

County of Santa Clara

Office of the County Executive

County Government Center, East Wing

70 West Hedding Street

San Jose, CA 95110

(408) 299-5119

www.sccgov.org



FOR IMMEDIATE RELEASE

April 8, 2008

Contact: Gwendolyn Mitchell/Laurel Anderson

Office of Public Affairs

(408) 299-5119

County Supervisors to Oppose San Martin Incorporation

Proponents Must Demonstrate Proposed Town's Financial Viability

SAN JOSE, CALIF.—Today, the County of Santa Clara Board of Supervisors voted 4-1 (Gage opposed) to register its opposition to the incorporation of San Martin with the independent decision-making body - the Local Agency Formation Commission (LAFCO) - unless the proposed Town of San Martin is able to make the county's General Fund whole by mitigating lost revenue over a 25-year repayment period. LAFCO will meet on April 16, to receive comments on its draft Comprehensive Fiscal Analysis and Initial Study, the two studies required by California law before an area can incorporate to become a town or city.

"The notion of becoming a self-governing town has a lot of appeal," said Board Chair Supervisor Pete McHugh. "However, it carries with it a pretty steep price tag. Not only does the town have to be able to cover the cost of service delivery and adequate reserves, its incorporation cannot do damage to surrounding areas by draining the much needed resources for delivery countywide."

The county had been in negotiations between December and March with proponents of incorporation to hammer out a "revenue neutrality" agreement - the term used to describe this issue - and one of the many factors that must be weighed before a decision is rendered by LAFCO. The 90-day window for negotiating revenue neutrality expired on March 12, 2008, without an agreement being reached.

-more-

County Supervisors to Oppose San Martin Incorporation, Page 2

District 1 Supervisor Don Gage proposed postponing the decision for two weeks to allow more time for negotiation. "I don't believe we have exhausted every opportunity to reach agreement, delaying the vote could help us to reach compromise."

Now LAFCO must make a determination that the proposed town is expected to receive revenues sufficient to provide public services and facilities and to ensure adequate reserves. Also, the revenues that the new town would receive from the county and other affected agencies must be substantially equal to the savings the county would attain from no longer providing services to the incorporated area – the state standard for revenue neutrality. If the incorporation is not revenue neutral, the town must make mitigation payments to ensure the county can continue to provide important countywide services like the criminal justice system.

The draft Comprehensive Financial Analysis indicates that the incorporation of San Martin would result in a net annual loss in today's dollars of \$872,000 to the county's General Fund and the proposed town's annual budget surplus amounts would only range between \$9,700 and \$172,000, well below the amount needed to offset the loss.

"I was initially very excited about the residents' desire to incorporate," said Supervisor Blanca Alvarado, District 2. "But this is not a simple matter. Cities all over California are experiencing deficits. My concern is how would San Martin be able to pay for the cost of providing services to its residents?"

Supervisor Liz Kniss, District 5 expressed a similar concern. "I have not heard anything persuasive that demonstrates that San Martin would be able to support itself," said Kniss. "The proponents' goal is to maintain agricultural identity but the analysis shows that their current configuration will not provide a sufficient tax base."

The county attempted to limit the financial impact on San Martin by proposing a 10-year limit on the mitigation period and creating a 25-year repayment schedule. However, even with those conditions, San Martin would not be able to complete repayment for 77 years.

-more-

County Supervisors to Oppose San Martin Incorporation, Page 3

"San Martin proponents have proposed that savings from the Road Fund also be used to offset the annual deficit," said County Executive Pete Kutas. "However, gas taxes and other restricted revenues finance the Road Fund and legally must be used for roads related expenses, not General Fund expenses."

The Board also authorized staff to file a "Request for Reconsideration" should LAFCO vote to approve the incorporation without having resolved the issue of revenue neutrality and clarified its policy that election costs would have to be borne by the town.

Today's action makes the county's position on San Martin incorporation known to LAFCO. The independent commission will hear other public testimony on April 16. The Executive Officer Report and Recommendations will be issued the following week. A public hearing to approve or disapprove the incorporation is scheduled on May 7.

#