Economic & Planning Systems

Public Finance
Real Estate Economics
Regional Economics
Land Use Policy

PUBLIC HEARING DRAFT

COMPREHENSIVE FISCAL ANALYSIS AND PLAN FOR SERVICE FOR THE PROPOSED INCORPORATION OF THE TOWN OF SAN MARTIN

Prepared for:

Santa Clara County LAFCO

Prepared by:

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I. INTRODUCTION

This report presents a Comprehensive Fiscal Analysis (CFA) of the incorporation of San Martin. The requirement for the CFA is established in the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (California Government Code Section 56000 et seq.) at Section 56800 (herein the "Statute").

The current CFA includes changes and revisions to an earlier draft report (March 5, 2008). The revisions are the result of ongoing review and comment by LAFCO, the County, the Proponents, and members of the public. This report also includes terms required to achieve revenue neutrality.

As currently proposed, the proposal would incorporate the San Martin community within Santa Clara County, nestled between the City of Morgan Hill to the north and the City of Gilroy to the south. Highway 101 runs through the proposed boundaries with an interchange at San Martin Avenue, providing access to San Martin's primary commercial area. San Martin is composed predominantly of large-lot, single-family residential units and an older commercial core.

Figure 1 depicts the proposed incorporation boundary; **Figure 2** shows potential boundary modifications. The area is home to approximately 6,900 residents and includes the CordeValle Resort and Golf Club and Clos LaChance Winery in the western portion of the City. These boundaries will be evaluated and may be refined by LAFCO during its public hearing process.

This CFA provides LAFCO with information necessary to make the determinations required by the State statutes. LAFCO has the authority to approve, deny, or modify the incorporation proposal and must in all cases impose specific terms and conditions regarding the transition of governance to a municipality. If LAFCO approves the proposal, an election would be held. Majority voter approval is required to create the incorporated City of San Martin.

Financial feasibility is a key finding that must be made by LAFCO; however, LAFCO itself is instrumental in determining financial feasibility since it imposes conditions that directly affect costs and revenues accruing to the new City. These conditions include:

- Timing of incorporation (date of the election and the effective date of the new City).
- Boundaries of the new City.
- Property tax transfer.
- Mitigation terms and conditions related to "revenue neutrality."
- Related governmental boundary changes, such as dissolutions of or detachments from special districts.

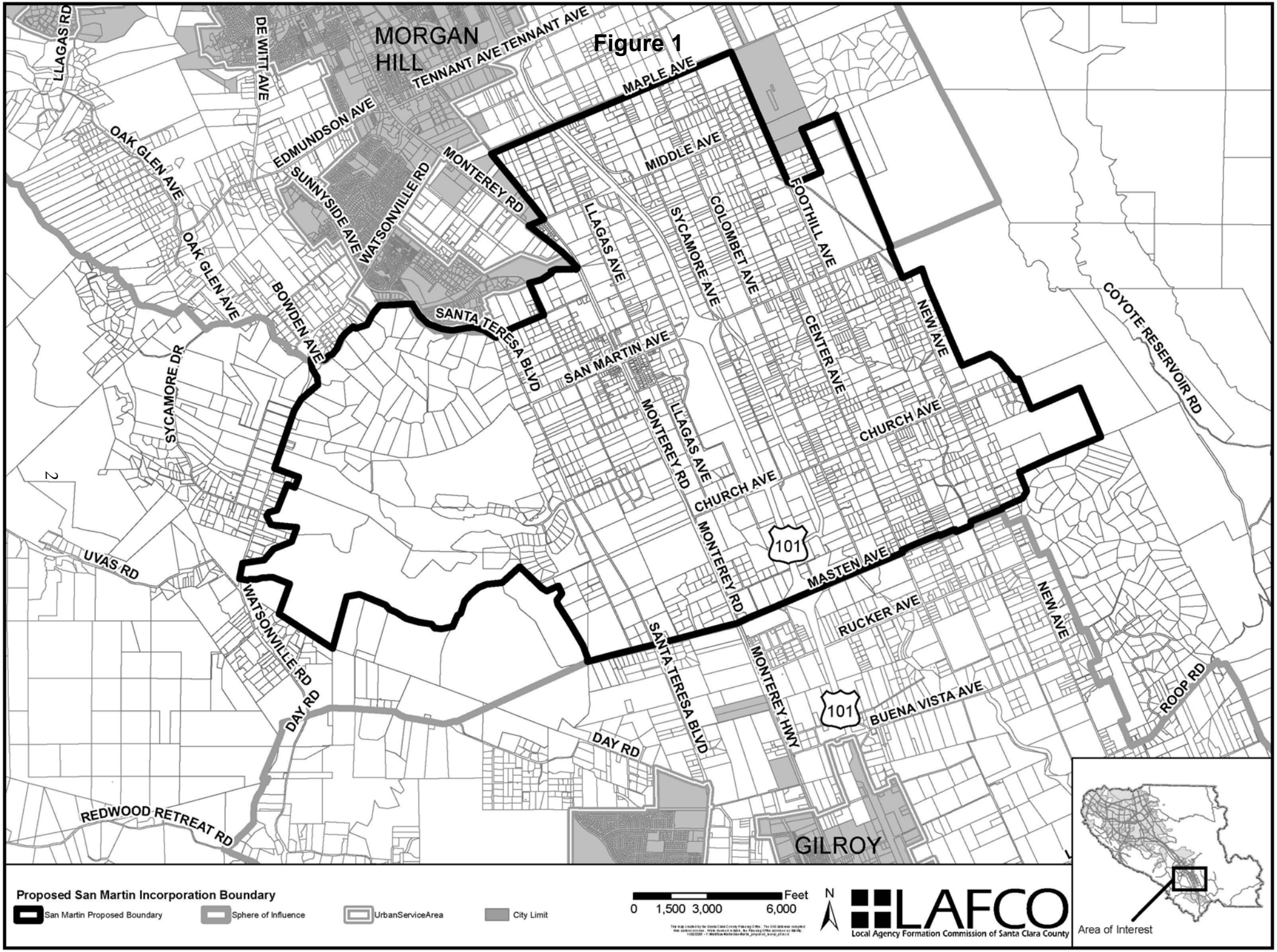
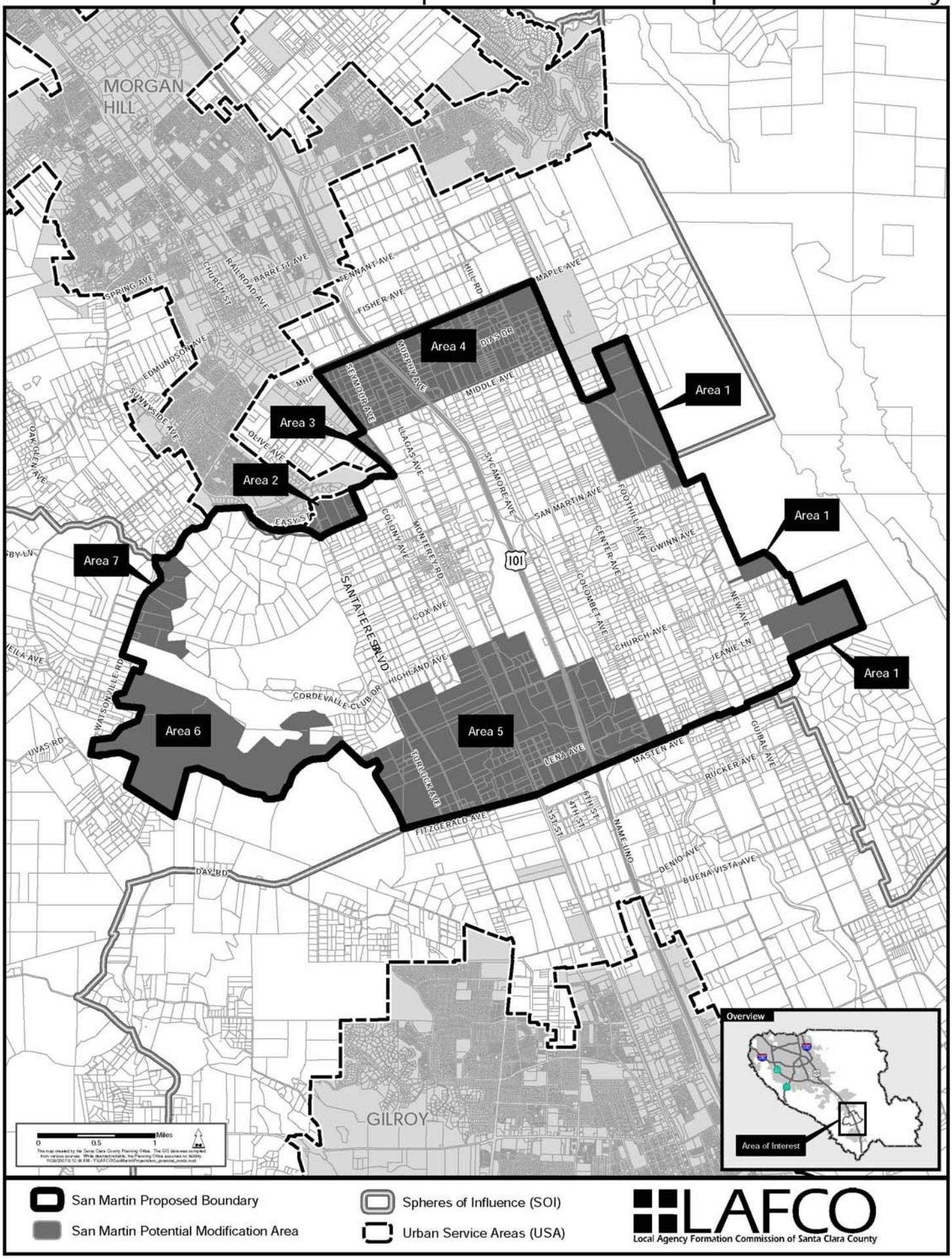


Figure 1
MORGAN HILL
GILROY
LLAGAS RD
DE WITT AVE
TENNANT AVE
TENNANT AVE
MAPLE AVE
EDMUNDSON AVE
OAK GLEN AVE
SUNNYSIDE AVE
WATSONVILLE RD
MONTEREY RD
MIDDLE AVE
LLAGAS AVE
SYCAMORE AVE
COLOMBET AVE
FOOTHILL AVE
OAK GLEN AVE
BOWDEN AVE
SANTA TERESA BLVD
SAN MARTIN AVE
CENTER AVE
NEW AVE
COYOTE RESERVOIR RD
SYCAMORE DR
MONTEREY RD
LLAGAS AVE
CHURCH AVE
CHURCH AVE
101
MASTEN AVE
UVAS RD
WATSONVILLE RD
RUCKER AVE
NEW AVE
SANTA TERESA BLVD
MONTEREY RD
MONTEREY HWY
101
BUENA VISTA AVE
ROOP RD
DAY RD
DAY RD
REDWOOD RETREAT RD
Proposed San Martin Incorporation Boundary
San Martin Proposed Boundary
Sphere of Influence
UrbanServiceArea
City Limit
Feet
0 1,500 3,000 6,000
N
LAFCO
Local Agency Formation Commission of Santa Clara County
Area of Interest

Figure 2

Potential Modifications to the Proposed San Martin Incorporation Boundary



METHODOLOGY AND KEY ASSUMPTIONS

This CFA has been prepared in cooperation with Santa Clara County and other local service providers. The CFA includes a municipal budget model and forecast. Revenue estimates are based on specific mandated formulas (property tax), the development schedule (sales tax), and estimates of population growth (motor vehicle license fees [VLF]). Costs estimates are based on potential increases in the population, as well as on the anticipated City staff required to provide services to the new City. Staffing and expenditure levels are based on current County expenditures, as well as a review of other small cities. The analysis follows guidelines established by State law and as described by the State Office of Planning and Research (OPR) Guidelines (2003), as well as LAFCO policies applicable to CFAs.

The analysis evaluates the feasibility of a new City, taking into account land use development trends, the proposed municipal government structure, and a projection of municipal costs and revenues. The analysis also evaluates the potential impacts of incorporation upon agencies presently providing services to San Martin (e.g., Santa Clara County).

Cost information uses the most recent fiscal year, which is the 2006-07 fiscal year (FY 07). Additional information and adjustments have been made as necessary for the budget forecast for the new City to reflect the future manner of service provision as well as cost increases. The CFA uses conservative assumptions; city feasibility does not depend upon assumptions about future revenue growth. Service levels are assumed to be maintained at current levels, unless otherwise noted. The analysis adheres to OPR Guidelines which state: "In general, the new City's level of expenditures will be based on the cost of transferred services currently provided by the county and other local agencies." Santa Clara LAFCO guidelines also indicate: "Costs of services in the proposal area shall be based on existing levels of service provided in the proposal area by the County and other agencies during the base year" (Policy 9.d.).

While actual future budget costs may be lower than projected in this CFA, LAFCO policies dictate a conservative approach to the projections in order to minimize the future risk of reduced or inadequate service levels. To the extent that the City's actual costs are lower than projected because of improved efficiencies or other factors, additional revenues could be available for other purposes such as contingencies and reserves, capital improvements, and public facilities or for improvement of service levels.

II. FINDINGS

The following findings are based on research and analysis conducted to date, as well as on review and comment provided by County staff, LAFCO staff, the public and the Proponents.

1. ***San Martin can generate revenues sufficient to cover expenditures, and revenue neutrality mitigation payments contingent on approval of a utility users tax as described in this report.***

The summary of projected annual City costs and revenues shown in **Table 1** indicates that the new City can generate sufficient General Fund revenues to cover General Fund costs and establish adequate reserves, assuming approval of a tax measure. Without approval of a tax measure, there would be an annual budget shortfall of approximately $500,000 during the initial six years; in subsequent years the shortfall is estimated to be $375,000 annually. As shown in **Table 1**, there is the potential for a minimal General Fund shortfall in the initial Transition Year of $63,000; however, this shortfall can be eliminated by repaying portions of the County's Transition Year service costs over a five year period, as allowed by State law. In future years there are anticipated to be slight surpluses that can be used to help fund road maintenance or other public facilities and services.

Table 1 includes a revenue neutrality payment from the City to the County to mitigate impacts on the County General Fund of $870,000. The amount of the payments are based on annual impacts for a ten-year period, with re-payment spread over 25 years with an inflation factor, thus reducing the annual required payment to $500,771.

The resulting annual payment of $500,771 creates a budget shortfall that requires additional tax revenue for the City to be feasible. The additional taxes are new taxes (assumed to be a utility users tax) not currently collected by the County. During the initial six years of the new City, minimal net revenues are available. In the initial years, it is expected that the full amount of the payment will be required to be collected from the additional taxes; this represents an approximate annual burden of $238 per residential unit, or a 10 percent utility users tax against gas and electric consumption. The amount of tax required is likely to be less following year 6, when the new City is able to contribute approximately $180,000 or more annually towards the mitigation obligation. After the sixth year, the average burden per residential unit is approximately $153 annually, or 6.4 percent of a $200 per month utility bill.

The projections in **Table 1** assume that the effective date is July 1, 2009 or soon thereafter. This effective date requires that the election occur in June 2009. This date allows up to twelve months during which the County is required by State law to continue providing services; the cost of these services is to be subsequently repaid by the City. The new City will not accrue substantial revenues until later in the fiscal year and into the following fiscal year, when the property tax rolls become effective and sales tax checks are distributed by the State to the new City. State law provides that revenues generated within the area following incorporation shall be applied towards the County's

INCLUDES REVENUE NEUTRALITY MITIGATION

Table 1
Summary of Revenues and Expenses (All Figures in Constant $'s)
San Martin Incorporation Analysis, EPS #17060 **Full Transition Year** **12 months** **Proponents' Proposed Boundary**

	Fiscal Year									
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Item	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
A. GENERAL FUND OPERATIONS										
General Fund Revenues										
Property Taxes	$0	$705,773	$724,107	$742,968	$762,367	$782,320	$802,841	$823,945	$845,646	$867,960
Sales Tax	$419,443	$838,885	$838,885	$838,885	$838,885	$838,885	$838,885	$838,885	$838,885	$838,885
Transient Occupancy Tax	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557
Real Property Transfer Tax	$5,305	$5,436	$5,571	$5,708	$5,849	$5,993	$6,141	$6,292	$6,447	$6,605
Franchise Fees	$289,670	$289,873	$290,075	$290,277	$290,479	$290,681	$290,883	$291,086	$291,288	$291,490
Planning and Building Fees	$0	$274,742	$276,116	$277,496	$278,884	$280,278	$281,679	$283,088	$284,503	$285,926
Public Works/Eng. Fees	$0	$89,020	$89,465	$89,913	$90,362	$90,814	$91,268	$91,724	$92,183	$92,644
Fines, Penalties, Misc.	$42,813	$32,684	$32,793	$32,901	$33,009	$33,117	$33,225	$33,333	$33,441	$33,549
State Motor Vehicle License Fees	$62,172	$62,377	$62,583	$62,788	$62,994	$63,200	$63,405	$63,611	$63,816	$64,022
Utility Users Tax (1)	$499,800	$499,800	$499,800	$499,800	$499,800	$499,800	$321,300	$321,300	$321,300	$321,300
VLF (AB1602)	$547,312	$512,513	$477,474	$442,193	$406,670	$370,907	$372,113	$373,320	$374,526	$375,733
Revenue Credits (transition yr, rec'd by County)	*revenues retained by County during Transition Year are credited to city repayment for Transition Year services.*									
Investment Earnings	$41,761	$70,653	$70,369	$70,090	$69,817	$69,551	$66,466	$66,963	$67,472	$67,993
Total	$2,129,834	$3,603,315	$3,588,794	$3,574,576	$3,560,674	$3,547,104	$3,389,765	$3,415,103	$3,441,065	$3,467,665
General Fund Expenses										
Legislative	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500
Elections	$200,000	$10,000	$0	$10,000	$0	$10,000	$0	$10,000	$0	$10,000
City Manager and City Clerk	$281,225	$328,659	$330,289	$331,927	$333,573	$335,227	$336,890	$338,561	$340,240	$341,928
City Attorney	$250,000	$76,131	$76,511	$76,894	$77,278	$77,665	$78,053	$78,443	$78,836	$79,230
Administrative Services	$166,050	$222,507	$223,620	$224,738	$225,861	$226,991	$228,126	$229,266	$230,413	$231,565
Police	$0	$588,661	$594,598	$600,594	$606,650	$612,767	$618,944	$625,184	$631,485	$637,850
Animal Control	$0	$74,811	$75,185	$75,561	$75,939	$76,319	$76,700	$77,084	$77,469	$77,856
Planning and Building	$137,672	$443,032	$444,635	$446,246	$347,864	$349,491	$351,126	$352,769	$354,421	$356,080
Public Works Administration	$74,250	$178,040	$178,931	$179,825	$180,724	$181,628	$182,536	$183,449	$184,366	$185,288
Revenue Neutrality Mitigation Payment (1)	$500,771	$500,771	$500,771	$500,771	$500,771	$500,771	$500,771	$500,771	$500,771	$500,771
Non-Departmental										
Office Rent/Supplies	$109,000	$112,500	$84,500	$76,500	$76,500	$76,500	$76,500	$76,500	$76,500	$76,500
Insurance	$37,431	$61,915	$61,133	$61,554	$58,617	$59,283	$59,351	$60,023	$60,097	$60,774
Contingency (10%)	$233,596	$212,576	$209,890	$211,334	$201,251	$203,537	$203,773	$206,078	$206,333	$208,657
Reserve Fund Contribution	$233,596	($21,020)	($2,686)	$1,444	($10,083)	$2,286	$236	$2,305	$255	$2,324
LAFCO	$1,437	$1,437	$1,437	$1,437	$1,437	$1,437	$1,437	$1,437	$1,437	$1,437
Repayment of Transition Yr Cnty Services (2)	($61,566)	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total	$2,192,960	$2,819,521	$2,808,314	$2,828,323	$2,705,882	$2,743,400	$2,743,943	$2,771,369	$2,772,122	$2,799,760
General Fund Operating Surplus (Deficit) (3)	($63,127)	$783,794	$780,480	$746,253	$854,792	$803,703	$645,822	$643,734	$668,943	$667,905
Reserve Fund Balance	$233,596	$212,576	$209,890	$211,334	$201,251	$203,537	$203,773	$206,078	$206,333	$208,657
% of Expenditures (exc. conting, reserves, mitigatio	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
B. ROAD FUND OPERATIONS										
Road Fund Revenues										
Gas Taxes	$200,789	$188,455	$176,036	$163,531	$150,940	$138,264	$138,692	$139,119	$139,547	$139,975
Prop 42 Funds	$63,687	$63,899	$64,751	$65,614	$66,488	$67,373	$68,268	$69,175	$70,094	$71,023
Total	$264,476	$252,354	$240,787	$229,145	$217,428	$205,637	$206,960	$208,295	$209,641	$210,998
Road Fund Expenditures										
Pavement Maintenance		$310,050	$313,150	$316,282	$319,445	$322,639	$325,865	$329,124	$332,415	$335,740
Signal Maintenance, Traffic Engineering		$51,008	$51,263	$51,519	$51,776	$52,035	$52,296	$52,557	$52,820	$53,084
Other Costs (sweeping, trash removal, signs, drainage)		$370,644	$372,497	$374,360	$376,232	$378,113	$380,003	$381,903	$383,813	$385,732
Contingency (10%)		$73,170	$73,691	$74,216	$74,745	$75,279	$75,816	$76,358	$76,905	$77,456
Repayment of Transition Yr Cnty Services	$0	$180,928	$180,928	$180,928	$180,928	$180,928				
Total	$0	$985,800	$991,529	$997,304	$1,003,126	$1,008,994	$833,981	$839,943	$845,953	$852,011
Road Fund Operating Surplus (Deficit)	$264,476	($733,446)	($750,742)	($768,160)	($785,698)	($803,357)	($627,021)	($631,648)	($636,312)	($641,013)
TOTAL, All Funds	$201,350	$50,348	$29,738	($21,907)	$69,094	$346	$18,802	$12,086	$32,631	$26,892
Cumulative Surplus (Deficit)	$201,350	$251,698	$281,436	$259,529	$328,622	$328,969	$347,770	$359,856	$392,487	$419,379

(1) New utility users tax included to offset payment for impacts on County General Fund. Amount reduced in Year 7 when City is able to contribute other net revenues to repayment.

(2) Repayment for animal services, planning and land use, code enforcement, public works, and sheriff services the County is obligated to provide for the remainder of the first fiscal year (less County-retained revenues).

(3) Potential initial year shortfall can be spread over subsequent years by deferring repayment of County's Transition Year service costs; this will not affect the fiscal conclusions.

costs to serve the area during the transition period.[1] The revenues are shown in **Table 1** as a "credit." However, the credit exceeds the cost of County transition-year services; the difference is assumed to be transferred to the City and/or credited against the revenue neutrality obligation, in accordance with LAFCO Terms and Conditions.

If the effective date is after July 1, 2009, the new City would receive nearly a full year of County services while beginning to accrue property taxes, sales taxes, and other revenues. Although the Transition Year costs and revenues would be less than shown in **Table 1**, the difference would not significantly change the financial conclusions in this analysis.

This analysis demonstrates that most service levels can be maintained at a level equal to or greater than current services. However, residents (with the exception of law enforcement personnel) will no longer have access to certain services of the County animal control shelter.

2. Road maintenance will require the use of General Fund revenues.

Similar to most small cities in California, San Martin would have difficulty funding required levels of road maintenance because of limited revenues. This situation is exacerbated by the relatively high number of rural roads (approximately 55 miles) in San Martin compared to its population and revenue base. The City also would not have access in the near term to redevelopment revenues (due to the time required to create a redevelopment area), and impact fee revenues would be minimal due to the small amount of future new development anticipated consistent with maintaining the rural character of the area as envisioned by the Proponents.

