget: See Attached City of East Palo Alto Budget Summary and refer to the
City of East Palo Alto website for budget updates


City of East Palo Alto General Fund			
Revenue	2006-07 Projected	2007-08 Amended	2008-09 Adopted
Sales Tax	\$2,679,150	\$2,442,420	\$2,491,270
Property Tax	6,605,102	8,161,212	8,438,567
Permits, Fees & Charges for Service	2,418,450	2,293,060	2,411,970
Utility User Tax	1,265,320	1,413,160	1,501,400
Transient Occupancy Tax	500,000	500,000	500,000
Other Revenues	1,997,997	1,412,025	1,460,180
Total Revenue	\$15,466,019	\$16,221,877	\$16,803,387
Expenditures			
Personnel	\$9,809,986	\$9,584,926	\$12,043,672
Purchased Services	4,612,084	5,515,661	5,464,785
Supplies & Materials	421,267	463,953	572,500
Other Expenditures	1,426,381	1,501,984	1,836,128
Total Operating Budget	\$16,269,718	\$17,066,524	\$19,917,085
Allocation to Other Funds	(1,142,368)	(1,388,022)	(1,502,068)
	\$15,127,350	\$15,678,502	\$18,415,017



San Mateo County SPHERES OF INFLUENCE

East Palo Alto - Menlo Park

-  Indicates City Sphere of Influence
-  City Boundaries

-  Sphere of Influence Line Between Areas