If the County transfers the roads to the City in a condition that meets County standards for rural roads, required future maintenance expenditures will be lower than the $1.5 million expended by the County in the San Martin area in FY 07. Because the roads are assumed to be transferred in a condition equal to or exceeding County standards for rural roads,[2] the City should not need to continue the same level of expenditures as the County in recent years. The budget forecast assumes an ongoing level of routine maintenance which should be sufficient to maintain the roads at the rural standard.

In addition to pavement maintenance, the City will be responsible for other types of continuing maintenance, including drainage maintenance, street sweeping, tree trimming, trash removal, weed control, and related services. The CFA uses costs for services currently provided by the County. A review of comparable small cities indicates that many cities spend less on similar services; this can be attributable to either

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[1] Cortese-Knox-Hertzberg Local Reorganization Act of 2000, Sec. 57384. Because of the timing of the effective date, certain revenues (e.g., property tax) generated from the incorporation area will continue to be distributed to the County until the new City submits required documentation to the State.

[2] The County's standard for pavement condition on rural roads is a Pavement Condition Index (PCI) of 70 out of a maximum of 100.

a lower revenue base, the use of funding from assessment districts that take responsibility for funding of services through assessments, or a different or reduced mix of services because of geographic conditions and resident preferences.

However, the new City's annual road-related expenditures of approximately $805,000 (excluding County repayment) are still substantially greater than City Road Fund revenues (primarily gas taxes) of $250,000 (in the first full year). To maintain roads at a level similar to current standards, the City will need to transfer funds from its General Fund to the Road Fund. As shown in **Table 1**, the City's General Fund surpluses should be sufficient to fund the road-related expenditures.

3. The incorporation will have an adverse impact on the County's General Fund of approximately $870,000 annually and will require a payment from the City to the County.

County revenue reductions exceed expenditures for service responsibilities transferred to the new City by approximately $870,000 annually, indicating a "revenue neutrality" imbalance and potential negative impact upon the County that must be mitigated, according to State law. **Table 3** in this report summarizes potential changes in County service responsibilities and reductions in revenues. The changes are based on FY07 and reflect County service provision. These numbers differ from the forecasts of City services and revenues shown in **Table 1** because certain City revenues (e.g., gas taxes) are allocated on a different basis than the County's revenues, and many of the services will be provided in a different manner. For example, the new City will not provide an animal shelter, as currently provided by the County, and other city staffing and services will be contracted or staffed differently than current County services.

The amount of revenue neutrality mitigation payments from the City to the County are based on annual impacts for a ten year period, with re-payment spread over 25 years as described in Finding 1 above.[3]

Repayment to the County for transition-year General Fund services is shown at the end of the initial year; however, this payment may be spread over the subsequent five years if necessary to help assure adequate fund balances are established. Spreading the costs will be at the discretion of the future city council, and will be based on anticipated revenues and fund balances at that time; the spreading of the repayment will help the City manage its cash flow in the early years, but is not otherwise expected to significantly alter the financial conclusions in this report.

4. The incorporation will have a positive impact on the County's Road Fund.

The County will transfer its responsibility for road maintenance to the new City, with minimal impact on funding sources dedicated to road maintenance. The net benefit is nearly $1.5 million. The County has indicated that this amount does not necessarily

[3] The mitigation to the payment includes an inflation factor of 3 percent annually.

represent a typical year because of extraordinary expenditures, but rather the average benefit would be $800,000 to $950,000 annually.

5. Other agencies and districts will not be significantly affected by incorporation.

The incorporation will require that South County Fire become responsible for areas previously designated as State Responsibility Areas (SRAs). South County Fire indicates that its annual costs and revenues will not be adversely affected

6. The Effective Date of incorporation will affect City finances.

The CFA assumes a full transition year during which the County is required to continue to provide services; repayment is assumed to occur at the end of the year for General Fund services only. Repayment of Road Fund transition year services is assumed to be spread over multiple years to help manage the city's cash flow.

In accordance with State law, the revenues generated within the incorporation area during the transition year will be credited towards the County's transition-year services during that time. To the extent that the credited revenues exceed the repayment amount to the County, it will be necessary for the remaining credit to apply towards the revenue neutrality mitigation, or be transferred by the County directly to the City.

Table 1 illustrates projected annual city costs and revenues assuming a 12-month transition period, enabling the new City to accrue additional revenues to build reserves. If the effective date of the City is after July 1, 2009 the County will provide services for the remainder of the fiscal year, and the City's repayment for Transition Year County services will be lower. This difference is not anticipated to have a material impact on the financial conclusions.

7. Potential boundary options may reduce Road Fund shortfalls and required General Fund transfers.

LAFCO is required to evaluate potential boundary options. [4] Options evaluated by LAFCO were generally less densely developed by comparison to the Proponents' proposed boundary and with more road miles relative to population (see **Figure 2**). Further analysis of the impacts of the boundaries on the City's budget was conducted of two major options to the northern and southern boundaries. (The three boundary alternatives evaluated in previous versions of this CFA are included in Appendices II, III, and IV, and consist of exclusion of Area 4, exclusion of Area 5, and exclusion of both Areas 4 and 5.) At its February 2008 LAFCO meeting, the Commission provided preliminary direction on proposed boundaries to exclude Areas 1 and 6 and to include Areas 2 and 3, 4, 5 and 7. The current CFA revisions focus on the recommended

[4] LAFCO staff report, December 5, 2007.

boundary which for fiscal analysis purposes is similar to that submitted by the Proponents. However, the conclusions of the prior analysis of boundary options are not significantly changed by subsequent revisions to the CFA.

Analysis of the boundary options concluded there would be a positive impact on the City's Road Fund because of reductions in road miles and road-related costs, which are proportionately greater than the reductions in population and per-capita gas tax revenues. However, the net to the General Fund was reduced by an amount greater than the City's Road Fund savings because of reductions in revenues that were not offset by cost savings.

The boundary alternatives do not significantly change the impact on the County General Fund. The benefit to the County Road Fund is lower as a result of the transfer of fewer road miles and, consequently, less savings in road maintenance costs.

III. THE INCORPORATION PROPOSAL

The following sections describe basic characteristics of the San Martin municipal government as described in the Petition of Incorporation of the Town of San Martin and as assumed in this CFA. Actual Terms and Conditions will be prepared by LAFCO in advance of the Public Hearing on the incorporation proposal which may modify and augment the preliminary terms described below.

NAME OF THE NEW CITY

The name of the new City shall be the Town of San Martin.

FORM OF GOVERNMENT

San Martin will be incorporated as a General Law city under the Constitution of the State of California. The proposed form of the new City would be the "Council/ Manager" form common to small and mid-sized cities throughout the State. Under the Council/Manager form, a five-person City Council, elected at-large, would retain a City Manager who would be responsible for the day-to-day operations of the City with an appointed City Clerk.

CITY BOUNDARY

Figure 1 depicts the preliminary municipal boundary proposed by the Proponents with changes as directed by LAFCO at its February 2008 meeting for the Town of San Martin. This boundary option includes residential uses, the existing commercial district, the CordeValle Resort and Golf Club, and the Clos LaChance Winery.

REORGANIZATION

The proposed incorporation does not include any special district reorganization. Pursuant to Government Code 25210.90, CSAs will be automatically detached upon incorporation unless LAFCO can make certain findings to waive the detachment. It is assumed for the purposes of this report that the County Lighting Service Area will continue to provide service and the area will be automatically detached from the County Library Services District.

SERVICE LEVELS

This CFA presumes and reflects municipal expenditures that maintain existing municipal service levels. Potential exceptions and proposed service levels are discussed in **Chapter V**.

EFFECTIVE DATE

The summary of projected annual city costs and revenues shown in **Table 1** assumes that the effective date is July 1, 2009. This date allows twelve months during which the County is required by State law to continue providing services, to be subsequently reimbursed by the City (as requested by the County).

GANN LIMIT

Local agencies in California that receive proceeds of taxes are required to have a limit on how much tax money they can spend. It is called the Gann Limit. Under State law, the LAFCO resolution of approval and the ballot question before the voters must identify a provisional Gann Limit. Following incorporation, the City Council will place a permanent Gann Limit on a future ballot for voter approval. The CFA indicates that a Gann limit of $3.8 million should be established for the new City. This is based on the estimated proceeds of taxes (including utility users tax revenues) received during the first year following the Transition Year, and includes an inflation factor.[5]

NEW TAXES

As described in the Summary of Findings, new taxes will be required in order for the City to fund all expenditures, including an annual payment to the County to mitigate fiscal impacts on the County General Fund because of the incorporation.

The amount of the payments from the City to the County is based on annual impacts for a ten-year period, with re-payment spread over 25 years.[6] The resulting annual payment of $500,771 is shown to require additional tax revenue for the City to be feasible and able to fully fund total City expenditures including the County payment. The additional taxes are new taxes (assumed to be a utility users tax) not currently collected by the County. During the initial six years of the new City, minimal net revenues are available. In the initial years, it is expected that the full amount of the

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[5] The proceeds of taxes shown in **Table 1** are inflated by 3 percent annually for a four-year period to allow for potential revenue growth caused by inflation. After the City is formed, the Gann limit will be adjusted annually based on population growth and inflation, unless and until the voters approve a new limit.

[6] The mitigation to the payment includes an inflation factor of 3 percent annually.

payment will be required to be collected from the additional taxes; this represents an approximate annual burden of $238 per residential unit, or a 10 percent utility users tax against gas and electric consumption. The amount of tax required is likely to be less following year 6, when the new City is able to contribute approximately $180,000 or more annually towards the mitigation obligation. After the sixth year, the average burden per residential unit is approximately $153 annually, or 6.4 percent of a $200 per month utility bill.

A utility users tax is recommended, rather than a parcel tax, because a majority vote is required. A parcel tax would require a two-thirds majority voter approval.

CAPITAL IMPROVEMENTS

As a rural community, San Martin has limited urban infrastructure (e.g., public water and sewer systems, etc.). It is assumed that this will not change following incorporation. Thus, infrastructure needs other than road and drainage maintenance and reconstruction will be limited.

It is assumed that the City Council initially will adopt all fee ordinances currently enforced by the County to ensure a continual flow of existing fee revenues. While this CFA addresses issues of fiscal feasibility, it has not evaluated the need for, or financing of, future capital improvements with the exception of road maintenance and reconstruction. To the extent that the new City is able to build its reserves, it may choose to fund additional capital facilities and improvements, for example, a city hall and/or other community buildings or parks. The **Table 1** cash flow for the new City does not show capital improvements.

IV. GROWTH AND DEVELOPMENT

The population within San Martin is estimated at approximately 6,900. Because of restrictions on parcel size and limitations from septic constraints, new development has occurred in the range of five to ten units annually[7] and is expected to continue at a similar rate according to regional projections.[8] The actual number of new units in a given year will vary depending on market conditions, development cycles, and building activity. No changes in current zoning, land use, or infrastructure constraints are assumed as a result of incorporation. The CFA does not assume any significant increase in new commercial development.

At the same time, portions of the community, particularly the community core, are in need of further services and general improvement. Cityhood can provide additional tools to seek redevelopment of the village core. Residents may feel empowered to seek greater remedies or abatement of violations through their new town and administration.

The South County Airport property is within the proposed incorporation area. The airport currently has approximately 160 based aircraft and a basing capacity of 278 aircraft. The draft South County Airport Master Plan[9] proposes an extension of the existing runway from 3,100 feet to 5,000 feet and an increase in aircraft basing capacity to 418 by the year 2022. The draft Master Plan also proposes a second Fixed Base Operator (FBO)[10] leasehold in the future as the number of based aircraft increases. The Plan identifies the acquisition of 332 acres of private property adjacent to the airport to prevent future incompatible development. The Plan has not received final approvals, and its timing is uncertain.

Although incorporation will not give the City any control or jurisdiction over South County Airport or affect the Santa Clara County Airport Land Use Commission safety zones, it will give the City land use authority over the private property surrounding the airport including the property that the County plans to acquire over time to prevent incompatible development. The County and the newly incorporated City will need to work together to prevent incompatible development on this property.

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[7] Based on EPS's review of County Planning Department activity, County response to Planning Department data request, County Planning & Development (Development Services) - Planning Dept., 7/31/07, file: County_Planning_Dept5a.doc.

[8] MTC projections for Traffic Analysis Zones generally corresponding to the San Martin area indicate similar levels of future development.

[9] Available at www.countyairports.org.

[10] An "FBO" is a service center at an airport that may be a private enterprise or may be a department of the municipality that the airport serves.

V. PUBLIC SERVICES PLAN AND FUNDING ASSUMPTIONS

A municipal Public Services Plan was developed to assess the feasibility of incorporation. **Table 2** presents a list of existing and proposed municipal services in San Martin. The Public Services Plan provides the basis for preparing a projected budget for the new City to determine whether it can provide services at a level comparable to existing services and establish adequate reserves without increasing taxes.

As with all new cities, the municipal government in San Martin will evolve over time. Initially, many services are likely to be provided by contract with the County or other entities. Over time, these services may be provided directly by the City. Upon its incorporation, the City of San Martin could become responsible for municipal services currently provided by either Santa Clara County or County-governed special districts.

The following services are assumed to be the responsibility of the City initially; the City could provide additional types of services in the future:

- City Council to make policy and to advocate for the community
- City Management and Administration, Finance, and Legal Counsel
- Police Protection including traffic law enforcement
- Public Works including engineering, road and local drainage maintenance, street lighting, and development plan review
- Land Use Planning and Regulation, Code Enforcement, Building Inspection Services, and implementation of National Pollution Discharge Elimination System (NPDES) programs
- Animal Control

The new City will provide the municipal services described in the following paragraphs. Actual levels of service would be established by the City Council through the budget process. Cost projections are based on estimates of the service costs that the new City would incur because of its responsibility to provide certain public services. Level of service and staffing decisions reflect the judgment of the Consultant based on current service levels and a review of staffing and expenditure levels for cities of comparable size. Detailed cost (and revenue) assumptions are included in **Appendix I**.

The following sections provide an overview of the city departments. The initial "transition" year shows lower staffing levels as the County continues to provide services and new City staff are hired during the course of the transition year. Salary levels are assumed to increase at 3.5 percent annually after accounting for inflation, which represents 0.5 percent per year in real terms before adding inflation

Table 2
Municipal Service Providers -- Existing and Proposed
San Martin Incorporation Analysis; EPS #17060

	Service Provision		
Service	**Present Provider**	**After Incorporation**	**Method**
General Government			
Governing Board	Santa Clara County	New City	City Council
Manager	Santa Clara County	New City	City Staff
Attorney	Santa Clara County	New City	City Contract
Finance/Clerk/Administrative Services	Santa Clara County	New City	City Staff
Public Protection			
Law Enforcement	Santa Clara County	New City	Contract with County Sheriff
Traffic Control/Accident Investigation	California Highway Patrol	New City	Contract with County Sheriff
Fire Protection	South Santa Clara County Fire District	No Change	As is currently provided
Ambulance	South Santa Clara County Fire District	No Change	As is currently provided
Animal Control	Santa Clara County	New City	City Staff/Contract
Vector Control and Mosquito Abatement	Vector Control District	No Change	As is currently provided
Land Use and Planning			
Regulation & Planning	Santa Clara County	New City	City Staff/Contract
Community Services			
Recreation Programs	Santa Clara County	No Change	As is currently provided
Regional Parks/Open Space	Santa Clara County/ S.C. Open Space Authority	No Change	As is currently provided
Local Parks	n/a (no local parks)	n/a	n/a
Library	Santa Clara County Library District Gilroy and Morgan Hill Branches	No Change	As is currently provided
Public Works/Public Utilities			
Admin. and Maintenance of Roads, Bridges, Signals, Drainage	Santa Clara County	New City	City Staff/Contract
Domestic Water	Santa Clara Valley Water District, West San Martin Water Works, San Martin County Water District	No Change	As is currently provided
Waste Water Treatment/Disposal	n/a (septic systems utilized, except Lion's Gate)	No Change	As is currently provided
Solid Waste Management	Santa Clara County	New City (franchise management, recycling)	City Staff
Solid Waste Disposal	South Valley Disposal & Recycling	No Change	As is currently provided
Flood Control & Conveyance Drainage	Santa Clara Valley Water District	No Change	As is currently provided
Street Lighting	Santa Clara County/CLSA #1	No Change (assuming specific findings are made by LAFCO)	As is currently provided
Building Inspection	Santa Clara County	New City	City Staff/Contract
Public Education			
K-12 Grade Levels	Gilroy and Morgan Hill Unified School District	No Change	As is currently provided
College	Gavilan Community College	No Change	As is currently provided
Other Services			
Electricity	Pacific, Gas & Electric	No Change	Franchise Agreement w/New City
Gas	Pacific, Gas & Electric	No Change	Franchise Agreement w/New City
Cable Television	Charter Communications	No Change	Franchise Agreement w/New City
Public Transit	Valley Transit Authority	No Change	As is currently provided

Source: Economic & Planning Systems

(unless otherwise noted). Actual salaries would depend on the negotiation of employment contracts and city staffing practices, as well as economic and employment conditions and staff availability at the time of hiring.

Other costs generally include supplies and materials and would vary by year depending on need. Certain initial expenditures for computers and office equipment are included in the early years. Departmental budgets also include other costs such as travel, subscriptions and memberships, telephone, specialized software, and professional services and consulting (i.e., financial audits). The method of service provision, staffing levels, and contract services are illustrative but are believed to be generally representative of a newly incorporated City; actual methods may include some variation of in-house staff and contract services. The City Council ultimately would determine the method of service provision based on consideration of numerous factors including cost, service agreements with other jurisdictions, and availability of private contractors. As previously noted, the use of contracts and in-house staff is likely to evolve over time depending on funding and City Council direction.

CITY COUNCIL

Currently, the Board of Supervisors governs the unincorporated area. The proposed City falls within the first Supervisorial District. Incorporations commonly increase local involvement in government because citizens gain more direct access and ballot box control over local elected officials, and through these elected officials, the land use, public service, and taxation decisions that affect their lives.

The City Council would be the governing body of the City and would include five council members. The City Council would hire a City Manager and City Attorney, make service and budget decisions, enter into agreements with other governmental entities, and regulate land use within the City boundaries and represent the community. The City Council will need to adopt a municipal code, including a zoning ordinance, for the new City.

The CFA assumes that council members would be paid a minimal monthly stipend, and other travel and membership costs would be incurred. The actual stipend will be decided as part of the City's formal budgetary process. The "membership" expenses include membership in organizations such as the League of California Cities and other professional organizations. The "travel/meeting" expenses include costs related to conference and meeting attendance.

CITY ADMINISTRATION AND FINANCE

The City would be administered by a City Manager and a professional staff, including a Finance Director. Administrative and service decisions would be focused on the City Manager, who would carry out the policy directives of the City Council. Specific activities of Administration and Finance include a City Clerk and elections, budget preparation and administration, personnel, and contract administration.

The election costs are based on estimates provided by the County Registrar of Voters[11] for a special election on the incorporation question, elections for five council members, and the number of estimated voters. The estimated costs would be lower if the initial ballot measure is part of a general election.

CITY MANAGER AND CITY CLERK

The City Manager's Office, responsible for overseeing City operations, would include a full-time City Manager. Administrative assistance and functions related to city documents would be handled by a full-time City Clerk.

The current budget forecast assumes a full year during the city's initial transition year. Prior analyses assumed a partial transition year because of the timing of the incorporation, which has been delayed. One full-time city manager is shown, and 0.5 city clerk position during the initial transition year. A city manager will be required for the full year, and may be required to start in advance of city formation to plan for the transition and to begin the hiring process. A full-time clerk is assumed for the full year in the second year.

FINANCE DEPARTMENT

The Finance Department, responsible for financial oversight and budgeting, would include a Finance Manager and Financial Analyst.

ADMINISTRATIVE SERVICES

Administrative Services includes human resources functions and information services. The latter are assumed to be provided by contract initially.

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[11] County Registrar of Voters, (April, 2008)

CITY ATTORNEY

The City will contract with an attorney or municipal law firm to provide legal expertise. Initial year costs are assumed to be higher than subsequent years to deal with city start-up issues and the adoption of ordinances and preparation of contracts.

The cost estimates assume that a law firm is contracted to provided legal services; the first year of the city will require a substantial effort to create and adopt ordinances, negotiate contracts with service providers, and deal with transition issues including leases and employee contracts. Many of these issues apply to all new cities, whether large or small. While it may be possible to find a lawyer at a lower cost, it is assumed that the services of an experienced municipal law firm will be required.

POLICE PROTECTION

CURRENT SERVICES

At present, the County Sheriff's Office (S/O) provides general law enforcement services, and the California Highway Patrol (CHP) is responsible for traffic enforcement and investigations. The S/O's San Martin Substation is located at 80 Highland Avenue in San Martin. This substation serves as the S/O's primary facility for law enforcement services for the unincorporated areas south of Bernal Road (South County).[12] The Santa Clara County Communications Center (CommCenter) handles radio communications for daily 9-1-1 telephone calls, County ambulance services, County Fire, County Parks, and the Sheriff.

There are 30 S/O personnel assigned to the South County Substation. S/O personnel provide 7-day/24-hour general law enforcement patrol coverage for the proposed area. The Substation also provides law enforcement administrative staff, property crime detectives, and a rural crimes deputy. Two clerical personnel are assigned to the Substation to assist the public with fingerprinting, copies of reports, and general inquiries. The South County Substation is supported by the S/O Headquarters' Division located in San Jose. Detectives in the S/O Headquarters' Division who have had specialized training in homicide, sexual assault, domestic violence, and evidence collection (CSI) complement the South County detectives.

Current costs for S/O service are based on the S/O's estimated cost to provide the same level of service under a contractual arrangement between the County and the City following incorporation. The current cost does not include traffic enforcement.

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[12] Cmdr. John Hirokawa, Response to LAFCO San Martin Data Request, August 9, 2007. The $576,000 is slightly greater than the amount cited in the Response because of a correction to a typographical error.

SERVICES FOLLOWING INCORPORATION

After incorporation, the City is assumed to contract with the County S/O to provide both law enforcement and traffic control services. The S/O estimates that the annual cost to the new City would be $576,000 to contract for approximately 4,300 hours of general/traffic patrol and 500 detective hours per year.[13] This estimate of services is based on a review of average annual service hours to the San Martin area over the past three years, consideration of the proposed city boundaries, the number of traffic collisions investigated by the CHP, and experience with other contract cities. This cost assumes that the new City contracts for a certain number of hours rather than a fixed number of deputies. Contracting for hours provides a lower cost option and is consistent with how S/O services are currently provided in unincorporated areas. In the future the City could choose to contract for deputies, which would provide officers dedicated to the community; however, there may be some additional cost to the extent the contracted officers aren't required full time.

Services would be funded by General Fund revenues to the new City, with a minimal amount of dedicated service fees and charges. The new City would be eligible for various grants; however, it is assumed that any grants received would be used to purchase equipment or services over and above the level shown in the budget, because of grant funding "maintenance of effort" requirements and restricted uses. The City could expect some revenues related to traffic fines; however, it is estimated that these revenues would be $5,000 per year, or less.[14]

PUBLIC WORKS

CURRENT SERVICES

The County's Roads & Airports Department's South Yard at 13600 Murphy Avenue, San Martin, currently serves the proposed incorporation area. Approximately 55.3 centerline miles[15] of County roads are contained in the proposed incorporation area. Services include pavement maintenance, striping, signage, vegetation control, road drainage maintenance, traffic signal maintenance, traffic engineering, and land development engineering (including permit issuance and inspection) for private development on parcels with County road frontage.

FY 07 expenditures for the maintenance activities listed above totaled approximately $1.5 million for road maintenance and related activities including signage, street sweeping, pest management, and drainage maintenance (direct costs for labor, material,

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[13] Ibid.
[14] Ibid.
[15] County Roads & Airports Department, Response to LAFCO San Martin Data Request, received September 10, 2007.

and equipment).[16] This amount, approximately half of which is for pavement maintenance, varies from year to year and the FY 07 amount is not necessarily indicative of a typical or average year; in FY 06 the costs were approximately $1.2 million. Over the past several years, the County has been undertaking a program to bring the San Martin roads up to County standards for rural roads . The County goal is a Pavement Condition Index (PCI) of 70 out of 100.

In addition to road maintenance, the County expended an estimated $40,000 for signal maintenance,[17] $80,000 for traffic engineering, and $85,000 for development engineering services; the development services were 100 percent recovered through fee revenue. Estimates of traffic engineering costs were based on countywide estimates for studies mostly initiated as a result of public inquiries and concerns over issues such as speeding, truck usage, traffic circulation, and intersection safety. In addition, the costs were based on staff-initiated studies related to safety evaluations, illegal encroachment follow-up, radar speed study validations, jurisdictional verifications, railroad crossings, traffic control approval for maintenance and construction works, coordination with other agencies, and responses to legal inquiries related to lawsuits. In FY 07, the County spent an annual average total road maintenance cost for all roads in the San Martin area of approximately $27,500 per centerline mile[18] for all services, which is less than the average Santa Clara County expenditure of $30,000 to $35,000 per centerline mile.[19] As noted above, this level of expenditure is largely due to major road work to bring the roads up to, or in most cases exceeding, the County's PCI goal.

A more typical cost has been estimated by the County to be approximately $880,000 annually, although that amount can vary depending on levels and type of weed abatement, traffic engineering required, and actual amount of pavement maintenance. The typical cost includes approximately $300,000 per year for pavement maintenance, which allow for a regular schedule (e.g., every five to ten years) of slurry seal and/or chip seal treatments. The County typically utilizes chip seal treatments, which ideally should be applied on a seven- to ten-year schedule; chip seal is more costly than slurry seal but generally lasts longer.

The Road Fund, in addition to fee revenue for development services, funds all road maintenance services. There is no ongoing County General Fund contribution (in the past there have been onetime General Fund allocations for specific projects).[20] The main

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[16] Ibid.

[17] E-mail correspondence from Ron Jackson, Santa Clara County, to Neelima Palacherla, 1/25/08. Signal maintenance costs were based on County records of staff and material costs; electrical costs were estimated at $5,000 for the three signals.

[18] A "centerline mile" equals the total length of a road; a "centerline mile" would be equal to two "lane miles" in the case of a two-lane road.

[19] State of California Street and Roads Annual Reports, 3- to 5-year average through FY 06, excluding administrative and engineering costs.

[20] Ibid.

sources of Road Fund revenue are state gas taxes (approximately $24.2 million countywide) and Prop. 42 Traffic Congestion Relief ($8.5 million), which are subvened directly to the County by formula. Grant funding (usually project-specific) is another source of funding. Other than the 1996 Measure B Program, which was funded by a now-expired local sales tax, the Department has not received any sales tax revenue.

The County is also responsible for managing CLSA #1, which is partially within the proposed incorporation area. Assessments vary based on the level of lighting provided to the parcel. Total assessment revenue in benefit zone #1 is only $7,606. There is no County General Fund contribution to the CLSA. All CLSA expenditures are funded by the property assessments.[21]

SERVICES FOLLOWING INCORPORATION

The new City's Public Works Department would provide engineering services to the City and would manage capital improvement and maintenance activities. The major activities would include maintaining roads and landscaping, as well as conducting engineering review of development proposals. During the Transition Year, it is assumed that the County will continue to provide road maintenance services. The City would repay the County in subsequent years, as requested by the County pursuant to State law.

The Public Works Department is assumed to include a Public Works Director working at the direction of the City Manager and City Council. Much of the planning, engineering review, and building inspection would be provided by in-house staff and/or by private consulting engineers and contractors. Road maintenance could be contracted to a private firm.

Road-related expenditures potentially are the single largest budget item facing the new City. Although the County spent approximately $28,000 per centerline mile in FY 07, future costs should be substantially lower because of the recent expenditures to improve the condition of pavement in the area. The County estimates that future annual pavement maintenance costs should total about $300,000 per centerline mile, for a 10-year cycle of chip sealing after the County has brought all roads up to a PCI standard of 70 or greater.[22] The CFA assumes that the City uses slurry seal for the roads, assuming the roads are transferred at a PCI exceeding 70. Slurry seal is a lower cost process (potentially 50 percent per lane mile); however, it does not last as long as chip seal, and therefore it has a life cycle cost that is about 93 percent of chip seal.[23] The regular use of

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[21] Ibid.

[22] County Roads & Airports Department, Follow-up Response to LAFCO San Martin Data Request, received November 15, 2007.

[23] General Guidelines for Effective Maintenance Treatments, Caltrans Draft Matrix, contained in "Framework for Treatment Selection", by Glynn Holleran.

slurry seal (e.g., every five to seven years for slurry seal treatments, ideally) will help the City to maintain PCIs of its roads at 70 or above. If a routine schedule is not maintained, the City may face a significantly higher future cost to reconstruct damaged roads. The CFA has increased pavement maintenance costs by an average of 4 percent per year (including 3 percent inflation), beginning in 2007. The CFA includes a 10 percent annual contingency, in addition to the General Fund's 10 percent contingency, to help address any unforeseen road costs, or to fund cost increases that are greater than those assumed in the CFA.

The new City is assumed to reduce its weed abatement costs by 50 percent compared to the County's current Integrated Pest Management ordinance and legal mandates. In addition, the CFA includes the County's FY 07 costs for other services (sweeping, tree trimming, drainage maintenance, trash removal, etc.). These costs total $360,000. [24]

Traffic engineering and traffic signal maintenance costs are estimated at $50,000. Costs for traffic signal maintenance are based on County work records and estimates of utility costs.[25] A review of other small cities indicates that other communities often spend less for traffic signal maintenance than spent by Santa Clara County in San Martin; however, the CFA uses the more conservative, higher actual costs as reported by the County, consistent with LAFCO policy. To the extent that the City's costs are actually lower than projected, more funds will be available for other City purposes. Conversely, it is important that the CFA not underestimate costs, which could result in inadequate service levels or inability to respond to safety issues in a timely manner, or create a need for increased taxes. Traffic engineering is estimated at $10,000 based on EPS review of other cities. The County estimated $80,000 annually for traffic engineering; however, this estimate was based on unincorporated countywide costs and was not specific to San Martin area projects or workload.

Morgan Hill has averaged $500,000 to $600,000 in pavement resurfacing for the past five years,[26] which is about $6,000 per centerline mile. According to the City's System Condition 2006 report, the City needs to spend closer to $35,000 annually per centerline mile for the next five years. These costs are for resurfacing only and do not include the other additional costs described above for sweeping, roadside maintenance, engineering, etc.

A review of other cities indicates, with limited exceptions (e.g., La Habra Heights), that road maintenance, construction and engineering, and administration costs equal or exceed the estimated costs for San Martin. **Table 5** in **Appendix VI** provides information reported to the State from various jurisdictions related to road maintenance and construction costs. The type of maintenance proposed for San Martin roads (e.g., chip or slurry sealing) is often reported in the "construction" category, and other costs

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[24] E-mail correspondence from Ron Jackson, Santa Clara County, to LAFCO 7/16/08.

[25] E-mail correspondence from Ron Jackson, Santa Clara County, to Neelima Palacherla, 1/25,08.

[26] City of Morgan Hill CIP 2004-2009.

(sweeping, weed abatement) are reported in the "maintenance" category. The State reports are comprehensive and typically report more costs than shown in city public works budgets alone, especially those roads-related costs that are often funded by assessments and fees.

Table 6 in **Appendix VI** includes the results of interviews with other cities related to costs other than pavement management (street sweeping, drainage maintenance, trash removal, landscape maintenance, etc.). These costs often are not tracked separately, and numerous differences exist among cities, making a direct comparison difficult. The Town of Atherton spends a similar amount for "other" road-related services; however, the type of drainage systems differs from San Martin, as well as types of landscape maintenance. Other cities may spend less, but this is often due to a lower level of service, inadequate funds to pay for these services, or a different service requirement. As noted above for road maintenance, to the extent that the City can be more efficient than the County in providing these services, actual costs may be lower than projected. However, if projections less than current County costs are assumed, there is a risk that the City may have inadequate funding to ensure adequate levels of service.

The County (and other larger cities) generally are able to spend more on road maintenance than a small city for two reasons: (1) State gas taxes are distributed to counties based largely on total registered vehicles (including those registered within cities in the County), whereas the City's distribution is primarily on a per-capita basis; the County receives about $24.2 million in gas tax revenues; and (2) San Martin has a relatively high number of road miles relative to its population and tax base. Cities can also use redevelopment revenues as well as development impact fees and assessments for road purposes; however, this is not assumed for San Martin as no redevelopment area currently exists.

Revenues to the new City to fund these services would come from several sources, including gas taxes, Prop. 42 distributions, and the General Fund to the extent funds are available. The City could apply for grant funds, however, the budget forecast excludes grants at the direction of LAFCO policy, which directs the CFA to not base city feasibility on uncertain, periodic revenues such as grants.

Assuming that specific findings are made by LAFCO, the CLSA will continue to be responsible for lighting operations and maintenance; costs are assumed to be directly offset by assessment revenue.

PLANNING AND DEVELOPMENT

CURRENT SERVICES

Comprehensive Planning

The County provides a complex range of comprehensive planning services to the residents of the San Martin area, including:

- Costs associated with the maintenance of the Geographic Information Services (GIS).
- Web site updating and improvements.
- Comprehensive planning for San Martin, such as General Plan information and interpretation and amendments as needed.
- Special studies that affect the San Martin area but are not specific to it, such as the 2010 Census, green issues and implementation, and global warming.
- Publication of information handouts regarding ordinances and processes.
- Provision of trends and conditions analysis and reports.
- Development and administration of a land development database.

These services are non-compensated, not covered by any revenue and are General Fund-supported. The City may choose to contract for some of these services and provide others through staff efforts. In some cases (e.g., GIS), the City may not be able to provide the same level of services currently provided by the County because of the City's smaller scale of operations and more limited revenue base.

Review of Land Use Applications

County planning staff process land use applications, such as subdivisions, use permits, site approvals, and administrative permits (e.g., for entertainment events). County staff, under the supervision of a Senior Planner, handles any environmental review and CEQA compliance that may be required. The County recovers approximately 90 percent of its costs associated with land use applications through application fees.

Building Permit Review

Planning staff, under supervision of a Principal Planner, is responsible for permit review for development proposals in San Martin. The Planning Department indicated that it received $39,615 in revenue for reviewing building permits; it is assumed that 100 percent of cost for this function is recovered. [27]

San Martin Planning Advisory Committee Support

In FY 07, approximately 80 hours of staff time or $10,000 of staff services were provided for various services supporting the activities of the San Martin Planning Advisory Committee (SMPAC). [28] The City of San Martin would not require a similar committee. It is anticipated that the City would have a City Council and/or Planning Commission that would take on some of the role currently played by the SMPAC.

Code Enforcement (Zoning)

The County Planning Department estimates that approximately 0.25 full-time equivalents (FTEs) of a zoning investigator are allocated to the San Martin area.[29]

Code Enforcement (Building)

The service presently provided includes investigation and resolution of illegal (unpermitted) construction and illegal (unpermitted) grading. Building code enforcement services are provided by Building Inspectors and Senior Building Inspectors. The County received 132 building code violation complaints in 2006 for the entire unincorporated area. Of these, 14, or 10.6 percent, were located in greater San Martin.[30]

Building Inspection/Plan Checking

Building inspection services and permit review to the area are provided by an estimated 1.5 to 2.0 FTEs, according to the County. These services are fully covered by fee revenue of $315,595.[31]

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[27] Ibid.
[28] Ibid.
[29] County response to Planning Department data request, County Planning & Development (Development Services) - Code Enforcement, 7/31/07, file: County_Planning_Code_Enf.doc.
[30] County response to Planning Department data request, County Planning & Development (Development Services) - Code Enforcement, 8/3/07, file: BuildingDSO.doc.
[31] Ibid.

Land Development Engineering

The Land Development Engineering (LDE) Section of the Development Services Office of the Department of Planning and Development is involved in the land use review process from pre-application meetings with individuals and developers, through-plan check, permit issuance, project inspection, and project completion. LDE staff members perform the following activities:

- Review proposed land development projects for access, grading, drainage, road design, driveway design, site design, storm water management/treatment, and overall compliance with the County's Policies and Standards for Land Development. Proposals are found either complete or incomplete. Conditions of approval are established.

- Review Tentative Parcel Maps (subdivisions), Use Permits, Grading Permit Applications, and Improvement Plans.

- Plan check Improvement Plans (coincident with Final Parcel Maps) and final Grading Plans.

- Issue permits and collect fees and bonds, including inspection fees, plan check fees, permit fees, and completion bonds.

- Perform multiple inspections of the work during the construction period.

- Investigate incorrectly constructed civil improvements and illegal grading work.

- Provide final inspections, collect as-built plans, release bonds, and sign off permits on completed work.

- Maintain records of completed projects and enforcement actions.

Relatively few projects are located in the overall San Martin area. For the area proposed for incorporation, LDE reviewed 23 proposed projects during FY 07, including pre-application meetings, building site approvals, grading permits, use permits, subdivisions, and grading violations. The estimated cost to the Department per application varies because of the different types of projects proposed.

Clean Water Program

The County Clean Water Program is responsible for reporting on NPDES Storm Water Discharge Permit compliance. Primary duties include:

- **Permit Compliance for the Phase I NPDES Storm Water Discharge Permit (originally issued in 1990, renewed/amended every five years) in the North County area.** The County is a co-permittee in this activity with 13 north county

cities and the Santa Clara Valley Water District (SCVWD). The County is a member of the Santa Clara Valley Urban Runoff Pollution Prevention Program (SCVURPPP). The County's SCVURPPP assessment is about $190,000 per year, and the NPDES Permit fee payable to the State Water Resources Control Board is about $15,000 per year. This program applies only to the San Francisco Bay Watershed. San Martin and the rest of the south county unincorporated area are located within the Pajaro River/Monterey Bay Watershed, and that area is not regulated by this Phase I Permit. Phase I NPDES Permits are for areas of higher population (i.e., over 100,000 persons). Phase II NPDES Permits are required for communities of smaller population, as noted in the third bullet of this section.

- **Staff Liaison with the Pajaro River Watershed Flood Prevention Authority (2 percent of program activity).** The County's annual assessment is generally $8,000. Only eight agencies (four counties and four water districts) are statutory members of the Authority because of AB 807 (2000). No Authority members are cities, and there would be no assessment if San Martin is incorporated. Some cities are associate members at no charge.

- **Liaison with CC-RWQCB regarding future issuance of a Phase II NPDES Permit for the south county unincorporated area (1 percent of program activity).** The Phase II NPDES Storm Water Discharge Permit was applied for on March 10, 2003 on behalf of the County, as required by Clean Water Act amendments and U.S./EPA orders. No action on this Permit has been taken by the CC-RWQCB, and none is expected until mid-2008 or 2009.[32] If San Martin is incorporated, it will have to provide its own Storm Water Management Plan and NPDES Permit compliance activities separate from the County's future program.

Other Services

County planning staff also provide planning commission support, Zoning Administration, Architecture & Site Approval Committee support, Historical Heritage Program staff and Commission support, Airport Land Use Commission staff and commission support, Williamson Act program staffing, and staff support to the South County Joint Planning Committee.

SERVICES FOLLOWING INCORPORATION

The new City Planning Department will be responsible for General Plan preparation, code enforcement, and development services. The existing County Zoning Ordinance will be adopted as land use policy by the first City Council. It is assumed that by its second year, the City would begin to develop a new General Plan and Zoning

[32] Steve Homan, County Planning & Development Clean Water Program Coordinator, Response to LAFCO San Martin Data Request, August 1, 2007. The Phase II permit application may receive final review and may be issued at any time, depending on CC-RWQCB staff workload.

Ordinance. Consultant contracts could be used for these services. A Planning Commission could be appointed and would begin to update the General Plan and supporting planning documents and policies. The General Plan update is assumed to occur within the City's first five years; therefore, there is a sharp reduction in total planning-related costs in year 5 following completion of the General Plan work.

The level of staffing is based on the level of service provided by other comparable cities of similar size throughout California and the relatively low level of development activity in the area. The Department is assumed to include the following staff positions:

- Planning Director
- Planner
- Building Inspector/Code Enforcement Officer

Staff will provide planning, development review, building inspection, and code enforcement services currently provided by the County. Staff services may be supplemented by contract services as necessary depending on workloads.

Revenues will come from several sources, including development fees and General Fund revenues as needed. Based on comparable cities, 90 percent of City Planning Department costs (excluding General Plan development) are assumed to be recovered through charges for services. To the extent that demand for permit review and inspection is greater than shown, the City could contract with private companies for additional services.

Clean Water Program

NPDES Permit compliance (after a Phase II Permit is issued) for a new small city will require a number of services and related expenditures, as listed below. There may be an opportunity for the new City to contract with the County to provide NPDES services; this would require a service agreement and cost schedule approved by both the Board of Supervisors and the new municipality.

- There will be the initial cost of writing and submitting a Storm Water Management Plan to the CC-RWQCB, as an application for an NPDES Phase II Permit.

- San Martin would need at least 0.25 FTE to 0.50 FTE individual responsible to investigate complaints, provide public education and outreach, coordinate staff training and municipal compliance, meet with CC-RWQCB staff, collect and analyze data, and provide a written annual report to the CC-RWQCB. These services could be handled through a contract.

- San Martin would need a portion of its City Engineer's and its Building/Grading Inspector's time (5 percent to 10 percent) to check plans, issue permits, and inspect installation of permanent storm water treatment measures that may be required for

new or redevelopment projects. City Planner time would also be necessary, since storm water treatment designs are often an integral part of the site design.

Costs for these services to the new City could range from $25,000 to $50,000 per year, plus initial Plan and application costs depending on the extent of services required and manner in which the services are provided.

Other Planning-Related Services

It is assumed that planning consultants will play a significant role in General Plan preparation as well as providing other consulting services over time. Mapping production costs are associated with General Plan preparation and other City needs for maps. Actual costs will depend on the extent of use and implementation of a GIS system and the exact geographic boundaries covered. The Planning Commission expense includes costs related to the preparation of the General Plan and Code Enforcement, and costs such as materials and supplies, report production, travel, and meetings. The City may contract for GIS services.

Although the new City initially will adopt the County's General Plan, every new city formed in California has chosen to modify and adopt its own plan over the subsequent several years. Discussions with consultants indicate that these costs are $300,000 at a minimum and may be higher depending on environmental documentation, extent of changes, public participation and analysis.

Affordable Housing and Economic Development

The new City could choose to handle these functions (e.g., administering grant programs, and facilitating housing development) with its staff. If handled in-house, various grants programs for housing would cover administration-related costs. Redevelopment revenues, if a redevelopment area is formed (see the following section), could also help to cover these costs.

As a city, San Martin would be required by State Law to include a Housing Element in its General Plan. The Housing Element must provide strategies for meeting regional housing allocations, include affordable housing. The strategies can include assuring adequately zoned land for affordable housing development, and/or other programs and incentives. The City is not required to construct affordable housing, although it may choose to do so if it has the funding available.

Redevelopment

In the future, the City could choose to form a redevelopment area pursuant to State law and guidelines. A redevelopment area could provide funds and implementation mechanisms to undertake infrastructure improvements and economic development activities in the downtown area. A portion of the redevelopment tax increment must be set-aside to be used for affordable housing purposes within the City.

Habitat Conservation

The San Martin area currently is within the area of the County which is the subject of a Habitat Conservation Plan (HCP) currently underway. If San Martin incorporates, and San Martin signs on to the HCP, then the new City would impose the mitigations and the fees as per the HCP. A city planner would administer the City's obligations, and it is unlikely there would be any additional costs for San Martin to become a partner in the HCP.[33] The development of the HCP is underway and the costs for developing it are funded by County and the other jurisdictions such as San Jose, etc.

ANIMAL CONTROL

CURRENT SERVICES

At present, the Animal Care and Control division within the County Department of Agriculture and Environmental Management provides animal control field services and animal shelter services to the unincorporated community of San Martin as well as to other unincorporated areas of the County. A portion of this cost is covered by charges for services and animal license fees. The County also provides limited services to the cities of Gilroy and Morgan Hill under contract; under the contracts, the County shelter accepts a limited number of animals brought by law enforcement staff of the two cities, and does not accept animals from residents of those cities.

SERVICES FOLLOWING INCORPORATION

The Animal Care and Control division has indicated that, following incorporation, the City could request the same services provided to the cities of Morgan Hill and Gilroy; the services do not include field services or accepting animals from residents.[34] The number of animals accepted at the shelter from the new City would be limited by existing contracts with the City of Morgan Hill and Gilroy. Residents would be able to bring animals to the County shelter for spaying or neutering, for a fee; if the new City chooses, it could help to underwrite these services to residents by participating in County programs to encourage increased spaying and neutering of pets. Funding from the City for this purpose is not assumed in this CFA.

The budget for the new City assumes that the City contracts with the County shelter to accept a limited number of animals from City animal control staff or police officers. The budget also includes an animal control officer similar to the City of Morgan Hill to provide field services and to transport animals to the shelter. The estimated budget is based on the Morgan Hill budget for an animal control officer with related services and

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[33] Ken Schreiber, HCP Program Manager, February 8, 2008.

[34] County response to Agriculture & Environmental Management data request, County Animal Care & Control, July 16, 2007.

supplies. This estimate was reduced by 70 percent to reflect San Martin's current share of the County's current 4 animal control officers (17 percent based on field service activity, or equivalent to approximately 0.7 FTE animal control officer). This cost is partially offset by fee revenues. Additional costs include a contract with the County for animals delivered by animal control officers to the County shelter.

It may be possible for the new City to jointly provide services with a neighboring city to achieve cost and service efficiencies. Residents would need to use not-for-profit services for shelter and other animal care-related services, as the County shelter would no longer accept animals directly from residents.

OTHER CITY EXPENDITURES

OFFICE RENT AND SUPPLIES

The new City will require office space, supplies, and equipment to conduct its operations. It is expected that the City will rent workspace for its staff and for a council chamber. The number of City staff during the period of this study is expected to stabilize at about nine persons. Space rental cost estimates are based on the assumption that the City will rent sufficient space for 11 persons to include space for contract employees. Rent for staff office space is assumed to be $2.00 per square foot per month. It is assumed community facilities will be used for council chambers and no rented space will be necessary. Annual supplies and initial computer and furnishing costs are estimated using an average cost per employee method. Each department includes a budget line item to address other, non-personnel costs such as telephone charges, mileage and travel, training and conferences, specialized software, and outside services.

INSURANCE

The City will carry insurance. Insurance costs were estimated at about 3 percent of total General Fund expenses, excluding non-departmental costs.

The projections are shown in terms of dollars with constant 2007 purchasing power. Because the insurance cost has been estimated as a percent of expenditures, the projected amount, ***before*** inflation, is shown to vary slightly in 2007 terms as costs vary. Expenditures are assumed to grow at the rate of inflation (or greater, as noted for many of the salary costs); therefore, after nine years, insurance expenditures are likely to grow by about 27 percent after accounting for inflation.

CONTINGENCY AND RESERVES

A number of unforeseen costs may occur that will have to be borne by the City. The cost estimates include a contingency allowance estimated at 10 percent of total General Fund costs (excluding contingency) to account for unforeseen costs or cost increases above the projected amounts in the CFA budget. If the contingency funds are not required, they could provide a reserve that could be strategically applied to specific purposes, e.g., capital improvements.

Contributions to a reserve fund are shown in **Table 1**. After this fund reaches 10 percent of expenditures (excluding contingency and reserve contributions), no further contributions are assumed. This reserve fund may be used for unanticipated expenditures, capital improvements or equipment, or public facilities.

To the extent that additional revenues are available after funding expenditures, contingency and reserves, those revenues could augment reserves, improve service levels, or be used for capital improvements.

COUNTY REPAYMENT

The County will most likely continue to provide a number of services to the City for the remainder of the first fiscal year of City operation after incorporation, as provided by State law. Services that will continue to be provided most likely will include sheriff, animal control, land use planning and code enforcement, and road maintenance. It is assumed the County will request repayment of its first year expenses to provide services. The costs are assumed to be repaid by the City by the end of its first year of operation. The City has the option to repay the County over a five-year period in accordance with State law. The repayment costs shown in **Table 1** are net of fee revenue received by the County for services provided (e.g., planning).

The summary of projected annual city costs and revenues shown in **Table 1** assumes that the effective date is July 1, 2009. This date allows 12 months during which the County is required by State law to continue providing services (to be subsequently reimbursed by the City, as repayment is requested by the County); during this time the City receives and accrues revenues and receives credit (applied against its obligation to repay the County for transition period services) for revenues generated in the incorporation area.[35] If the effective date is later than July 1, 2009, the new City would receive services for the remainder of FY 09. The specific type and amount of services

[35] Because of the timing of the effective date, certain revenues (e.g., property tax) generated from the incorporation area will continue to be distributed to the County until the new City submits required documentation to the State.

would be negotiated between the County and the City; this provision of State law assures an uninterrupted and continuing provision of services to the area, while also enabling the new City time to accrue revenues for subsequent County repayment.

REVENUE NEUTRALITY MITIGATION PAYMENTS

County revenue reductions exceed expenditures for service responsibilities transferred to the new City by approximately $870,000 annually, indicating a "revenue neutrality" imbalance and potential negative impact upon the County that must be mitigated, according to State law. **Table 3** in this report summarizes potential changes in County service responsibilities and reductions in revenues. The changes are based on FY07 and reflect County service provision. These numbers differ from the forecasts of City services and revenues shown in **Table 1** because certain City revenues (e.g., gas taxes) are allocated on a different basis than the County's revenues, and many of the services will be provided in a different manner. For example, the new City will not provide an animal shelter, as currently provided by the County, and other city staffing and services will be contracted or staffed differently than current County services.

The payment was calculated by determining a fixed annual payment for 25 years that would provide the same net present value as the annual impact of $870,000 for a ten year period. In all cases, an annual inflation rate of 3 percent is included. Because the 10 year obligation is spread over 25 years, the annual payment is lower than the annual impact on the County, even after including inflation for all years.

The resulting annual payment of $500,771 is shown to require additional tax revenue for the City to be feasible and able to fully fund total City expenditures including the County payment. The additional taxes are new taxes (assumed to be a utility users tax) not currently collected by the County. During the initial six years of the new City, minimal net revenues are available. In the initial years, it is expected that the full amount of the payment will be required to be collected from the additional taxes; this represents an approximate annual burden of $238 per residential unit, or a 10 percent utility users tax against gas and electric consumption. The amount of tax required is likely to be less following year 6, when the new City is able to contribute approximately $180,000 or more annually towards the mitigation obligation. After the sixth year, the average burden per residential unit is approximately $153 annually, or 6.4 percent of a $200 per month utility bill.

Table 3
Change in Revenues and Expenses to Santa Clara County
San Martin Incorporation Analysis, EPS #17060 Proponents' Proposed Boundary

Item	Amount	Notes
General Fund Revenues and Expenditures (FY07) (1)		
Revenues Transferred to the City		
Property Taxes	$599,522	Estimated transfer amount FY 07
Transient Occupancy Tax	$221,557	
Sales Tax	$838,885	Includes estimated 12% unallocated
Real Property Transfer Tax	$2,335	50% of FY 07 amount ($.55/$1,000 value)
Franchise Fees	$253,621	Including solid waste, PG&E, cable, water
AB 939 Fees	$10,237	
Subtotal	$1,926,157	
Expenditures for Service Responsibilities Transferred to the City (1)		
Animal Control	$278,447	
Land Use Planning, Inspection, Enforcement	$151,056	
Clean Water	$3,186	
Waste Management	$129,205	
Sheriff	$483,933	
Subtotal	$1,045,827	
Other (revenue increases) (2)		
Property Tax Administration Fees	$8,090	Based on first year of city
Booking Fees	$0	Not paid by cities, per State budget
Net County Surplus or (Deficit)	**($872,240)**	
County Road Fund		
Revenue Reductions (3)		
Gas Tax: Highway User Tax 2106c	$27,491	Based on 7.7% reduction in unincorp. a.v.
Gas Tax: Highway User Tax 2105a [2]	$208	Based on reduction in County maintained miles
Grants		No reduction assumed
Traffic Congestion Relief: 2182a [1] (B)	$41,624	Based on reduction in County maintained miles
Subtotal	$69,323	
Expenditure Reductions		
Road Maintenance (4)	$1,502,235	Based on FY07 costs, noted as atypical (higher) of recent average road maintenance expenditures.
Other Road Costs (traffic engineering, signal maint.)	$120,000	Excludes cost-recovery development engineering
Subtotal	$1,622,235	
Net County Road Fund Surplus or (Deficit)	**$1,552,912**	
Total General Fund and Road Fund Surplus or (Deficit)	**$680,672**	**(5)**

(1) Costs shown in this table represent FY07 County costs for those service responsibilities to be transferred to the new city. Future city costs shown in Table 1 will not necessarily correspond to these FY07 County costs since the specific future services, staffing, facilities, contracts and manner of service provision will differ for the future city. For example, the future city will need to provide traffic enforcement, which currently is not a County responsibility.

(2) The County will realize new revenues (e.g., property tax administration charges) for services currently provided without compensation.

(3) County road revenues are not significantly affected, as they largely depend on Countywide population and registered vehicles, and are not influenced by a change in unincorporated vs. incorporated population or road miles.

(4) Road maintenance expenditures are based on County estimates of FY07 expenditures. These costs are higher than the County's estimated average expenditures in the San Martin area and are above the estimate of average annual road maintenance costs that the new city is likely to incur.

(5) Legal requirements restrict the transfer of certain Road Fund revenues to directly offset General Fund service cost impacts. Legal counsel has indicated that LAFCO may consider the two funds in total when determining revenue neutrality impacts.

PUBLIC FACILITIES

Major public facilities such as all dedicated County roads would be conveyed to the new City. The County Roads and Airports Department indicated that roads would be conveyed in a condition that meets its standard for rural roads.[36]

For any additional facilities that are constructed by the City, additional capital and maintenance costs would be incurred. No new facilities are assumed in the CFA, although the new City may choose to construct them in the future, depending on funding availability and City Council priorities.

[36] County Roads & Airports Department, Response to LAFCO San Martin Data Request, received September 10, 2007.

VI. MUNICIPAL SERVICES NOT PROVIDED BY THE CITY

A variety of other services, including fire protection, parks and recreation, public utilities, water, flood control, library, public health, and environmental health, will continue to be provided by existing service providers. The City may wish to improve or enhance these services over time through cooperative arrangements with existing agencies or businesses.

LIBRARY

Library service is provided to residents of San Martin by the Santa Clara County Library District. Local residents use both the Morgan Hill and Gilroy branch libraries, which are operated by the County and funded through property taxes and special taxes. Incorporation will not affect library service or the funding of services.

PARKS AND RECREATION

There is one County-owned regional park partially within the proposed incorporation boundaries, the Coyote Lake/Harvey Bear Ranch County Park. After incorporation, the Park would continue to be owned and operated by the County Parks and Recreation Department. The County Parks Department has requested that the Park be excluded from the proposed city boundary,[37] the Department also expressed concern that the future city, if formed, include policies in its General Plan that consider the proximity of the County parks, and that acknowledge the identified trail routes and facilitate the implementation policies of the Countywide Trails Master Plan.

A number of regional, sub-regional and connector trail routes identified in the Countywide Trails Master Plan Update (November 1995) are located within the area proposed for incorporation. Several of these trail routes are located within road right-of-ways and would be maintained by the city as owner of the right-of-way, unless there were agreements in place with the County as to maintenance and/or funding responsibility.

The Santa Clara County Open Space Authority, which encompasses a majority of the land within the County, owns, operates and maintains various regional parks serving the residents of San Martin. Currently, the Authority receives funding through two benefit assessment districts which include the San Martin area. Although the residents of the future city may consider detachment from the district in the future, this action is not part of the current incorporation proposal.

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[37] Lisa Killough, Director, Santa Clara County Parks and Recreation, letter to Neelima Palacherla, July 16, 2007.

FIRE PROTECTION

The South Santa Clara County Fire District (South County Fire) provides fire protection and emergency medical response services to the unincorporated areas in the southern portion of the County, covering approximately 264 square miles and a population of over 20,000.[38] South County Fire contracts with the California Department of Forestry (CDF) for service,[39] and is governed by the County Board of Supervisors.

South County Fire also provides emergency response services, e.g., medical services and swift water rescue. There are three fire stations throughout the area. San Martin is protected by Station 2, located in Gilroy. The South Santa Clara County Fire Protection District would continue to provide fire protection services to the proposed boundaries of San Martin. The CFA assumes no change to the provision of fire protection services to the incorporation area.

Hillside areas (see Figure 2, Area 6) were originally considered for inclusion, but subsequently were excluded from the City boundary. The hillside portions of Area 6 include areas currently designated as SRAs; the State, through the CDF, is responsible for wildlands fire protection during fire season. If the hillsides had been included, following incorporation the hillsides would no longer qualify as SRA, and South County Fire would become responsible for fire protection. Currently the Fire District does not own a type 3 wildland fire engine. In order to fully protect these lands the Fire District would need to purchase a type 3 wildland fire engine, or otherwise provide for the use of an existing wildland fire engine through a cooperative agreement. The cost would be $250,000 for a fully equipped type 3 wildland fire engine.[40] The District would not lose current CDF funding necessary to protect remaining SRAs.[41]

If San Martin does incorporate and wants a different level of service than currently provided, i.e., fire inspection/fire marshal or lower ISO rating, the City would need to find a funding source for these service improvements.

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[38] Countywide Fire Protection Service Review (pg. 40), LAFCO of Santa Clara County, April 2004
[39] Derek J. Witmer, Battalion Chief, CDF/ South Santa Clara County Fire District, correspondence with EPS, 9/20/07.
[40] Ibid.
[41] Derek J. Witmer, Battalion Chief, CDF/ South Santa Clara County Fire District, Response to LAFCO San Martin Data Request, July 8, 2007

OTHER SERVICES

Incorporation will have no fiscal or service impact on a number of other entities serving the community, including State and Federal entities such as the U.S. postal service, school districts, or other regional entities and local districts.

VII. MUNICIPAL REVENUE ESTIMATES

This Fiscal Analysis is based upon a Municipal Budget Model that reflects a potential City budget during its first ten years of municipal operations. Data and assumptions used in the model are realistic, and, insofar as possible, represent what could occur following incorporation. However, the structure of the municipal government and decisions reflecting staffing, level of service, and funding are ultimately at the discretion of the City Council.

Key features of the budget and revenue forecast include:

- Revenue projections are based upon the revenues that can be expected by the City following incorporation. The specific amounts of these new revenues were estimated by considering current and expected development, State laws, and procedures affecting the levy and distribution of local government revenues, and tax-sharing formulas imposed by State law. Actual revenues will vary, depending on economic cycles, real estate trends, potential legislative changes affecting State subventions to municipalities, and other factors that cannot be anticipated as a part of this analysis.
- The analysis is presented in "constant dollars," that is, dollars of constant 2007 purchasing power. In actuality, inflation will affect both costs and revenues during the projection period. "Constant dollar" percentage increases were included in budget line items to reflect increases in costs above general inflation.

Certain revenues such as property tax and sales tax will not immediately accrue to the new City during the transition year because of the timing of State filing deadlines; however, State law provides that the County repayment can deduct revenues generated within the area that would otherwise accrue to the new City. **Table 1** has been adjusted to show the reduction in revenues and offsetting reduction in repayment to the County.

Table 1 assumes that the County provides credit for sales tax revenues received by the County any time after the effective date. The State will not begin recording sales tax revenues to the new City until the quarter after the new City files with the State and will not disburse the revenues until the following quarter after the sales are reported. The County will receive revenues in the first quarter for sales tax generated in the prior fiscal year, since the city sales tax filing will not be effective. As noted above, **Table 1** assumes that these revenues (sales taxes, property taxes, and other revenues), received by the County in the new fiscal year after city formation, are credited towards the transition year cost repayment. This issue should be included as a term in the LAFCO terms and conditions.

PROPERTY TAX

The property tax transfer from the County to the new City will be determined in accordance with Government Code, Section 56810, as amended. This statute requires that property tax base and increment factor be created in the following manner:

(a) Determine the percentage of property taxes in the County's budget of "revenues available for general purposes." For this analysis, this amount was estimated by the County Auditor-Controller's Office. Property taxes total $413.5 million, and all revenues available for general purposes total $721.4 million, to produce an "auditor's ratio" of approximately 57.3 percent.

(b) Determine the existing net County cost of providing municipal services to the area to be incorporated in the year before the LAFCO action. In San Martin, these services could include sheriff, animal control, land use planning and enforcement, and general government services. Net costs were determined based upon the County budget or information provided by the County The costs include County overhead in the estimates, or in the form of a cost allocation derived from the County's Cost Allocation Plan.

(c) Multiply [a] times [b]. This amount becomes the property tax revenue base transferred to the new City in the first year of operations. A City Tax Allocation Factor (TAF) was estimated based on this amount (inflated to the first year of the City) and an estimate of the total property tax generated within the City's boundaries in the first year of City operations. In the following years, this TAF is then applied to the increase (increment) in the City's total property tax base to estimate the increase in property tax revenues accruing to the City.

The property tax increment represents the annual increase in the total property tax generated. It is derived by subtracting estimates of the total property tax generated in the current fiscal year from total property tax generated in the prior year. The application of the TAF to the property tax increment indicates the City's share of the additional property tax revenues. This share is then added to the City's prior year property tax revenue allocation to estimate the City's current year revenues.
The total property tax generated within the City's boundaries is estimated based on total assessed value. Total assessed value is determined by the market value of new development and the presence and turnover of existing development.

The estimated growth in assessed value in the CFA through FY09 approximates the adopted final County FY09 budget property tax compared to FY07, which is a change of about 15 percent (including inflation). From FY08 to FY09, the County budget assumed a 6.5 percent growth, which is slightly greater than the 5.7 percent growth assumed in the CFA (including inflation) for the San Martin area. The CFA adds another 5.7 percent growth (including inflation) to arrive at the FY10 estimate of transferred property tax. This growth rate is assumed into the future to estimate property tax growth. Depending

on the depth and extent of the current real estate downturn, revenue growth in the near-term could be less. Assuming an eventual stabilization and return to long-term historic growth trends, the 5.7 percent average growth should be conservative.

The property tax calculations used in the Municipal Budget Model do not model tax delinquencies or prior year accounts, although they do include the "supplemental" roll, which includes changes in assessed value that occur only during the year. Property taxes are collected by the County and distributed to each agency receiving property tax revenues, less an administration fee.

SALES TAX

Estimates of the sales tax accruing to the new City are based on actual sales tax data provided by the County including an estimate of "unallocated sales tax." In FY 07, $738,600 was generated from sales tax, plus an additional $108,791 of unallocated taxes that would accrue to the new City. Sales taxes are collected and re-distributed by the State Board of Equalization (SBE). The analysis assumes that sales tax growth will keep pace with inflation, but will not be greater as no significant additional commercial or residential growth is expected in the area.

"Unallocated taxable sales" include a State and County pool of taxable sales unrelated to retail permits within the incorporation area boundaries. These sales include mail order, Internet sales, and construction-related sales and are distributed proportionate to situs sales tax. These taxable sales were estimated as a proportion of the allocable taxable sales in the City based on the County's current ratio.

TRANSIENT OCCUPANCY TAX

Transient Occupancy Tax (TOT) revenues are based on estimates of current County revenues. Upon incorporation, the same 8 percent rate would apply to hotel revenues within the new City. In FY 07, $221,997 was generated from TOT within the proposed incorporation boundaries. The City would be responsible for the collection of this revenue.

PROPERTY TRANSFER TAX

Property transfer tax revenues accruing to the City are based on the assessed value of units sold and the tax rate accruing to the City of $0.55 per 1,000 of assessed value. The assessed value that sells each year includes the sale of existing and new development. It was assumed that less than 1 percent of existing residential units sell every year. Because of the infrequency of commercial transactions and limited amount of

commercial uses, no turnover was assumed. Property transfer taxes are collected by the County, and the County distributes the cities' shares.

FRANCHISE FEES

Franchise fees that are collected in the area include cable, electric, gas, and refuse collection. The fees were projected based on per capita estimates derived from existing County revenues. Collection of franchise fees will become the City's responsibility.

PLANNING REVENUES

Based on current County revenues and recapture rates of other cities, revenues from the provision of planning, including zoning permit fees, are assumed to offset approximately 90 percent of the costs of providing these services (excluding the costs of General Plan development). These revenues are assumed to be retained by the County during the transition period in the course of its continued service provision.

PUBLIC WORKS/ENGINEERING

Fees can be charged for a variety of activities conducted by the Public Works Department. Based on standard charge to cost ratios in other cities, it is assumed that about 50 percent of costs could be recouped through charges for services. These revenues are assumed to be retained by the County during the transition period in the course of its continued service provision.

FINES, PENALTIES AND OTHER

The average fines and penalties per resident accruing to the City were based on an EPS estimate from similar analysis and a review of other cities. The new City would also receive a portion of AB 939 fees, estimated at approximately $10,000 annually.[42]

In Santa Clara County, an AB 939 fee was levied at all solid waste facilities in the county. The countywide AB 939 implementation fee is currently $1.30 per ton of disposed waste. These monies are distributed quarterly to Santa Clara County jurisdictions based on the total waste disposed in that quarter by a jurisdiction, as reported in the Disposal Reporting System. Monies for wastes from outside of Santa Clara County are distributed on the basis of each city's share of total countywide population.

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[42] County response to Agriculture & Environmental Management data request, County Animal Care & Control, July 16, 2007.

Each jurisdiction uses the countywide AB 939 implementation fee monies to fund waste prevention and recycling programs. Programs funded differ by jurisdiction. Funded projects have included purchase of rolling carts for curbside collection of yard waste, purchase of recycling bins, public outreach, staffing for special recycling projects, and other AB 939-related purposes.

STATE MOTOR VEHICLE LICENSE TAX

VLF was one of the most important revenues for newly incorporating cities trying to achieve financial feasibility. It was one of the only revenue sources that were not transferred from the County, and, as a result, did not have to be mitigated by the new City. In addition, the per-capita allocation to new cities was applied to a proxy population (three times registered voters) to provide a bump or "helping hand" to newly incorporated cities for the first seven years after formation.

In August 2004, the California Legislature approved a VLF swap for property tax as part of a state-local budget agreement ("VLF for Property Tax Swap of 2004"). Legislation implementing the swap did not provide funding for future incorporations.
The legislation only authorizes the swap for those cities that collected VLF revenues in FY the 04-05. As a result, future cities would not receive property tax in-lieu of VLF for what would have been their fair share of VLF before the new legislation. Newly incorporated communities still received a small per capita amount of VLF equal to the amount received by other existing cities (approximately $9 per capita). This per-capita amount was applied to the actual population in the newly incorporated city.

AB 1602, adopted in late 2006, restored the "VLF for Property Tax Swap" funding to new cities in addition to the $9 per capita. The formula provides that a new city would receive 150 percent of the per capita amount it would otherwise receive; the percentage declines to 100 percent by the fifth year.

UTILITY USERS TAX

The new City requires additional tax revenue for the City to be feasible and able to fully fund total City expenditures including the County revenue neutrality payment. The additional taxes are new taxes (assumed to be a utility users tax) not currently collected by the County. During the initial six years of the new City, minimal net revenues are available. In the initial years, it is expected that the full amount of the payment will be required to be collected from the additional taxes; this represents an approximate annual burden of $238 per residential unit, or a 10 percent utility users tax against gas and electricity consumption. The amount of tax required is likely to be less following year 6, when the new City is able to contribute approximately $180,000 or more annually

towards the mitigation obligation. After the sixth year, the average burden per residential unit is approximately $153 annually, or 6.4 percent of a $200 per month utility bill.

INVESTMENT EARNINGS

Investment earnings are assumed to be equal to approximately 2 percent of annual revenues. This assumes earnings from reserve and fund balances. The actual earnings may vary from year to year, and will depend on the annual flow of revenues compared to expenditures, as well as the level of reserves.

ROAD FUND

GAS TAX

Gas taxes are the primary source of Road Fund revenues. The City would receive gas tax revenues via a number of different highway user taxes. The State Controllers Office provided current estimates of lump sum and per capita rates that would accrue to the City. The per-capita rates were applied to the projected population and added to the annual lump-sum payments to estimate the gas tax revenues accruing to the City each year. The City would also be eligible for funds distributed under the State's Prop. 42 program.

GRANTS

The City could apply for grant funding for specific projects. Transportation and road-related grants often are for projects of regional significance and/or for projects addressing urban congestion. The new City may also be eligible for grant funds from bond proceeds resulting from State Proposition 1B; the amount and timing is uncertain, and depends on the timing of State distributions and the availability of remaining funds when the City is in a position to apply for them. Grant funds are not included because of their uncertainty.

VIII. IMPACTS UPON THE COUNTY OF SANTA CLARA

The incorporation of San Martin would change the operating budget of Santa Clara County in both the short term and long term. In general, Santa Clara County would lose revenue but would also realize a reduction in expenditures.

The concern for fiscal impacts of incorporations is reflected in the Cortese Knox Local Government Reorganization Act at Section 56815 established the noted "revenue neutrality" standard. The exact language of the statute, at Section 56815(a), is "similar exchange"; at 56815(b) the exact language is "substantially equal." These terms refer to revenues and costs subsequently defined in sub-sections (1) and (2). Revenues are those "revenues currently received by the local agency. . ." that would "accrue to the local agency receiving the affected territory." Costs are "expenditures currently made by the local agency. . .for services which will be assumed by the local agency receiving the affected territory."

SHORT-TERM FISCAL IMPACT UPON SANTA CLARA COUNTY

The short-term fiscal effect upon Santa Clara County government from services provided in the initial (transition) year of the City is assumed to be compensated by payments for services and by payments made as a part of the State-allowed repayment for first-year services. The repayment for first year County services is shown in the initial year of operation; however, the City has the option to repay the County over a five-year period in accordance with State law.

REVENUE NEUTRALITY CALCULATION

Table 3 indicates that incorporation will have an adverse impact on the Santa Clara County's General Fund. The costs and revenues are based on FY 07, in accordance with State law, and therefore will not coincide with the future services and service costs of the new City. For example, the new City will not be providing animal shelter services, as the County did in FY 07 to San Martin area residents; however, the responsibility for animal control is a service shifted to the new City and no longer provided by the County to San Martin residents (except pursuant to a contract for shelter services accessible only to City animal control personnel).

General Fund revenues transferred to the new City are substantially greater than expenditures transferred. Because of lack of agreement between County and Proponents, LAFCO will impose terms to establish revenue neutrality as directed by the Commision at its October 1, 2008 meeting and as described in this report.

The County's Road Fund shows a substantial positive impact as a result of shifting road maintenance responsibilities with a minimal loss of road-related revenues as described in **Appendix V** and shown in **Table 3**. No losses of grant revenues to the County are

assumed in the table.[43] The reduced road maintenance costs to the County are based on FY 07 County costs, in accordance with State law. These costs are higher than the County's estimated average expenditures in the San Martin area and are above the estimate of average annual road maintenance costs that the new City is likely to incur. Estimates of average annual expenditures are approximately $800,000 annually, depending on levels of weed abatement and other services provided.

[43] EPS discussion with Ron Jackson, County of Santa Clara, July 7, 2008.

IX. OTHER AGENCIES AND DISTRICTS

Other agencies serving the incorporation area, including park districts, school districts, and water districts, and electrical, natural gas and telephone utilities, will not be significantly affected by the incorporation. These agencies and districts will continue to provide services with no direct impact on service levels, costs and revenues as a result of incorporation.

- **Lion's Gate Community Services District (CSD).** The CSD provides a number of services to the Lion's Gate Community, which consists of 41 residential lots, an 18-hole golf course, 110-acre vineyard, clubhouse, 45 overnight lodging units at the golf course, a swim and tennis center, and an equestrian center. Services provided to the Community include sewage collection and treatment, potable water, maintenance of roadways, landscaping, gates, and other common improvements, maintenance of the lake system and agricultural wells, storm drains and drainage easements, and utilities within the streets, which are private. The District provides services only to the Community; the infrastructure was not designed to accommodate services to areas outside the District.

- **Santa Clara Valley Water District.** The SCVWD provides water to Santa Clara County as a wholesaler to local water providers. SCVWD also provides flood protection. No change in this District is proposed or has been assumed.

- **West San Martin Water Works, Inc.** West San Martin Water Works, Inc. is a CPUC-Regulated Water company that provides water for residents living west of Monterey Road. No change in this District is proposed or has been assumed.

- **San Martin County Water District.** The San Martin County Water District supplies water to the area of San Martin east of Monterey Road. No change in this District is proposed or has been assumed.

- **South Valley Disposal & Recycling, Inc.** The South Valley Disposal & Recycling, Inc. provides solid waste management and recycling services to the businesses and residents of San Martin and surrounding areas. No change in this service is assumed.

- **The Santa Clara County Open Space Authority.** The Authority covers many cities in Santa Clara County as well as unincorporated areas. The Authority's purposes include preserving open space and creating greenbelts between communities. No change is assumed.

- **Santa Clara County Vector Control District.** The Vector Control District (VCD) provides services to abate mosquitoes and to assist the public in resolving problems with rodents, wildlife and insects of medical significance. The VCD provides services to residents within Santa Clara County. No change in this District is assumed.

- **Loma Prieta Resource Conservation District.** The Loma Prieta Resource Conservation District is a Resource Conservation District (RCD) that serves the San Martin Area. The RCD is a special district of the state of California set up to provide information on and assistance with soil and water conservation. No change in this District is assumed.

- **Bay Area Air Quality Management District.** This District was created to develop and enforce regulations for the control of air pollution within its jurisdiction, which includes Santa Clara County. No change in this District is assumed.

- **Santa Clara County Library District.** A County Service Area was formed in 1994 as a JPA with city members. A benefit assessment, which funded services in addition to property tax, expired in 2005 and subsequently was replaced with a Mello-Roos Community Facilities District special tax in an equivalent amount. Incorporation will result in automatic detachment from the district. However, because of the existence of the Community Facilities District, this will have no impact on library services, or its funding sources.

- **Santa Clara County Lighting Service Area**. The County Lighting Service Area will continue to provide lighting services assuming LAFCO makes specific findings.

APPENDIX I

BUDGET MODEL

San Martin Comprehensive Fiscal Analysis
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INCLUDES REVENUE NEUTRALITY MITIGATION

Table 1
Summary of Revenues and Expenses (All Figures in Constant $'s)
San Martin Incorporation Analysis, EPS #17060 **Full Transition Year** **12 months** **Proponents' Proposed Boundary**

	Fiscal Year									
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Item	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
A. GENERAL FUND OPERATIONS										
General Fund Revenues										
Property Taxes	$0	$705,773	$724,107	$742,968	$762,367	$782,320	$802,841	$823,945	$845,646	$867,960
Sales Tax	$419,443	$838,885	$838,885	$838,885	$838,885	$838,885	$838,885	$838,885	$838,885	$838,885
Transient Occupancy Tax	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557
Real Property Transfer Tax	$5,305	$5,436	$5,571	$5,708	$5,849	$5,993	$6,141	$6,292	$6,447	$6,605
Franchise Fees	$289,670	$289,873	$290,075	$290,277	$290,479	$290,681	$290,883	$291,086	$291,288	$291,490
Planning and Building Fees	$0	$274,742	$276,116	$277,496	$278,884	$280,278	$281,679	$283,088	$284,503	$285,926
Public Works/Eng. Fees	$0	$89,020	$89,465	$89,913	$90,362	$90,814	$91,268	$91,724	$92,183	$92,644
Fines, Penalties, Misc.	$42,813	$32,684	$32,793	$32,901	$33,009	$33,117	$33,225	$33,333	$33,441	$33,549
State Motor Vehicle License Fees	$62,172	$62,377	$62,583	$62,788	$62,994	$63,200	$63,405	$63,611	$63,816	$64,022
Utility Users Tax (1)	$499,800	$499,800	$499,800	$499,800	$499,800	$499,800	$321,300	$321,300	$321,300	$321,300
VLF (AB1602)	$547,312	$512,513	$477,474	$442,193	$406,670	$370,907	$372,113	$373,320	$374,526	$375,733
Revenue Credits (transition yr, rec'd by County)	*revenues retained by County during Transition Year are credited to city repayment for Transition Year services.*									
Investment Earnings	$41,761	$70,653	$70,369	$70,090	$69,817	$69,551	$66,466	$66,963	$67,472	$67,993
Total	$2,129,834	$3,603,315	$3,588,794	$3,574,576	$3,560,674	$3,547,104	$3,389,765	$3,415,103	$3,441,065	$3,467,665
General Fund Expenses										
Legislative	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500
Elections	$200,000	$10,000	$0	$10,000	$0	$10,000	$0	$10,000	$0	$10,000
City Manager and City Clerk	$281,225	$328,659	$330,289	$331,927	$333,573	$335,227	$336,890	$338,561	$340,240	$341,928
City Attorney	$250,000	$76,131	$76,511	$76,894	$77,278	$77,665	$78,053	$78,443	$78,836	$79,230
Administrative Services	$166,050	$222,507	$223,620	$224,738	$225,861	$226,991	$228,126	$229,266	$230,413	$231,565
Police	$0	$588,661	$594,598	$600,594	$606,650	$612,767	$618,944	$625,184	$631,485	$637,850
Animal Control	$0	$74,811	$75,185	$75,561	$75,939	$76,319	$76,700	$77,084	$77,469	$77,856
Planning and Building	$137,672	$443,032	$444,635	$446,246	$347,864	$349,491	$351,126	$352,769	$354,421	$356,080
Public Works Administration	$74,250	$178,040	$178,931	$179,825	$180,724	$181,628	$182,536	$183,449	$184,366	$185,288
Revenue Neutrality Mitigation Payment (1)	$500,771	$500,771	$500,771	$500,771	$500,771	$500,771	$500,771	$500,771	$500,771	$500,771
Non-Departmental										
Office Rent/Supplies	$109,000	$112,500	$84,500	$76,500	$76,500	$76,500	$76,500	$76,500	$76,500	$76,500
Insurance	$37,431	$61,915	$61,133	$61,554	$58,617	$59,283	$59,351	$60,023	$60,097	$60,774
Contingency (10%)	$233,596	$212,576	$209,890	$211,334	$201,251	$203,537	$203,773	$206,078	$206,333	$208,657
Reserve Fund Contribution	$233,596	($21,020)	($2,686)	$1,444	($10,083)	$2,286	$236	$2,305	$255	$2,324
LAFCO	$1,437	$1,437	$1,437	$1,437	$1,437	$1,437	$1,437	$1,437	$1,437	$1,437
Repayment of Transition Yr Cnty Services (2)	($61,566)	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total	$2,192,960	$2,819,521	$2,808,314	$2,828,323	$2,705,882	$2,743,400	$2,743,943	$2,771,369	$2,772,122	$2,799,760
General Fund Operating Surplus (Deficit) (3)	($63,127)	$783,794	$780,480	$746,253	$854,792	$803,703	$645,822	$643,734	$668,943	$667,905
Reserve Fund Balance	$233,596	$212,576	$209,890	$211,334	$201,251	$203,537	$203,773	$206,078	$206,333	$208,657
% of Expenditures (exc. conting, reserves, mitigatio	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
B. ROAD FUND OPERATIONS										
Road Fund Revenues										
Gas Taxes	$200,789	$188,455	$176,036	$163,531	$150,940	$138,264	$138,692	$139,119	$139,547	$139,975
Prop 42 Funds	$63,687	$63,899	$64,751	$65,614	$66,488	$67,373	$68,268	$69,175	$70,094	$71,023
Total	$264,476	$252,354	$240,787	$229,145	$217,428	$205,637	$206,960	$208,295	$209,641	$210,998
Road Fund Expenditures										
Pavement Maintenance		$310,050	$313,150	$316,282	$319,445	$322,639	$325,865	$329,124	$332,415	$335,740
Signal Maintenance, Traffic Engineering		$51,008	$51,263	$51,519	$51,776	$52,035	$52,296	$52,557	$52,820	$53,084
Other Costs (sweeping, trash removal, signs, drainage)		$370,644	$372,497	$374,360	$376,232	$378,113	$380,003	$381,903	$383,813	$385,732
Contingency (10%)		$73,170	$73,691	$74,216	$74,745	$75,279	$75,816	$76,358	$76,905	$77,456
Repayment of Transition Yr Cnty Services	$0	$180,928	$180,928	$180,928	$180,928	$180,928				
Total	$0	$985,800	$991,529	$997,304	$1,003,126	$1,008,994	$833,981	$839,943	$845,953	$852,011
Road Fund Operating Surplus (Deficit)	$264,476	($733,446)	($750,742)	($768,160)	($785,698)	($803,357)	($627,021)	($631,648)	($636,312)	($641,013)
TOTAL, All Funds	$201,350	$50,348	$29,738	($21,907)	$69,094	$346	$18,802	$12,086	$32,631	$26,892
Cumulative Surplus (Deficit)	$201,350	$251,698	$281,436	$259,529	$328,622	$328,969	$347,770	$359,856	$392,487	$419,379

(1) New utility users tax included to offset payment for impacts on County General Fund. Amount reduced in Year 7 when City is able to contribute other net revenues to repayment.

(2) Repayment for animal services, planning and land use, code enforcement, public works, and sheriff services the County is obligated to provide for the remainder of the first fiscal year (less County-retained revenues).

(3) Potential initial year shortfall can be spread over subsequent years by deferring repayment of County's Transition Year service costs; this will not affect the fiscal conclusions.

Table 2
Municipal Service Providers -- Existing and Proposed
San Martin Incorporation Analysis; EPS #17060

	Service Provision		
Service	**Present Provider**	**After Incorporation**	**Method**
General Government			
Governing Board	Santa Clara County	New City	City Council
Manager	Santa Clara County	New City	City Staff
Attorney	Santa Clara County	New City	City Contract
Finance/Clerk/Administrative Services	Santa Clara County	New City	City Staff
Public Protection			
Law Enforcement	Santa Clara County	New City	Contract with County Sheriff
Traffic Control/Accident Investigation	California Highway Patrol	New City	Contract with County Sheriff
Fire Protection	South Santa Clara County Fire District	No Change	As is currently provided
Ambulance	South Santa Clara County Fire District	No Change	As is currently provided
Animal Control	Santa Clara County	New City	City Staff/Contract
Vector Control and Mosquito Abatement	Vector Control District	No Change	As is currently provided
Land Use and Planning			
Regulation & Planning	Santa Clara County	New City	City Staff/Contract
Community Services			
Recreation Programs	Santa Clara County	No Change	As is currently provided
Regional Parks/Open Space	Santa Clara County/ S.C. Open Space Authority	No Change	As is currently provided
Local Parks	n/a (no local parks)	n/a	n/a
Library	Santa Clara County Library District Gilroy and Morgan Hill Branches	No Change	As is currently provided
Public Works/Public Utilities			
Admin. and Maintenance of Roads, Bridges, Signals, Drainage	Santa Clara County	New City	City Staff/Contract
Domestic Water	Santa Clara Valley Water District, West San Martin Water Works, San Martin County Water District	No Change	As is currently provided
Waste Water Treatment/Disposal	n/a (septic systems utilized, except Lion's Gate)	No Change	As is currently provided
Solid Waste Management	Santa Clara County	New City (franchise management, recycling)	City Staff
Solid Waste Disposal	South Valley Disposal & Recycling	No Change	As is currently provided
Flood Control & Conveyance Drainage	Santa Clara Valley Water District	No Change	As is currently provided
Street Lighting	Santa Clara County/CLSA #1	No Change (assuming specific findings are made by LAFCO)	As is currently provided
Building Inspection	Santa Clara County	New City	City Staff/Contract
Public Education			
K-12 Grade Levels	Gilroy and Morgan Hill Unified School District	No Change	As is currently provided
College	Gavilan Community College	No Change	As is currently provided
Other Services			
Electricity	Pacific, Gas & Electric	No Change	Franchise Agreement w/New City
Gas	Pacific, Gas & Electric	No Change	Franchise Agreement w/New City
Cable Television	Charter Communications	No Change	Franchise Agreement w/New City
Public Transit	Valley Transit Authority	No Change	As is currently provided

Source: Economic & Planning Systems

Table 3
Change in Revenues and Expenses to Santa Clara County
San Martin Incorporation Analysis, EPS #17060 Proponents' Proposed Boundary

Item	Amount	Notes
General Fund Revenues and Expenditures (FY07) (1)		
Revenues Transferred to the City		
Property Taxes	$599,522	Estimated transfer amount FY 07
Transient Occupancy Tax	$221,557	
Sales Tax	$838,885	Includes estimated 12% unallocated
Real Property Transfer Tax	$2,335	50% of FY 07 amount ($.55/$1,000 value)
Franchise Fees	$253,621	Including solid waste, PG&E, cable, water
AB 939 Fees	$10,237	
Subtotal	$1,926,157	
Expenditures for Service Responsibilities Transferred to the City (1)		
Animal Control	$278,447	
Land Use Planning, Inspection, Enforcement	$151,056	
Clean Water	$3,186	
Waste Management	$129,205	
Sheriff	$483,933	
Subtotal	$1,045,827	
Other (revenue increases) (2)		
Property Tax Administration Fees	$8,090	Based on first year of city
Booking Fees	$0	Not paid by cities, per State budget
Net County Surplus or (Deficit)	**($872,240)**	
County Road Fund		
Revenue Reductions (3)		
Gas Tax: Highway User Tax 2106c	$27,491	Based on 7.7% reduction in unincorp. a.v.
Gas Tax: Highway User Tax 2105a [2]	$208	Based on reduction in County maintained miles
Grants		No reduction assumed
Traffic Congestion Relief: 2182a [1] (B)	$41,624	Based on reduction in County maintained miles
Subtotal	$69,323	
Expenditure Reductions		
Road Maintenance (4)	$1,502,235	Based on FY07 costs, noted as atypical (higher) of recent average road maintenance expenditures.
Other Road Costs (traffic engineering, signal maint.)	$120,000	Excludes cost-recovery development engineering
Subtotal	$1,622,235	
Net County Road Fund Surplus or (Deficit)	**$1,552,912**	
Total General Fund and Road Fund Surplus or (Deficit)	**$680,672**	**(5)**

(1) Costs shown in this table represent FY07 County costs for those service responsibilities to be transferred to the new city. Future city costs shown in Table 1 will not necessarily correspond to these FY07 County costs since the specific future services, staffing, facilities, contracts and manner of service provision will differ for the future city. For example, the future city will need to provide traffic enforcement, which currently is not a County responsibility.

(2) The County will realize new revenues (e.g., property tax administration charges) for services currently provided without compensation.

(3) County road revenues are not significantly affected, as they largely depend on Countywide population and registered vehicles, and are not influenced by a change in unincorporated vs. incorporated population or road miles.

(4) Road maintenance expenditures are based on County estimates of FY07 expenditures. These costs are higher than the County's estimated average expenditures in the San Martin area and are above the estimate of average annual road maintenance costs that the new city is likely to incur.

(5) Legal requirements restrict the transfer of certain Road Fund revenues to directly offset General Fund service cost impacts. Legal counsel has indicated that LAFCO may consider the two funds in total when determining revenue neutrality impacts.

Table A-1
Demographic Assumptions, Fiscal Year 2007
San Martin Incorporation Analysis, EPS #17060
Proponents' Proposed Boundary

Item	Amount	Comment
Proposed City		
Length of Transition	12	months
	100%	of year
Population (1)	6,921	
Total Housing Units (1)	2,089	
County-Maintained Center Line Miles (2)	54.52	Centerline miles
Santa Clara County		
Incorporated Population (3)	1,710,137	
Unincorporated Population (3)	97,919	
Total County Population	1,808,056	
County-Maintained Road Miles (4)	684	Centerline miles
Incorporated Assessed Value (5)	$248.67	billion
Unincorporated Assessed Value (5)	$13.25	billion
Total County Assessed Value	$261.92	billion

(1) EPS projection based on census 2000 and MTC TAZ 2007 projections.
(2) Santa Clara County Roads and Airport Department- Roads and Related Facilities response.
(3) California Department of Finance (1/1/2007)
(4) State Highway Performance Monitoring System 2006 California Public Road Data.
(5) Santa Clara County Office of the Assessor 2006-2007 Annual Report.

Sources: Santa Clara County, California Department of Finance, California Department of Transportation,

Table A-2
General Assumptions, Fiscal Year 2007
San Martin Incorporation Analysis, EPS #17060

Item	Amount	
Assessed Value Within the Proposed Boundaries		
Assessed Value of Residential (1)	$744,695,829	
Assessed Value of Commercial (1)	$276,751,714	
Total Assessed Value	$1,021,447,543	
Property Tax Rate (excluding assessments, etc.)	1.0%	
Average Market Value by Land Use for New Development		
Single-Family (2)	$1,800,000	
Multifamily (3)	$545,000	per unit

(1) County response to Office of the Assessor data request, 7/18/07

(2) 2007 assessed value for houses built after 2005. FARES search 10-24-07

(3) Median condo/multifamily unit price for according to zillow.com (07-03-07).

Sources: Zillow.com, FARES, Santa Clara County Assessor, Economic & Planning Systems, Inc.

Table A-3
Development Schedule
San Martin Incorporation Analysis, EPS #17060

		Calendar Year												
Item	**Note**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2,015**	**2016**	**2017**	**2018**
Development Schedule														
New Residential Development	(1)	7	7	7	7	7	7	7	7	7	7	7	7	7
Total New Units		7	7	7	7	7	7	7	7	7	7	7	7	7
Cumulative New Units		7	14	21	28	35	42	49	56	63	70	77	84	91
New Non-Residential Dev. (Sq. Ft.)														
Retail		0	0	0	0	0	0	0	0	0	0	0	0	0
Hotel		0	0	0	0	0	0	0	0	0	0	0	0	0
Other Commercial		0	0	0	0	0	0	0	0	0	0	0	0	0
Total New Sq. Ft.		0	0	0	0	0	0	0	0	0	0	0	0	0
Cumulative New Sq. Ft.		0	0	0	0	0	0	0	0	0	0	0	0	0
Cumulative New Development Entire City														
Residential Development	(3)													
Total Dwelling Units		2,089	2,096	2,103	2,110	2,117	2,124	2,131	2,138	2,145	2,152	2,159	2,166	2,173
New Non-Residential Dev. (Sq. Ft.)	(2)													
Retail		0	0	0	0	0	0	0	0	0	0	0	0	0
Hotel		0	0	0	0	0	0	0	0	0	0	0	0	0
Other Commercial		0	0	0	0	0	0	0	0	0	0	0	0	0
Total Non-Res. Dev. Sq. Ft.		0	0	0	0	0	0	0	0	0	0	0	0	0
New Hotel Rooms	(2)		-	-	-	-	-	-	-	-	-	-	-	-

(1) EPS estimate based on review of County response to Planning Department data request, County Planning & Development (Development Services)- Planning Department 7/13/07

(2) Commercial development in San Martin is largely built out. Future nonresidential development is negligible in San Martin and is thus not calculated.

(3) See Table A-1.

Sources: Census 2000, MTC TAZ Projections 2007, County Planning Department, Economic & Planning Systems, Inc.

Table A-4
Population Projections
San Martin Incorporation Analysis, EPS #17060

			Calendar Year											
Item	**Note**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Population Projections														
New Population (1)	3.31		23	23	23	23	23	23	23	23	23	23	23	23
Subtotal			23	23	23	23	23	23	23	23	23	23	23	23
Cumulative Population		6,921	6,945	6,968	6,991	7,014	7,037	7,061	7,084	7,107	7,130	7,153	7,176	7,200

(1) Source: Census 2000

Table A-5
Assessed Value Calculation - All Figures in $000's
San Martin Incorporation Analysis, EPS #17060

					Fiscal Year							
Item	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**
Assessed Value of Existing Development (start of year)												
Resid. Assessed Value in City (Constant $000's) (1)		$810,501	$839,820	$869,987	$901,026	$932,958	$965,807	$999,596	$1,034,351	$1,070,096	$1,106,857	$1,144,661
Comm. Assessed Value in City (Constant $000's) (2)		$289,918	$289,918	$289,918	$289,918	$289,918	$289,918	$289,918	$289,918	$289,918	$289,918	$289,918
Total		$1,100,419	$1,129,738	$1,159,905	$1,190,944	$1,222,876	$1,255,725	$1,289,514	$1,324,269	$1,360,014	$1,396,775	$1,434,579
Assessed Value of New Development (3)												
A.V. from New Development (Constant $000's)		$12,852	$13,109	$13,371	$13,639	$13,911	$14,190	$14,473	$14,763	$15,058	$15,359	$15,667
Retail		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Hotel		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Other Commercial		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Resid. A.V. from New Dev. (Constant $000's)		$12,852	$13,109	$13,371	$13,639	$13,911	$14,190	$14,473	$14,763	$15,058	$15,359	$15,667
Comm. A.V. from New Dev. (Constant $000's)		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total		$12,852	$13,109	$13,371	$13,639	$13,911	$14,190	$14,473	$14,763	$15,058	$15,359	$15,667
Cum. Resid. A.V. from New Dev. (Constant $000's)		$12,852	$25,961	$39,332	$52,971	$66,882	$81,072	$95,545	$110,308	$125,366	$140,726	$156,392
Cum. Comm. A.V. from New Dev. (Constant $000's)		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total		$12,852	$25,961	$39,332	$52,971	$66,882	$81,072	$95,545	$110,308	$125,366	$140,726	$156,392
Total Assessed Value Existing & New Development (end of year)												
Cumulative Resid. A.V. (Constant $000's)		$823,353	$852,929	$883,359	$914,664	$946,869	$979,996	$1,014,070	$1,049,114	$1,085,154	$1,122,217	$1,160,328
Cumulative Comm. A.V. (Constant $000's)		$289,918	$289,918	$289,918	$289,918	$289,918	$289,918	$289,918	$289,918	$289,918	$289,918	$289,918
Subtotal		$1,113,271	$1,142,847	$1,173,277	$1,204,582	$1,236,787	$1,269,914	$1,303,988	$1,339,032	$1,375,072	$1,412,135	$1,450,246
(less total redevelopment)		$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total		$1,113,271	$1,142,847	$1,173,277	$1,204,582	$1,236,787	$1,269,914	$1,303,988	$1,339,032	$1,375,072	$1,412,135	$1,450,246
			102.7%	102.7%	102.7%	102.7%	102.7%	102.7%	102.7%	102.7%	102.7%	102.7%

(1) Residential AV assumes 2% increase over the total value at the end of the prior year.

(2) No real increase in comm'l assessed value assumed.

(3) See development estimates in Table A-3 multiplied by assumed values per unit shown in Table A-2.

Table B
Annual Revenue Estimate for New City (All figures in Constant $s)
San Martin Incorporation Analysis, EPS #17060

		Fiscal Year									
		2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Item	**Note (1)**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
General Fund Revenues											
Property Taxes	1	$0	$705,773	$724,107	$742,968	$762,367	$782,320	$802,841	$823,945	$845,646	$867,960
Sales Tax	2	$419,443	$838,885	$838,885	$838,885	$838,885	$838,885	$838,885	$838,885	$838,885	$838,885
Transient Occupancy Tax	3	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557
Real Property Transfer Tax	4	$5,305	$5,436	$5,571	$5,708	$5,849	$5,993	$6,141	$6,292	$6,447	$6,605
Franchise Fees	5	$289,670	$289,873	$290,075	$290,277	$290,479	$290,681	$290,883	$291,086	$291,288	$291,490
Planning and Building Fees	6	$0	$274,742	$276,116	$277,496	$278,884	$280,278	$281,679	$283,088	$284,503	$285,926
Public Works/Eng. Fees	7	$0	$89,020	$89,465	$89,913	$90,362	$90,814	$91,268	$91,724	$92,183	$92,644
Fines, Penalties, Misc.	8	$42,813	$32,684	$32,793	$32,901	$33,009	$33,117	$33,225	$33,333	$33,441	$33,549
State Motor Vehicle License Fees	9	$62,172	$62,377	$62,583	$62,788	$62,994	$63,200	$63,405	$63,611	$63,816	$64,022
Property Tax/VLF Swap	10	$547,312	$512,513	$477,474	$442,193	$406,670	$370,907	$372,113	$373,320	$374,526	$375,733
Revenue Credits (transition yr) (2)		$1,112,394									
Investment Earnings	12	$41,761	$70,653	$70,369	$70,090	$69,817	$69,551	$66,466	$66,963	$67,472	$67,993
Total General Fund Revenues		$2,742,427	$3,103,515	$3,088,994	$3,074,776	$3,060,874	$3,047,304	$3,068,465	$3,093,803	$3,119,765	$3,146,365
Road Fund Revenues											
Prop 42 Funds	13	$63,687	$63,899	$64,751	$65,614	$66,488	$67,373	$68,268	$69,175	$70,094	$71,023
Gas Taxes	13	$200,789	$188,455	$176,036	$163,531	$150,940	$138,264	$138,692	$139,119	$139,547	$139,975
Transition Credits (2)		$0									
Total Road Fund Revenues		$264,476	$252,354	$240,787	$229,145	$217,428	$205,637	$206,960	$208,295	$209,641	$210,998

(1) Reference Notes are included in Figure B-1
(2) Revenue generated from incorporation area during transition year received by county but paid or credited back to the cit

Source: Economic & Planning Systems, Inc.

Table B-1
Revenue Estimate Notes
San Martin Incorporation Analysis, EPS #17060

Ref #	Item	Assumption		2009-10 1	2010-11 2	2011-12 3	2012-13 4	Fiscal Year 2013-14 5	2014-15 6	2015-16 7	2016-17 8	2017-18 9	2018-19 10
General Fund													
1	Property Tax	See Figures A-5 and B-2			102.7%	102.7%	102.7%	102.7%	102.7%	102.7%	102.7%	102.7%	102.7%
	Total Property Tax @ 1% of AV			$11,428,468	$11,732,766	$12,045,824	$12,367,872	$12,699,142	$13,039,875	$13,390,318	$13,750,723	$14,121,347	$14,502,456
	Property Tax Increment			$0	$304,298	$313,058	$322,047	$331,270	$340,734	$350,443	$360,404	$370,624	$381,109
	Subtotal			$0	$304,298	$313,058	$322,047	$331,270	$340,734	$350,443	$360,404	$370,624	$381,109
	Property Tax Increment to City:		See Fig B-2										
	County & Special Districts	5.87%	TAF	$0	$17,860	$18,374	$18,902	$19,443	$19,999	$20,569	$21,153	$21,753	$22,369
	Total	5.87%	TAF	$0	$17,860	$18,374	$18,902	$19,443	$19,999	$20,569	$21,153	$21,753	$22,369
	Gross Property Tax to City												
	Base			$688,635	$688,635	$706,496	$724,870	$743,772	$763,216	$783,214	$803,783	$824,936	$846,690
	Share of Tax Increment			$0	$17,860	$18,374	$18,902	$19,443	$19,999	$20,569	$21,153	$21,753	$22,369
	Total			$688,635	$706,496	$724,870	$743,772	$763,216	$783,214	$803,783	$824,936	$846,690	$869,058
	Property Tax Increment: Supplemental Roll @ 50% of AV of New Dev.			$3,847	$3,924	$4,002	$4,083	$4,164	$4,247	$4,332	$4,419	$4,507	$4,598
	Prop. Tax Inc. to City: Supp'l Roll @ 4% of Tax Due to Turnover			$3,354	$3,443	$3,535	$3,630	$3,727	$3,827	$3,930	$4,035	$4,144	$4,256
	Property Tax to City Prior to Tax Admin. Fees			$695,836	$713,863	$732,408	$751,484	$771,107	$791,289	$812,045	$833,391	$855,341	$877,912
	Less Prop. Tax Admin. Fees	1.15%	of Gross A.V.	($7,885)	($8,090)	($8,300)	($8,517)	($8,739)	($8,968)	($9,204)	($9,446)	($9,695)	($9,951)
	Less Transition Credit	100%		$687,951									
	Net General Fund Property Tax to City			$0	$705,773	$724,107	$742,968	$762,367	$782,320	$802,841	$823,945	$845,646	$867,960
2	Sales Tax	0%	note: no real growth occurred from FY 06 to FY 07 in San Martin										
	Retail Sales Tax (1)	$738,568	base tax	$738,568	$738,568	$738,568	$738,568	$738,568	$738,568	$738,568	$738,568	$738,568	$738,568
	Subtotal			$738,568	$738,568	$738,568	$738,568	$738,568	$738,568	$738,568	$738,568	$738,568	$738,568
	Unallocated Tax (inc. pool)	14.7%	$108,791	$108,791	$108,791	$108,791	$108,791	$108,791	$108,791	$108,791	$108,791	$108,791	$108,791
	(less) State admin charge	1.0%		($8,474)	($8,474)	($8,474)	($8,474)	($8,474)	($8,474)	($8,474)	($8,474)	($8,474)	($8,474)
	Less Transition Credit	50.0%		($419,443)									
	Total Sales Tax (General Fund)		$847,359	$419,443	$838,885	$838,885	$838,885	$838,885	$838,885	$838,885	$838,885	$838,885	$838,885
3	Transient Occupancy Tax (2)	$221,557	base tax	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557
	Less Transition Credit			$0									
	Total Transient Occupancy Tax			$221,557	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557
4	Property Transfer Tax												
	Turnover of prior year base												
	Residential Turnover of A.V.			0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
	Rate per $1,000 market value	$0.55											
	Base Resid A.V. fiscal year (constant $000's)			$883,359	$914,664	$946,869	$979,996	$1,014,070	$1,049,114	$1,085,154	$1,122,217	$1,160,328	$1,199,514
	Prop. Tran. Tax: turnover of existing res'l units			$1,628	$1,686	$1,745	$1,806	$1,869	$1,934	$2,000	$2,068	$2,138	$2,211
	Base Comm'l A.V. fiscal year (constant $000's)			$289,918	$289,918	$289,918	$289,918	$289,918	$289,918	$289,918	$289,918	$289,918	$289,918
	Prop. Tran. Tax from turnover of existing comm'l			$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
	Prop. Tran. Tax from new res'l	50%	non-owner blt	$3,677	$3,751	$3,826	$3,902	$3,980	$4,060	$4,141	$4,224	$4,308	$4,394
	Less Transition Credit			$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
	Total Property Transfer Tax	$4,670	base tax	$5,305	$5,436	$5,571	$5,708	$5,849	$5,993	$6,141	$6,292	$6,447	$6,605

Table B-1
Revenue Estimate Notes
San Martin Incorporation Analysis, EPS #17060

Ref #	Item	Assumption			2009-10 1	2010-11 2	2011-12 3	2012-13 4	Fiscal Year 2013-14 5	2014-15 6	2015-16 7	2016-17 8	2017-18 9	2018-19 10
5	Franchise Fees													
	PG&E (2)	$60,330		$9	$60,936	$61,138	$61,341	$61,543	$61,745	$61,947	$62,149	$62,351	$62,554	$62,756
	Water (2)	$2,316			$2,316	$2,316	$2,316	$2,316	$2,316	$2,316	$2,316	$2,316	$2,316	$2,316
	Cable (2)	$3,522			$3,522	$3,522	$3,522	$3,522	$3,522	$3,522	$3,522	$3,522	$3,522	$3,522
	Solid Waste (3)	$177,216			$212,659	$212,659	$212,659	$212,659	$212,659	$212,659	$212,659	$212,659	$212,659	$212,659
	AB 939 Implementation Fee (4)	$10,237			$10,237	$10,237	$10,237	$10,237	$10,237	$10,237	$10,237	$10,237	$10,237	$10,237
	Less Transition Credit				$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
	Total	$253,621			$289,670	$289,873	$290,075	$290,277	$290,479	$290,681	$290,883	$291,086	$291,288	$291,490
6	Planning and Building Fees													
	% of planning/bldg. personnel (exc. Gen. Plan & other cos			90%	$0	$274,742	$276,116	$277,496	$278,884	$280,278	$281,679	$283,088	$284,503	$285,926
7	Public Works/Engineering Fees													
	% of costs recaptured by fees			50%	$0	$89,020	$89,465	$89,913	$90,362	$90,814	$91,268	$91,724	$92,183	$92,644
8	Fines, Penalties, Mics. (5)	$5	per capita		$32,576	$32,684	$32,793	$32,901	$33,009	$33,117	$33,225	$33,333	$33,441	$33,549
	Traffic Fines													
	AB 939 Fees				$10,237									
	Less Transition Credit				$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
	Total				$42,813	$32,684	$32,793	$32,901	$33,009	$33,117	$33,225	$33,333	$33,441	$33,549
9	State Motor Vehicle License Fees (6)													
	Per capita fees	$8.86	per capita		$62,172	$62,377	$62,583	$62,788	$62,994	$63,200	$63,405	$63,611	$63,816	$64,022
					150%	140%	130%	120%	110%	100%	100%	100%	100%	100%
10	Property Tax/ VLF Swap	$52	per capita		$547,312	$512,513	$477,474	$442,193	$406,670	$370,907	$372,113	$373,320	$374,526	$375,733
11	Police (7)	(see deduction from costs)												
12	Investment Earnings (8)	based on Comparable Cities												
	Subtotal General Fund revenues, excl. invest. earnings				$2,088,072	$3,532,662	$3,518,425	$3,504,486	$3,490,857	$3,477,553	$3,323,299	$3,348,141	$3,373,593	$3,399,671
	Subtotal Interest Earnings	% of Gen. Fund revenues		2%	$41,761	$70,653	$70,369	$70,090	$69,817	$69,551	$66,466	$66,963	$67,472	$67,993
Road Fund														
13	Road Fund													
	Prop 42 (9) (per capita)	$9.11	1%		$63,687	$63,899	$64,751	$65,614	$66,488	$67,373	$68,268	$69,175	$70,094	$71,023
	Relevant population for calculation (see Prop. Tax/VLF, ref. 10)				10,521	9,852	9,179	8,500	7,818	7,130	7,153	7,176	7,200	7,223
	Highway User Tax 2105	$6.11	Per Capita		$64,244	$60,159	$56,046	$51,905	$47,735	$43,537	$43,679	$43,820	$43,962	$44,104
	Highway User Tax 2106 (a)	$4,800	Per Year		$4,800	$4,800	$4,800	$4,800	$4,800	$4,800	$4,800	$4,800	$4,800	$4,800
	Highway User Tax 2106 (c)	$4.03	Per Capita		$42,430	$39,733	$37,016	$34,281	$31,527	$28,755	$28,848	$28,942	$29,035	$29,129
	Highway User Tax 2107	$8.30	Per Capita		$87,315	$81,764	$76,174	$70,545	$64,878	$59,172	$59,365	$59,557	$59,750	$59,942
	Highway User Tax 2107.5 (c)	$2,000	Per Year		$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000
	Subtotal (10)				$200,789	$188,455	$176,036	$163,531	$150,940	$138,264	$138,692	$139,119	$139,547	$139,975
	Grants	none assumed due to uncertainty in amount and timing												

* Footnotes on next page

Table B-1
Footnotes
San Martin Incorporation Analysis, EPS #17060

(1) Source: HDL 2006-2007 (received by EPS 10/18/07) - BASE

3rd Q 06	$233,432		
4th Q 06	$287,183		
1st Q 07	$129,533		
2nd Q 07	$88,420	Area 4	Area 5
	$738,568	$1,064	$27,075

(2) Source: Santa Clara County, Robert Anderson, correspondence to EPS 8/10/07. (Budget and Analysis)

(3) The Solid Waste franchise fee will increase from 12.5% to 15% in fiscal year 2009-2010.
Source: Santa Clara County, Greg Van Wassenhove, correspondence to EPS 7/16/07. (Integrated Waste Management)

(4) Source: Santa Clara County, Greg Van Wassenhove, correspondence to EPS 7/16/07. (Integrated Waste Management)

(5) Fines and Penalties are based on a per capita average of fines and penalties for the comparable cities.

(6) Per Capita VLF fee is obtained from State Controller's Office - Shared Revenue Estimate Report 05-06 and inflated by 2%.

(7) Police revenues include 85 percent of traffic fines and tow vehicle fees which the county estimates is approximately $5,000.

(8) Investment earnings are based on average percentage of general fund revenues from comparable cities.

(9) Source: Michael Coleman, based on State estimates. Amounts have been adjusted to constant dollars, with 1% real increase assumed.

(10) Source: CA State Controllers Office Guidelines Relating to Gas Tax Expenditures.

Table B-2
Calculation of Property Tax Transfer
San Martin Incorporation Analysis, EPS #17060

A. Transfer of Property Tax Base		
A.1 Total Expenditures Subject to Transfer	$1,045,827	see Table B-4
A.2 County Auditor's Ratio 2006-2007	57.33%	see Table B-3
A.3 Property Tax Transferred from County = A.1 * A.2	$599,522	before adjustment (see B.3 below)
B. Estimation of Tax Allocation Factor (TAF)		
B.1 Assessed Value (FY 2006/2007)	$1,021,447,543	see Table A-2
B.2 Assessed Value (FY 2009/2010)	$1,173,276,629	see Table A-5
B.3 Change from FY06-07 to FY09-10 = (B.2 - B.1)/B.1	14.9%	
B.4 Property Tax Transferred from County = A.3	$599,522	
B.5 Property Tax Transfer adjusted for a.v. growth = (1+B.3) * B.4	$688,635	
B.6 Total Property Tax Collected '09-'10 = 1% * B.2	$11,732,766	
B.7 Estimated Tax Allocation Factor (B.5/B.6)	5.87%	applied to future city a.v. growth

Source: Santa Clara County, EPS.

Table B-3
Auditor's Ratio
Countywide Property Tax as a % of General Purpose Revenues
San Martin Incorporation Analysis, EPS #17060

Item	
Property Tax Revenue to the County (1)	$413,534,751
Other General Purpose Revenue (1)	$307,850,032
Total Net Revenue Available for General Purposes	$721,384,783
Property Tax as % of General Purpose Revenues	57.33%

(1) Property taxes and General Purpose Revenues are from all incorporated and unincorporated areas.
Source: Santa Clara County Controller-Treasurer, 2/1/08

Table B-4
Current Net County Cost for Services Transferred (FY 07)
San Martin Incorporation Analysis, EPS #16065 Proponents' Proposed Boundary

Department/Function	San Martin Cost	Indirect Cost: Percentage (12)	Indirect Cost: San Martin	San Martin Cost Including Indirect	Revenues: San Martin Offsetting Revenue	Net County Cost of San Martin
Animal Services (1)	$277,888	10.2%	$28,239	$306,127	$27,680	$278,447
Planning						
Comprehensive Planning (2)	$65,808	6.2%	$4,080	$69,888		$69,888
Land Use Apps (3)	$116,471	6.2%	$7,221	$123,692	$104,824	$18,868
Building Permits (4)	$39,615	6.2%	$2,456	$42,071	$39,615	$2,456
Public Information (5)	$10,000	6.2%	$620	$10,620	$0	$10,620
SMPAC (6)	$10,000	6.2%	$620	$10,620	$0	$10,620
Total	$241,894			$256,891	$144,439	$112,452
Code Enforcement (Zoning) (7)	$27,457	6.2%	$1,702	$29,160	$0	$29,160
Code Enforcement (Building) (8)	$16,244	6.2%	$1,007	$17,251	$17,251	$0
Clean Water Program (5)	$3,000	6.2%	$186	$3,186	$0	$3,186
Building Inspection (9)	$306,064	6.2%	$18,975	$325,039	$315,595	$9,444
Waste Management (10)	$172,506	0.0%	$0	$172,506	$43,301	$129,205
Sheriff Department (11)	$488,933		$0	$488,933	$5,000	$483,933
Total	**$1,533,987**		**$50,110**	**$1,599,094**	**$553,267**	**$1,045,827**

(1) Costs based on Animal Care and Control Response (11-14-07).

(2) Comprehensive planning based on .5 FTE per County estimate (12/14/2007) applied to County cost for .5 FTE at step 5 (2/4/08 cost estimate) with benefits.

(3) Planning & Development- Planning response (7-31-07) Land use application -related costs are 90% cost recoverable.

(4) Planning & Development- Planning response (7-31-07). Building Permits cost are fully cost recoverable.

(5) Cost based on EPS verbal communication with County staff 11/27/07.

(6) Planning & Development- Planning response (7-31-07). San Martin Planning Advisory Committee is completely supported by the General Fund ($10,000).

(7) Planning & Development - Code Enforcement (7-31-07). One-quarter FTE zoning inspector allocated to San Martin. A zoning investigator earns $109,829 per year at step 5 (2/4/08 cost estimate) with benefits.

(8) Planning & Development- Planning response (7-31-07, 2-04-08). A Sr. Building Inspector earns $153,248 a year and spends 10.6% of their time working on code enforcement in San Martin, based on % of complaints.

(9) Cost are based on Development Services Office -Building Inspection response (8-3-07, 2-04-08). It is estimated that 2 FTE positions serve the San Martin area.

(10) Costs are fully recovered by revenues, including franchise fees; however, franchise fees are not included as a charge for service or net fee in this table, as the revenue goes to the General Fund.
See Agriculture & Environmental Management- Integrated Waste management response (7-16-07). Revenues have been adjusted based on estimated households in the area.

(11) Based on Sheriff's information (2-05-08), adjusted to exclude estimated traffic patrol (est'd 12.5%, per John Hirokawa).
Currently the CHP provides traffic patrol in unincorporated areas.
Indirect costs are included in the cost estimates.

(12) Indirect cost allocation based on Santa Clara County Allocated Cost Plan by department.

Sources: Santa Clara County Budget, Contra Costa Cost Allocated Cost Plan, Economic & Planning Systems, Inc.

Table C
Expenditure Estimate (All figures in Constant $s)
San Martin Incorporation Analysis, EPS #17060

		Fiscal Year									
		2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Item	**Note(1)**	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
General Fund Expenditures											
Legislative	1	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500
Elections	2	$200,000	$10,000	$0	$10,000	$0	$10,000	$0	$10,000	$0	$10,000
City Manager and City Clerk	3	$281,225	$328,659	$330,289	$331,927	$333,573	$335,227	$336,890	$338,561	$340,240	$341,928
City Attorney	4	$250,000	$76,131	$76,511	$76,894	$77,278	$77,665	$78,053	$78,443	$78,836	$79,230
Administrative Services	5	$166,050	$222,507	$223,620	$224,738	$225,861	$226,991	$228,126	$229,266	$230,413	$231,565
Police	6	$0	$588,661	$594,598	$600,594	$606,650	$612,767	$618,944	$625,184	$631,485	$637,850
Animal Control	7	$0	$74,811	$75,185	$75,561	$75,939	$76,319	$76,700	$77,084	$77,469	$77,856
Planning and Building	8	$137,672	$443,032	$444,635	$446,246	$347,864	$349,491	$351,126	$352,769	$354,421	$356,080
Public Works Administration	9	$74,250	$178,040	$178,931	$179,825	$180,724	$181,628	$182,536	$183,449	$184,366	$185,288
Street Lighting	10	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Non-Departmental											
Office Rent/Supplies	11	$109,000	$112,500	$84,500	$76,500	$76,500	$76,500	$76,500	$76,500	$76,500	$76,500
Insurance	12	$37,431	$61,915	$61,133	$61,554	$58,617	$59,283	$59,351	$60,023	$60,097	$60,774
Contingency	13	$233,596	$212,576	$209,890	$211,334	$201,251	$203,537	$203,773	$206,078	$206,333	$208,657
Reserve Fund		$233,596	($21,020)	($2,686)	$1,444	($10,083)	$2,286	$236	$2,305	$255	$2,324
LAFCO	14	$1,437	$1,437	$1,437	$1,437	$1,437	$1,437	$1,437	$1,437	$1,437	$1,437
Repayment, 1st year costs	15	($61,566)									
Total General Fund Expenditures		$1,692,189	$2,318,750	$2,307,543	$2,327,552	$2,205,111	$2,242,629	$2,243,172	$2,270,598	$2,271,351	$2,298,989
Reserve Fund		$233,596	$212,576	$209,890	$211,334	$201,251	$203,537	$203,773	$206,078	$206,333	$208,657
% of Expenditures (exc. reserves)		10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Road Fund Expenditures											
Pavement Maintenance	16	$0	$310,050	$313,150	$316,282	$319,445	$322,639	$325,865	$329,124	$332,415	$335,740
Signal Maintenance, Traffic Engineering		$0	$51,008	$51,263	$51,519	$51,776	$52,035	$52,296	$52,557	$52,820	$53,084
Other Costs (sweeping, trash removal, signs, drainage)		$0	$370,644	$372,497	$374,360	$376,232	$378,113	$380,003	$381,903	$383,813	$385,732
Subtotal		$0	$731,702	$736,910	$742,161	$747,453	$752,787	$758,164	$763,585	$769,048	$774,555
Contingency (10%)		$0	$73,170	$73,691	$74,216	$74,745	$75,279	$75,816	$76,358	$76,905	$77,456
Repayment, transition year County Services	17	$0	$180,928	$180,928	$180,928	$180,928	$180,928	$0	$0	$0	$0
Total Road Fund Expenditures		$0	$985,800	$991,529	$997,304	$1,003,126	$1,008,994	$833,981	$839,943	$845,953	$852,011

(1) Reference Notes are included in Figure B-1.

Source: Economic & Planning Systems, Inc.

Table C-1
Expenditure Estimate Notes
San Martin Incorporation Analysis, EPS #17060

Ref. #	Department/Program	Cost Factor	Estimating Cost Factor	Source		2009-10 1	2010-11 2	2011-12 3	2012-13 4	Fiscal Year 2013-14 5	2014-15 6	2015-16 7	2016-17 8	2017-18 9	2018-19 10
1	Legislative														
	City Council Expenses	5	Persons												
	Stipend	$300	Per month			$18,000	$18,000	$18,000	$18,000	$18,000	$18,000	$18,000	$18,000	$18,000	$18,000
	Memberships		$4,000			$4,000	$4,000	$4,000	$4,000	$4,000	$4,000	$4,000	$4,000	$4,000	$4,000
	Expenses (travel, meetings, etc.)		$7,500			$7,500	$7,500	$7,500	$7,500	$7,500	$7,500	$7,500	$7,500	$7,500	$7,500
	City Council Expenses					$29,500	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500
2	Elections	*Initial year includes Spring '09 special election for cityhood and all councilmembers (initially funded by County)*													
	Assumes only general election	based on data from Registrar of Voters				$200,000	$10,000	$0	$10,000	$0	$10,000	$0	$10,000	$0	$10,000
3	City Manager and City Clerk	See Figure C-2				$281,225	$328,659	$330,289	$331,927	$333,573	$335,227	$336,890	$338,561	$340,240	$341,928
4	City Attorney -- Contracted Service	$250,000	Initial Year		0.5%	$250,000	$76,131	$76,511	$76,894	$77,278	$77,665	$78,053	$78,443	$78,836	$79,230
		$75,000	Loomis												
5	Finance Services	See Figure C-3				$166,050	$222,507	$223,620	$224,738	$225,861	$226,991	$228,126	$229,266	$230,413	$231,565
6	Police					real increase:									
	Initial Year Contract Cost	$576,202	incld. traffic enforcement			1%	1%	1%	1%	1%	1%	1%	1%	1%	1%
	Subtotal		Sheriff's Dept.			$0	$593,661	$599,598	$605,594	$611,650	$617,767	$623,944	$630,184	$636,485	$642,850
	(less) Revenues (fees and charges, grants, etc.)			$5,000	0%		($5,000)	($5,000)	($5,000)	($5,000)	($5,000)	($5,000)	($5,000)	($5,000)	($5,000)
	Subtotal					$0	$588,661	$594,598	$600,594	$606,650	$612,767	$618,944	$625,184	$631,485	$637,850
	(note: further information is pending from the County re: contract costs by alternative														
7	Animal Control	$73,700			0.5%	$0	$74,811	$75,185	$75,561	$75,939	$76,319	$76,700	$77,084	$77,469	$77,856
			0.70	FTE (based on San Martin share of County unincorp. Field Services Animal Control Officers)								17% share		4.00	officers
	Estimated Budget	$89,000	$62,300	Budget based on Morgan Hill budget for 1 animal control officer , plus expenses (net of County shelter contract) reduced to San Martin FTE.											
			($10,300)	License revenue collected by County from San Martin area											
			$21,700	Estimated cost for County shelter contract					$100	per animal		217	intakes from animal control officers in San Martin area		
			$73,700		$11	per capita									
8	Planning and Building		See Figure C-4			$137,672	$443,032	$444,635	$446,246	$347,864	$349,491	$351,126	$352,769	$354,421	$356,080
9	Public Works														
	Administration		See Figure C-5			$74,250	$178,040	$178,931	$179,825	$180,724	$181,628	$182,536	$183,449	$184,366	$185,288
10	Street Lighting		$0	offset by assessments			$0	$0	$0	$0	$0	$0	$0	$0	$0

Table C-1 *(cont.)*
Expenditure Estimate Notes
San Martin Incorporation Analysis, EPS #17060

Ref. #	Department/Program	Estimating Cost Factor	Cost Factor		2009-10 1	2010-11 2	2011-12 3	2012-13 4	2013-14 5	2014-15 6	2015-16 7	2016-17 8	2017-18 9	2018-19 10
									Fiscal Year					
11	Office Rent/Supplies													
	FTEs (Includes 3 additional spaces for contractual employees to use)													
	Finance, Planning & Building, Public Works Depts.				3.00	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25
	City Manager and City Clerk Offices				1.50	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
	Subtotal				4.50	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25	8.25
	Plus Contractual per Dept													
	(building insp., other)				1.00	2.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
	Total FTE				5.50	10.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25	11.25
	Staff Capacity Required				11	11	11	11	11	11	11	11	11	11
	Office Space Required	200	sqft/employee		2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250
	Council Chamber		sqft		0	0	0	0	0	0	0	0	0	0
	Total Space				2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250
	Total Rent	$2.00	sqft/month	EPS Est.	$54,000	$54,000	$54,000	$54,000	$54,000	$54,000	$54,000	$54,000	$54,000	$54,000
	Annual Supplies	$2,000	per FTE		$11,000	$20,500	$22,500	$22,500	$22,500	$22,500	$22,500	$22,500	$22,500	$22,500
	Initial Computers, and Furnishings	$8,000	per FTE		$44,000	$38,000	$8,000	$0	$0	$0	$0	$0	$0	$0
	Total Rent and Supplies				$109,000	$112,500	$84,500	$76,500	$76,500	$76,500	$76,500	$76,500	$76,500	$76,500
12	Insurance	3%	of GF expenses (exc. insurance & contingency)		$37,431	$61,915	$61,133	$61,554	$58,617	$59,283	$59,351	$60,023	$60,097	$60,774
13	Contingency													
		10%	of total GF expenses		$128,513	$212,576	$209,890	$211,334	$201,251	$203,537	$203,773	$206,078	$206,333	$208,657
		10%	of total Repayment		$105,083	$0	$0	$0	$0	$0	$0	$0	$0	$0
					$233,596	$212,576	$209,890	$211,334	$201,251	$203,537	$203,773	$206,078	$206,333	$208,657
14	LAFCO				$1,437	$1,437	$1,437	$1,437	$1,437	$1,437	$1,437	$1,437	$1,437	$1,437
	Total LAFCO Budget	$543,283	$576,369	inflated 2 years		3%	per year							
	Total member budgets	$1,446,230	$1,534,305	inflated 2 years (1,000s)		3%	per year							
	San Martin Budget		$3,824,903	Year 2, inc. Road Fund										
	San Martin/Total		0.25%	$1,437 share of LAFCO budget										
15	Repayment, (see Table B-4)		interest rate	0%	$1,050,827	FALSE	FALSE	FALSE	FALSE	FALSE				
	Based on County costs FY07													
	Transition Year		100%	in first year										
	Animal services	$278,447	100%											
	Planning & Land Use	$112,452	100%											
	Code Enforcement	$29,160	100%											
	NPDES	$3,186	100%											
	Building Inspection	$9,444	100%											
	Waste Management	$129,205	100%											
	Sheriff's Dept.	$488,933	100%											
	Subtotal	$1,050,827												
	Total 1st yr costs	$1,050,827	excludes County "general government" costs											
	Loan Repayment	$1,050,827	before credits											
	See Table B-3													
	Revenue Credits (see Table B-1)													
	Property Tax	$687,951												
	Sales Tax	$419,443												
	TOT	$0												
	Property Transfer Tax	$0												
	Franchise Fee	$0												
	Police Revenues	$5,000												
	Fines and Penalties	$0												
	Subtotal	$1,112,394												
	Repayment net of Credits	($61,566)												
	Grants (Road Maintenance)	$0	based on estimated City pavement maintenance costs (w/contingency											

Table C-1 *(cont.)*
Expenditure Estimate Notes
San Martin Incorporation Analysis, EPS #17060

Ref. #	Department/Program	Estimating Cost Factor	Cost Factor		2009-10 1	2010-11 2	2011-12 3	2012-13 4	2013-14 5	2014-15 6	2015-16 7	2016-17 8	2017-18 9	2018-19 10
									Fiscal Year					
Road Fund														
		54.52	Miles of road (center line)											
16	Road Fund Maintenance Cost	$663,323	County estimated costs, 7/01/08, pavement maintenance adjusted to $300,000 to reflect extraordinary FY07 expenditures											
			Assumes that city is not subject to additional costs due to court injunction against County use of "roundup" (50% reduction in cost)											
			Traffic signal maintenance, engineering ($120,000) included in repayment for Transition Year services.											
		54.52	Centerline miles of road											
		$5,465	/lane mile per year	annual inc= 1.0%	$0	$310,050	$313,150	$316,282	$319,445	$322,639	$325,865	$329,124	$332,415	$335,740
			based on slurry seal lifecycle cost 93% of chip seal per CalTrans Guidelines ($0.30/sq.ft. chip seal, 28 ft. avg road widths, 10-yr cycle)											
			includes costs associated with paving, including mobilization, traffic control, prep work, spot repair, roadside repair, striping or other finish work)											
		Traffic signal maintenance, engineering		0.5%		$51,008	$51,263	$51,519	$51,776	$52,035	$52,296	$52,557	$52,820	$53,084
		$50,000	Other costs (signal maint., traffic engineering; excludes cost-recovery land dev. engineering)											
		Other Road Costs		0.5%		$370,644	$372,497	$374,360	$376,232	$378,113	$380,003	$381,903	$383,813	$385,732
		$363,323	based on County costs (excluding pavement maint.) for operational costs including sweeping, drainage, roadside maintenance, etc., 50% weed abateme											
		$6,664	per centerline											
	Subtotal				$0	$731,702	$736,910	$742,161	$747,453	$752,787	$758,164	$763,585	$769,048	$774,555
	Contingency (10%)				$0	$73,170	$73,691	$74,216	$74,745	$75,279	$75,816	$76,358	$76,905	$77,456
	Total				$0	$804,872	$810,601	$816,377	$822,198	$828,066	$833,981	$839,943	$845,953	$852,011
				total per centerline:		$14,763	including maintenance, signals, engineering, contingenc							
17	Repayment, transition Services (inc. eng, lts)		$783,323	5%	$0	$180,928	$180,928	$180,928	$180,928	$180,928	-	-	-	-

Table C-2
City Manager and City Clerk Cost Estimates
San Martin Incorporation Analysis, EPS #17060

Ref. Item	Description	Assumptions				2009-10 1	2010-11 2	2011-12 3	2009-10 4	Fiscal Year 2010-11 5	2011-12 6	2012-13 7	2013-14 8	2014-15 9	2015-16 10
	City Manager Office														
	City Manager					1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
	Annual Salary	$140,000	Morgan Hill	Real increase	0.5%	$140,000	$140,700	$141,404	$142,111	$142,821	$143,535	$144,253	$144,974	$145,699	$146,427
	Benefits	35%				$49,000	$49,245	$49,491	$49,739	$49,987	$50,237	$50,488	$50,741	$50,995	$51,250
	Subtotal					$189,000	$189,945	$190,895	$191,849	$192,808	$193,772	$194,741	$195,715	$196,694	$197,677
	Assistant to City Manager					0.00	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
	Annual Salary	$0			0.5%	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
	Benefits	30%				$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
	Subtotal					$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
	Personnel Subtotal					$189,000	$189,945	$190,895	$191,849	$192,808	$193,772	$194,741	$195,715	$196,694	$197,677
	Other (travel, subscriptions, phone, software, services, e		10%			$18,900	$18,995	$19,089	$19,185	$19,281	$19,377	$19,474	$19,572	$19,669	$19,768
	Total City Manager Office Expenses					$207,900	$208,940	$209,984	$211,034	$212,089	$213,150	$214,215	$215,287	$216,363	$217,445
	City Clerk Office														
	City Clerk - FTE					0.50	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
	Annual Salary	$75,000	EPS	Real increase	0.5%	$37,500	$75,375	$75,752	$76,131	$76,511	$76,894	$77,278	$77,665	$78,053	$78,443
	Benefits	35%				$13,125	$26,381	$26,513	$26,646	$26,779	$26,913	$27,047	$27,183	$27,319	$27,455
	Subtotal					$50,625	$101,756	$102,265	$102,776	$103,290	$103,807	$104,326	$104,847	$105,372	$105,898
	Other Costs														
	Legal Notices	$2,700	Portola Valley	Real increase	0%	$2,700	$2,700	$2,700	$2,700	$2,700	$2,700	$2,700	$2,700	$2,700	$2,700
	Other Costs	15%				$20,000	$15,263	$15,340	$15,416	$15,494	$15,571	$15,649	$15,727	$15,806	$15,885
	Subtotal Other Costs	(note: startup year costs slightly greater)				$22,700	$17,963	$18,040	$18,116	$18,194	$18,271	$18,349	$18,427	$18,506	$18,585
	Total City Clerk Office Expenses					$73,325	$119,720	$120,305	$120,893	$121,484	$122,078	$122,675	$123,274	$123,877	$124,483

Source: Economic & Planning Systems, Inc.

Table C-3
Finance Services Department Cost Estimates
San Martin Incorporation Analysis, EPS #17060

| Ref. Item | Description | Assumptions | | |

Table C-4
Planning and Building Department Cost Estimates
San Martin Incorporation Analysis, EPS #17060

Ref. Item	Description	Assumptions			2009-10 1	2010-11 2	2011-12 3	2012-13 4	Fiscal Year 2013-14 5	2014-15 6	2015-16 7	2016-17 8	2017-18 9	2018-19 10
	Planning and Building Department													
	Planning and Building Director - FTE				0.50	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
	Annual Salary	$100,000	La Habra Hts.	Real increase 0.5%	$50,000	$100,500	$101,003	$101,508	$102,015	$102,525	$103,038	$103,553	$104,071	$104,591
	Benefits	35%			$17,500	$35,175	$35,351	$35,528	$35,705	$35,884	$36,063	$36,244	$36,425	$36,607
	Subtotal				$67,500	$135,675	$136,353	$137,035	$137,720	$138,409	$139,101	$139,796	$140,495	$141,198
					25%									
	Planners (senior and principal) - FTE				0.25	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
	Annual Salary	$65,000	Morgan Hill	Real increase 0.5%	$16,250	$65,325	$65,652	$65,980	$66,310	$66,641	$66,975	$67,309	$67,646	$67,984
	Benefits	35%			$5,688	$22,864	$22,978	$23,093	$23,208	$23,324	$23,441	$23,558	$23,676	$23,794
	Subtotal				$21,938	$88,189	$88,630	$89,073	$89,518	$89,966	$90,416	$90,868	$91,322	$91,779
	Building Inspector/Code Enforcement - FTE				0.25	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
	Annual Salary	$60,000	EPS	Real increase 0.5%	$15,000	$60,300	$60,602	$60,905	$61,209	$61,515	$61,823	$62,132	$62,442	$62,755
	Benefits	35%			$5,250	$21,105	$21,211	$21,317	$21,423	$21,530	$21,638	$21,746	$21,855	$21,964
	Subtotal				$20,250	$81,405	$81,812	$82,221	$82,632	$83,045	$83,461	$83,878	$84,297	$84,719
	Personnel Subtotal				$109,688	$305,269	$306,795	$308,329	$309,871	$311,420	$312,977	$314,542	$316,115	$317,695
	Other Costs													
	Planning Consultants (GP, CEQA, Zoning Ord)				$0	$100,000	$100,000	$100,000	$0	$0	$0	$0	$0	$0
	HCP Participation	*future Town may consider participation*												
	Planning Consultants (other)				$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000	$10,000
	Mapping Production	$7,500			$7,500	$7,500	$7,500	$7,500	$7,500	$7,500	$7,500	$7,500	$7,500	$7,500
	Planning Commission Expense	$5,000			$5,000	$5,000	$5,000	$5,000	$5,000	$5,000	$5,000	$5,000	$5,000	$5,000
	Miscellaneous Other Costs	5%	of personnel costs		$5,484	$15,263	$15,340	$15,416	$15,494	$15,571	$15,649	$15,727	$15,806	$15,885
	Other Cost Subtotal				$27,984	$137,763	$137,840	$137,916	$37,994	$38,071	$38,149	$38,227	$38,306	$38,385
	Total Planning and Building Department Expenses				$137,672	$443,032	$444,635	$446,246	$347,864	$349,491	$351,126	$352,769	$354,421	$356,080

Source: Economic & Planning Systems, Inc.

Table C-5
Public Works Department Cost Estimates
San Martin Incorporation Analysis, EPS #17060

Ref. Item	Description	Assumptions																
											Fiscal Year							
							2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
							1	2	3	4	5	6	7	8	9	10
Public Works Department																
Public Works Director - FTE (or contract initially)							0.50	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Annual Salary		$100,000	Loomis	Real increase	0.5%		$50,000	$100,500	$101,003	$101,508	$102,015	$102,525	$103,038	$103,553	$104,071	$104,591
Benefits		35%					$17,500	$35,175	$35,351	$35,528	$35,705	$35,884	$36,063	$36,244	$36,425	$36,607
Subtotal							$67,500	$135,675	$136,353	$137,035	$137,720	$138,409	$139,101	$139,796	$140,495	$141,198
Clean Water Specialist - FTE (or contract initially)							0.0	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Annual Salary		$76,800	County	Real increase	0.5%		$0	$19,392	$19,489	$19,587	$19,685	$19,783	$19,882	$19,982	$20,081	$20,182
Benefits		35%					$0	$6,787	$6,821	$6,855	$6,890	$6,924	$6,959	$6,994	$7,029	$7,064
Subtotal							$0	$26,180	$26,311	$26,442	$26,575	$26,707	$26,841	$26,975	$27,110	$27,246
Personnel Subtotal							$67,500	$161,855	$162,664	$163,477	$164,295	$165,116	$165,942	$166,772	$167,605	$168,443
Other (travel, subscriptions, phone, software, services, e				10%			$6,750	$16,185	$16,266	$16,348	$16,429	$16,512	$16,594	$16,677	$16,761	$16,844
Total Public Works Department Expenses							$74,250	$178,040	$178,931	$179,825	$180,724	$181,628	$182,536	$183,449	$184,366	$185,288

Source: Economic & Planning Systems, Inc.

Economic & Planning Systems

Public Finance
Real Estate Economics
Regional Economics
Land Use Policy

APPENDIX II

(Analysis included in March 5, 2008 Draft CFA)

BUDGET AND COUNTY IMPACT—EXCLUDING AREA 4

Table 1
Summary of Revenues and Expenses (All Figures in Constant $'s)
San Martin Incorporation Analysis, EPS #17060 Partial Transition Year 6 months Proponents' Proposed Boundary minus Area 4

	Fiscal Year									
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Item	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
A. GENERAL FUND OPERATIONS										
General Fund Revenues										
Property Taxes	$0	$670,478	$688,150	$706,335	$725,047	$744,300	$764,108	$784,485	$805,447	$827,009
Sales Tax	$0	$837,677	$837,677	$837,677	$837,677	$837,677	$837,677	$837,677	$837,677	$837,677
Transient Occupancy Tax	$0	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557
Real Property Transfer Tax	$0	$5,445	$5,582	$5,722	$5,865	$6,012	$6,162	$6,316	$6,474	$6,636
Franchise Fees	$0	$266,986	$267,188	$267,390	$267,592	$267,795	$267,997	$268,199	$268,401	$268,603
Planning and Building Fees	$0	$274,742	$276,116	$277,496	$278,884	$280,278	$281,679	$283,088	$284,503	$285,926
Public Works/Eng. Fees	$0	$89,020	$89,465	$89,913	$90,362	$90,814	$91,268	$91,724	$92,183	$92,644
Fines, Penalties, Misc.	$0	$30,131	$30,239	$30,347	$30,455	$30,563	$30,671	$30,779	$30,887	$30,996
State Motor Vehicle License Fees	$28,657	$57,520	$57,726	$57,931	$58,137	$58,342	$58,548	$58,753	$58,959	$59,165
Property Tax/VLF Swap	$252,276	$472,604	$440,415	$407,984	$375,313	$342,400	$343,606	$344,813	$346,019	$347,226
Revenue Credits (transition yr, rec'd by County)	$964,861									
Investment Earnings	$5,619	$58,523	$58,282	$58,047	$57,818	$57,595	$58,065	$58,548	$59,042	$59,549
Total	$1,251,413	$2,984,682	$2,972,396	$2,960,399	$2,948,707	$2,937,333	$2,961,339	$2,985,940	$3,011,151	$3,036,986
General Fund Expenses										
Legislative	$16,750	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500
Elections	$0	$10,000	$0	$10,000	$0	$10,000	$0	$10,000	$0	$10,000
City Manager and City Clerk	$140,613	$328,659	$330,289	$331,927	$333,573	$335,227	$336,890	$338,561	$340,240	$341,928
City Attorney	$125,000	$76,131	$76,511	$76,894	$77,278	$77,665	$78,053	$78,443	$78,836	$79,230
Administrative Services	$83,025	$222,507	$223,620	$224,738	$225,861	$226,991	$228,126	$229,266	$230,413	$231,565
Police	$0	$573,108	$578,889	$584,728	$590,625	$596,582	$602,597	$608,673	$614,810	$621,008
Animal Control	$0	$73,895	$74,264	$74,636	$75,009	$75,384	$75,761	$76,140	$76,520	$76,903
Planning and Building	$51,688	$443,032	$444,635	$446,246	$347,864	$349,491	$351,126	$352,769	$354,421	$356,080
Public Works Administration	$37,125	$178,040	$178,931	$179,825	$180,724	$181,628	$182,536	$183,449	$184,366	$185,288
Non-Departmental										
Office Rent/Supplies	$57,000	$132,500	$84,500	$76,500	$76,500	$76,500	$76,500	$76,500	$76,500	$76,500
Insurance	$15,336	$62,021	$60,634	$61,050	$58,108	$58,769	$58,833	$59,499	$59,568	$60,240
Contingency (10%)	$102,482	$212,939	$208,177	$209,604	$199,504	$201,774	$201,992	$204,280	$204,517	$206,824
Reserve Fund Contribution	$102,482	$110,457	$0	$0	$0	$0	$0	$0	$0	$0
LAFCO	$1,188	$1,188	$1,188	$1,188	$1,188	$1,188	$1,188	$1,188	$1,188	$1,188
Repayment of Transition Yr Cnty Services (1)	$498,285	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total	$1,230,973	$2,453,978	$2,291,138	$2,306,835	$2,195,736	$2,220,698	$2,223,102	$2,248,269	$2,250,879	$2,276,254
General Fund Operating Surplus (Deficit)	$20,440	$530,704	$681,257	$653,564	$752,971	$716,635	$738,237	$737,672	$760,272	$760,732
Reserve Fund Balance	$102,482	$212,939	$212,939	$212,939	$212,939	$212,939	$212,939	$212,939	$212,939	$212,939
% of Expenditures (exc. conting, reserves)	10.0%	10.0%	10.2%	10.2%	10.7%	10.6%	10.5%	10.4%	10.4%	10.3%
B. ROAD FUND OPERATIONS										
Road Fund Revenues										
Gas Taxes	$92,817	$174,310	$162,900	$151,406	$139,826	$128,160	$128,588	$129,015	$129,443	$129,871
Prop 42 Funds	$29,348	$58,906	$59,709	$60,521	$61,344	$62,178	$63,021	$63,876	$64,741	$65,617
Total	$122,164	$233,216	$222,609	$211,927	$201,170	$190,338	$191,609	$192,891	$194,184	$195,488
Road Fund Expenditures										
Pavement Maintenance		$185,888	$187,747	$189,624	$191,520	$193,435	$195,370	$197,324	$199,297	$201,290
Signal Maintenance, Traffic Engineering		$51,008	$51,263	$51,519	$51,776	$52,035	$52,296	$52,557	$52,820	$53,084
Other Costs (sweeping, trash removal, signs, drainage)		$509,365	$511,912	$514,472	$517,044	$519,629	$522,227	$524,838	$527,463	$530,100
Contingency (10%)		$74,626	$75,092	$75,561	$76,034	$76,510	$76,989	$77,472	$77,958	$78,447
Repayment of Transition Yr Cnty Services	$630,865									
Total	$630,865	$820,886	$826,013	$831,176	$836,375	$841,610	$846,882	$852,191	$857,537	$862,921
Road Fund Operating Surplus (Deficit)	($508,701)	($587,671)	($603,404)	($619,249)	($635,205)	($651,272)	($655,273)	($659,299)	($663,353)	($667,433)
TOTAL, All Funds	($488,261)	($56,966)	$77,853	$34,315	$117,766	$65,362	$82,965	$78,372	$96,919	$93,299

(1) Repayment cost accounts for animal services, planning and land use, code enforcement, public works, and sheriff department services the County is obligated to provide for the remainder of the first fiscal year.

Table 3
Change in Revenues and Expenses to Santa Clara County
San Martin Incorporation Analysis, EPS #17060 **Proponents' Proposed Boundary minus Area 4**

Item	Amount	Notes
General Fund Revenues and Expenditures (FY07) (1)		
Revenues Transferred to the City		
Property Taxes	$568,645	estimated transfer amount FY 07
Transient Occupancy Tax	$221,557	
Sales Tax	$837,677	includes estimated 12% unallocated
Real Property Transfer Tax	$2,335	50% of FY 07 amount ($.55/$1,000 value)
Franchise Fees	$233,540	including solid waste, PG&E, cable, water
AB 939 Fees	$10,237	
Subtotal	$1,873,991	
Expenditures for Service Responsibilities Transferred to the City (1)		
Animal Control	$256,401	
Land Use Planning, Inspection, Enforcement	$139,096	
Clean Water	$2,934	
Waste Management	$122,132	
Sheriff	$471,402	
Subtotal	$991,965	
Other (revenue increases) (2)		
Property Tax Administration Fees	$7,683	Based on first year of city
Booking Fees	$0	Not paid by cities, per State budget
Net County Surplus or (Deficit)	**($874,344)**	
County Road Fund		
Revenue Reductions (3)		
Gas Tax: Highway User Tax 2106c	$25,904	based on 7.7% reduction in unincorp. a.v.
Gas Tax: Highway User Tax 2105a [2]	$183	based on reduction in County maintained miles
Grants	$89,414	Cnty avg/collector times 27 collector miles
Traffic Congestion Relief: 2182a [1] (B)	$36,661	based on reduction in County maintained miles
Subtotal	$152,163	
Expenditure Reductions (4)		
Road Maintenance	$1,141,730	
Other Road Costs (traffic engineering, signal maint.)	$120,000	Excludes cost-recovery development engineering
Subtotal	$1,261,730	
Net County Road Fund Surplus or (Deficit)	**$1,109,567**	
Total General Fund and Road Fund Surplus or (Deficit)	**$235,224**	*

* Note: Legal requirements on the use of Road Fund revenues will prohibit transfers from the Road Fund to directly offset General Fund impacts.

(1) Costs shown in this table represent FY07 County costs for those service responsibilities to be transferred to the new city. Future city costs shown in Table 1 will not necessarily correspond to these FY07 County costs since the specific future services, staffing, facilities, contracts and manner of service provision will differ for the future city. For example, the future city will need to provide traffic enforcement, which currently is not a County responsibility.

(2) The County will realize new revenues (e.g., property tax administration charges) for services currently provided without compensation.

(3) County road revenues are not significantly affected, as they largely depend on Countywide population and registered vehicles, and are not influenced by a change in unincorporated vs. incorporated population or road miles.

(4) Future city road maintenance expenditures shown in Table 1 are assumed to be lower than recent expenditures due to the improved condition of the roads upon transfer from the County to the new city.

Table A
Alternative Scenario Assumptions

Scenario	Pop. (1)	Centerline Road Miles (2)	Housing Units (1)	Housing Factor	Sales Tax (3)	Road Factor	Other Road Costs (2)	Total Current Cnty Costs	Crnt. Sheriff Costs	Future Sheriff Contract
Proponents' Proposed Boundary	6,921	54.52	2,089	100.0%	$738,568	100%	$513,486	$1,502,235	$488,933	$576,202
Proponents' Proposed Boundary minus Area 4	6,373	48.02	1,924	92.1%	$737,504	88%	499,304	1,141,730	$476,006	$561,106
Proponents' Proposed Boundary minus Area 5	6,478	43.42	1,955	93.6%	$711,493	80%	471,732	1,227,550	$476,006	$561,106
Proponents' Proposed Bdry minus Area 4 & Area 5	5,930	36.92	1,790	85.7%	$710,429	68%	457,550	867,045	$463,079	$546,009

(1) EPS review of census data
(2) Roads Dept., spreadsheet dated 1/18/08 as revised for Areas 4 and 5 2/4/2008 (see also Table C-1, note 16)
(3) County of Santa Clara
(4) Sheriff's Dept., 2/5/08 less estimated traffic enforcement
(5) Sheriff's Dept., 2/5/08

Economic & Planning Systems

Public Finance
Real Estate Economics
Regional Economics
Land Use Policy

APPENDIX III

(Analysis included in March 5, 2008 Draft CFA)

BUDGET AND COUNTY IMPACT—EXCLUDING AREA 5

Table 1
Summary of Revenues and Expenses (All Figures in Constant $'s)
San Martin Incorporation Analysis, EPS #17060 Partial Transition Year 6 months Proponents' Proposed Boundary minus Area 5

	Fiscal Year									
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Item	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
A. GENERAL FUND OPERATIONS										
General Fund Revenues										
Property Taxes	$0	$675,594	$693,349	$711,619	$730,417	$749,757	$769,652	$790,119	$811,171	$832,823
Sales Tax	$0	$808,133	$808,133	$808,133	$808,133	$808,133	$808,133	$808,133	$808,133	$808,133
Transient Occupancy Tax	$0	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557
Real Property Transfer Tax	$0	$5,443	$5,579	$5,719	$5,862	$6,008	$6,158	$6,311	$6,468	$6,629
Franchise Fees	$0	$271,371	$271,573	$271,775	$271,978	$272,180	$272,382	$272,584	$272,786	$272,988
Planning and Building Fees	$0	$274,742	$276,116	$277,496	$278,884	$280,278	$281,679	$283,088	$284,503	$285,926
Public Works/Eng. Fees	$0	$89,020	$89,465	$89,913	$90,362	$90,814	$91,268	$91,724	$92,183	$92,644
Fines, Penalties, Misc.	$0	$30,620	$30,728	$30,836	$30,944	$31,052	$31,161	$31,269	$31,377	$31,485
State Motor Vehicle License Fees	$29,123	$58,451	$58,656	$58,862	$59,067	$59,273	$59,479	$59,684	$59,890	$60,095
Property Tax/VLF Swap	$256,372	$480,251	$447,515	$414,539	$381,321	$347,862	$349,069	$350,275	$351,481	$352,688
Revenue Credits (transition yr, rec'd by County)	$956,809									
Investment Earnings	$5,710	$58,304	$58,053	$57,809	$57,571	$57,338	$57,811	$58,295	$58,791	$59,299
Total	$1,248,014	$2,973,486	$2,960,726	$2,948,258	$2,936,096	$2,924,252	$2,948,348	$2,973,039	$2,998,340	$3,024,268
General Fund Expenses										
Legislative	$16,750	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500
Elections	$0	$10,000	$0	$10,000	$0	$10,000	$0	$10,000	$0	$10,000
City Manager and City Clerk	$140,613	$328,659	$330,289	$331,927	$333,573	$335,227	$336,890	$338,561	$340,240	$341,928
City Attorney	$125,000	$76,131	$76,511	$76,894	$77,278	$77,665	$78,053	$78,443	$78,836	$79,230
Administrative Services	$83,025	$222,507	$223,620	$224,738	$225,861	$226,991	$228,126	$229,266	$230,413	$231,565
Police	$0	$573,108	$578,889	$584,728	$590,625	$596,582	$602,597	$608,673	$614,810	$621,008
Animal Control	$0	$74,070	$74,441	$74,813	$75,187	$75,563	$75,941	$76,320	$76,702	$77,086
Planning and Building	$51,688	$443,032	$444,635	$446,246	$347,864	$349,491	$351,126	$352,769	$354,421	$356,080
Public Works Administration	$37,125	$178,040	$178,931	$179,825	$180,724	$181,628	$182,536	$183,449	$184,366	$185,288
Non-Departmental										
Office Rent/Supplies	$57,000	$132,500	$84,500	$76,500	$76,500	$76,500	$76,500	$76,500	$76,500	$76,500
Insurance	$15,336	$62,026	$60,639	$61,055	$58,113	$58,774	$58,838	$59,504	$59,574	$60,246
Contingency (10%)	$102,880	$212,957	$208,195	$209,623	$199,523	$201,792	$202,011	$204,299	$204,536	$206,843
Reserve Fund Contribution	$102,880	$110,077	$0	$0	$0	$0	$0	$0	$0	$0
LAFCO	$1,169	$1,169	$1,169	$1,169	$1,169	$1,169	$1,169	$1,169	$1,169	$1,169
Repayment of Transition Yr Cnty Services (1)	$502,265	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total	$1,235,731	$2,453,778	$2,291,319	$2,307,017	$2,195,919	$2,220,882	$2,223,287	$2,248,455	$2,251,066	$2,276,442
General Fund Operating Surplus (Deficit)	$12,283	$519,707	$669,407	$641,241	$740,176	$703,370	$725,061	$724,584	$747,274	$747,826
Reserve Fund Balance	$102,880	$212,957	$212,957	$212,957	$212,957	$212,957	$212,957	$212,957	$212,957	$212,957
% of Expenditures (exc. conting, reserves)	10.0%	10.0%	10.2%	10.2%	10.7%	10.6%	10.5%	10.4%	10.4%	10.3%
B. ROAD FUND OPERATIONS										
Road Fund Revenues										
Gas Taxes	$94,269	$177,020	$165,417	$153,729	$141,955	$130,096	$130,524	$130,951	$131,379	$131,807
Prop 42 Funds	$29,826	$59,863	$60,675	$61,497	$62,330	$63,173	$64,027	$64,891	$65,767	$66,653
Total	$124,094	$236,883	$226,092	$215,226	$204,285	$193,269	$194,551	$195,843	$197,146	$198,460
Road Fund Expenditures										
Pavement Maintenance		$168,081	$169,762	$171,459	$173,174	$174,906	$176,655	$178,421	$180,205	$182,007
Signal Maintenance, Traffic Engineering		$51,008	$51,263	$51,519	$51,776	$52,035	$52,296	$52,557	$52,820	$53,084
Other Costs (sweeping, trash removal, signs, drainage)		$481,238	$483,644	$486,062	$488,492	$490,935	$493,389	$495,856	$498,336	$500,827
Contingency (10%)		$70,033	$70,467	$70,904	$71,344	$71,788	$72,234	$72,683	$73,136	$73,592
Repayment of Transition Yr Cnty Services	$673,775									
Total	$673,775	$770,359	$775,135	$779,944	$784,787	$789,663	$794,574	$799,518	$804,497	$809,511
Road Fund Operating Surplus (Deficit)	($549,681)	($533,476)	($549,043)	($564,718)	($580,502)	($596,394)	($600,023)	($603,675)	($607,351)	($611,051)
TOTAL, All Funds	($537,397)	($13,768)	$120,364	$76,523	$159,675	$106,976	$125,038	$120,909	$139,923	$136,775

(1) Repayment cost accounts for animal services, planning and land use, code enforcement, public works, and sheriff department services the County is obligated to provide for the remainder of the first fiscal year.

Table 3
Change in Revenues and Expenses to Santa Clara County
San Martin Incorporation Analysis, EPS #17060 **Proponents' Proposed Boundary minus Area 5**

Item	Amount	Notes
General Fund Revenues and Expenditures (FY07) (1)		
Revenues Transferred to the City		
Property Taxes	$573,166	estimated transfer amount FY 07
Transient Occupancy Tax	$221,557	
Sales Tax	$808,133	includes estimated 12% unallocated
Real Property Transfer Tax	$2,335	50% of FY 07 amount ($.55/$1,000 value)
Franchise Fees	$237,388	including solid waste, PG&E, cable, water
AB 939 Fees	$10,237	
Subtotal	$1,852,815	
Expenditures for Service Responsibilities Transferred to the City (1)		
Animal Control	$260,625	
Land Use Planning, Inspection, Enforcement	$141,388	
Clean Water	$2,982	
Waste Management	$123,529	
Sheriff	$471,326	
Subtotal	$999,850	
Other (revenue increases) (2)		
Property Tax Administration Fees	$7,742	Based on first year of city
Booking Fees	$0	Not paid by cities, per State budget
Net County Surplus or (Deficit)	**($845,223)**	
County Road Fund		
Revenue Reductions (3)		
Gas Tax: Highway User Tax 2106c	$26,208	based on 7.7% reduction in unincorp. a.v.
Gas Tax: Highway User Tax 2105a [2]	$166	based on reduction in County maintained miles
Grants	$89,414	Cnty avg/collector times 27 collector miles
Traffic Congestion Relief: 2182a [1] (B)	$33,149	based on reduction in County maintained miles
Subtotal	$148,937	
Expenditure Reductions (4)		
Road Maintenance	$1,227,550	
Other Road Costs (traffic engineering, signal maint.)	$120,000	Excludes cost-recovery development engineering
Subtotal	$1,347,550	
Net County Road Fund Surplus or (Deficit)	**$1,198,613**	
Total General Fund and Road Fund Surplus or (Deficit)	**$353,390**	*

* Note: Legal requirements on the use of Road Fund revenues will prohibit transfers from the Road Fund to directly offset General Fund impacts.

(1) Costs shown in this table represent FY07 County costs for those service responsibilities to be transferred to the new city. Future city costs shown in Table 1 will not necessarily correspond to these FY07 County costs since the specific future services, staffing, facilities, contracts and manner of service provision will differ for the future city. For example, the future city will need to provide traffic enforcement, which currently is not a County responsibility.

(2) The County will realize new revenues (e.g., property tax administration charges) for services currently provided without compensation.

(3) County road revenues are not significantly affected, as they largely depend on Countywide population and registered vehicles, and are not influenced by a change in unincorporated vs. incorporated population or road miles.

(4) Future city road maintenance expenditures shown in Table 1 are assumed to be lower than recent expenditures due to the improved condition of the roads upon transfer from the County to the new city.

Table A
Alternative Scenario Assumptions

Scenario	Pop. (1)	Centerline Road Miles (2)	Housing Units (1)	Housing Factor	Sales Tax (3)	Road Factor	Other Road Costs (2)	Total Current Cnty Costs	Crnt. Sheriff Costs	Future Sheriff Contract
Proponents' Proposed Boundary	6,921	54.52	2,089	100.0%	$738,568	100%	$513,486	$1,502,235	$488,933	$576,202
Proponents' Proposed Boundary minus Area 4	6,373	48.02	1,924	92.1%	$737,504	88%	499,304	1,141,730	$476,006	$561,106
Proponents' Proposed Boundary minus Area 5	6,478	43.42	1,955	93.6%	$711,493	80%	471,732	1,227,550	$476,006	$561,106
Proponents' Proposed Bdry minus Area 4 & Area 5	5,930	36.92	1,790	85.7%	$710,429	68%	457,550	867,045	$463,079	$546,009

(1) EPS review of census data
(2) Roads Dept., spreadsheet dated 1/18/08 as revised for Areas 4 and 5 2/4/2008 (see also Table C-1, note 16)
(3) County of Santa Clara
(4) Sheriff's Dept., 2/5/08 less estimated traffic enforcement
(5) Sheriff's Dept., 2/5/08

Economic & Planning Systems

Public Finance
Real Estate Economics
Regional Economics
Land Use Policy

APPENDIX IV

(Analysis included in March 5, 2008 Draft CFA)

BUDGET SUMMARY—EXCLUDING AREA 4 AND AREA 5

Table 1
Summary of Revenues and Expenses (All Figures in Constant $'s)
San Martin Incorporation Analysis, EPS #17060 Partial Transition Year 6 months Proponents' Proposed Bdry minus Area 4 & Area 5

	Fiscal Year									
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Item	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
A. GENERAL FUND OPERATIONS										
General Fund Revenues										
Property Taxes	$0	$640,012	$657,099	$674,688	$692,793	$711,427	$730,604	$750,338	$770,645	$791,538
Sales Tax	$0	$806,924	$806,924	$806,924	$806,924	$806,924	$806,924	$806,924	$806,924	$806,924
Transient Occupancy Tax	$0	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557	$221,557
Real Property Transfer Tax	$0	$5,453	$5,592	$5,734	$5,880	$6,030	$6,183	$6,339	$6,500	$6,664
Franchise Fees	$0	$248,484	$248,687	$248,889	$249,091	$249,293	$249,495	$249,697	$249,899	$250,102
Planning and Building Fees	$0	$274,742	$276,116	$277,496	$278,884	$280,278	$281,679	$283,088	$284,503	$285,926
Public Works/Eng. Fees	$0	$89,020	$89,465	$89,913	$90,362	$90,814	$91,268	$91,724	$92,183	$92,644
Fines, Penalties, Misc.	$0	$28,067	$28,175	$28,283	$28,391	$28,499	$28,607	$28,715	$28,823	$28,931
State Motor Vehicle License Fees	$26,694	$53,593	$53,799	$54,004	$54,210	$54,416	$54,621	$54,827	$55,032	$55,238
Property Tax/VLF Swap	$234,992	$440,341	$410,456	$380,331	$349,963	$319,355	$320,562	$321,768	$322,975	$324,181
Revenue Credits (transition yr, rec'd by County)	$926,098									
Investment Earnings	$5,234	$56,164	$55,957	$55,756	$55,561	$55,372	$55,830	$56,300	$56,781	$57,274
Total	$1,193,017	$2,864,357	$2,853,827	$2,843,575	$2,833,617	$2,823,964	$2,847,330	$2,871,278	$2,895,823	$2,920,979
General Fund Expenses										
Legislative	$16,750	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500	$29,500
Elections	$0	$10,000	$0	$10,000	$0	$10,000	$0	$10,000	$0	$10,000
City Manager and City Clerk	$140,613	$328,659	$330,289	$331,927	$333,573	$335,227	$336,890	$338,561	$340,240	$341,928
City Attorney	$125,000	$76,131	$76,511	$76,894	$77,278	$77,665	$78,053	$78,443	$78,836	$79,230
Administrative Services	$83,025	$222,507	$223,620	$224,738	$225,861	$226,991	$228,126	$229,266	$230,413	$231,565
Police	$0	$557,554	$563,179	$568,861	$574,600	$580,396	$586,250	$592,162	$598,134	$604,165
Animal Control	$0	$73,154	$73,520	$73,888	$74,257	$74,628	$75,001	$75,376	$75,753	$76,132
Planning and Building	$51,688	$443,032	$444,635	$446,246	$347,864	$349,491	$351,126	$352,769	$354,421	$356,080
Public Works Administration	$37,125	$178,040	$178,931	$179,825	$180,724	$181,628	$182,536	$183,449	$184,366	$185,288
Non-Departmental										
Office Rent/Supplies	$57,000	$132,500	$84,500	$76,500	$76,500	$76,500	$76,500	$76,500	$76,500	$76,500
Insurance	$15,336	$61,532	$60,141	$60,551	$57,605	$58,261	$58,319	$58,981	$59,045	$59,712
Contingency (10%)	$100,145	$211,261	$206,482	$207,893	$197,776	$200,029	$200,230	$202,501	$202,721	$205,010
Reserve Fund Contribution	$100,145	$111,116	$0	$0	$0	$0	$0	$0	$0	$0
LAFCO	$1,146	$1,146	$1,146	$1,146	$1,146	$1,146	$1,146	$1,146	$1,146	$1,146
Repayment of Transition Yr Cnty Services (1)	$474,917	$0	$0	$0	$0	$0	$0	$0	$0	$0
Total	$1,202,889	$2,436,132	$2,272,453	$2,287,968	$2,176,685	$2,201,461	$2,203,677	$2,228,654	$2,231,073	$2,256,255
General Fund Operating Surplus (Deficit)	($9,872)	$428,225	$581,374	$555,608	$656,932	$622,503	$643,653	$642,624	$664,749	$664,724
Reserve Fund Balance	$100,145	$211,261	$211,261	$211,261	$211,261	$211,261	$211,261	$211,261	$211,261	$211,261
% of Expenditures (exc. conting, reserves)	10.0%	10.0%	10.2%	10.2%	10.7%	10.6%	10.6%	10.4%	10.4%	10.3%
B. ROAD FUND OPERATIONS										
Road Fund Revenues										
Gas Taxes	$86,691	$162,874	$152,282	$141,604	$130,841	$119,992	$120,420	$120,847	$121,275	$121,703
Prop 42 Funds	$27,330	$54,871	$55,633	$56,405	$57,186	$57,978	$58,780	$59,592	$60,414	$61,247
Total	$114,020	$217,745	$207,915	$198,009	$188,027	$177,970	$179,200	$180,439	$181,689	$182,950
Road Fund Expenditures										
Pavement Maintenance		$142,919	$144,348	$145,792	$147,250	$148,722	$150,209	$151,711	$153,229	$154,761
Signal Maintenance, Traffic Engineering		$51,008	$51,263	$51,519	$51,776	$52,035	$52,296	$52,557	$52,820	$53,084
Other Costs (sweeping, trash removal, signs, drainage)		$466,770	$469,104	$471,449	$473,806	$476,176	$478,556	$480,949	$483,354	$485,771
Contingency (10%)		$66,070	$66,471	$66,876	$67,283	$67,693	$68,106	$68,522	$68,940	$69,362
Repayment of Transition Yr Cnty Services	$493,523									
Total	$493,523	$726,766	$731,186	$735,636	$740,116	$744,626	$749,167	$753,739	$758,343	$762,977
Road Fund Operating Surplus (Deficit)	($379,502)	($509,021)	($523,271)	($537,627)	($552,089)	($566,656)	($569,968)	($573,300)	($576,653)	($580,027)
TOTAL, All Funds	($389,374)	($80,796)	$58,102	$17,981	$104,843	$55,847	$73,685	$69,324	$88,096	$84,698

(1) Repayment cost accounts for animal services, planning and land use, code enforcement, public works, and sheriff department services the County is obligated to provide for the remainder of the first fiscal year.

Table 3
Change in Revenues and Expenses to Santa Clara County
San Martin Incorporation Analysis, EPS #17060 **Proponents' Proposed Bdry minus Area 4 & Area 5**

Item	Amount	Notes
General Fund Revenues and Expenditures (FY07) (1)		
Revenues Transferred to the City		
Property Taxes	$542,037	estimated transfer amount FY 07
Transient Occupancy Tax	$221,557	
Sales Tax	$806,924	includes estimated 12% unallocated
Real Property Transfer Tax	$2,335	50% of FY 07 amount ($.55/$1,000 value)
Franchise Fees	$217,307	including solid waste, PG&E, cable, water
AB 939 Fees	$10,237	
Subtotal	$1,800,398	
Expenditures for Service Responsibilities Transferred to the City (1)		
Animal Control	$238,579	
Land Use Planning, Inspection, Enforcement	$129,428	
Clean Water	$2,730	
Waste Management	$116,018	
Sheriff	$458,795	
Subtotal	$945,549	
Other (revenue increases) (2)		
Property Tax Administration Fees	$7,331	Based on first year of city
Booking Fees	$0	Not paid by cities, per State budget
Net County Surplus or (Deficit)	**($847,517)**	
County Road Fund		
Revenue Reductions (3)		
Gas Tax: Highway User Tax 2106c	$24,621	based on 7.7% reduction in unincorp. a.v.
Gas Tax: Highway User Tax 2105a [2]	$141	based on reduction in County maintained miles
Grants	$89,414	Cnty avg/collector times 27 collector miles
Traffic Congestion Relief: 2182a [1] (B)	$28,187	based on reduction in County maintained miles
Subtotal	$142,363	
Expenditure Reductions (4)		
Road Maintenance	$867,045	
Other Road Costs (traffic engineering, signal maint.)	$120,000	Excludes cost-recovery development engineering
Subtotal	$987,045	
Net County Road Fund Surplus or (Deficit)	**$844,682**	
Total General Fund and Road Fund Surplus or (Deficit)	**($2,835)** *	

* Note: Legal requirements on the use of Road Fund revenues will prohibit transfers from the Road Fund to directly offset General Fund impacts.

(1) Costs shown in this table represent FY07 County costs for those service responsibilities to be transferred to the new city. Future city costs shown in Table 1 will not necessarily correspond to these FY07 County costs since the specific future services, staffing, facilities, contracts and manner of service provision will differ for the future city. For example, the future city will need to provide traffic enforcement, which currently is not a County responsibility.

(2) The County will realize new revenues (e.g., property tax administration charges) for services currently provided without compensation.

(3) County road revenues are not significantly affected, as they largely depend on Countywide population and registered vehicles, and are not influenced by a change in unincorporated vs. incorporated population or road miles.

(4) Future city road maintenance expenditures shown in Table 1 are assumed to be lower than recent expenditures due to the improved condition of the roads upon transfer from the County to the new city.

Table A
Alternative Scenario Assumptions

Scenario	Pop. (1)	Centerline Road Miles (2)	Housing Units (1)	Housing Factor	Sales Tax (3)	Road Factor	Other Road Costs (2)	Total Current Cnty Costs	Crnt. Sheriff Costs	Future Sheriff Contract
Proponents' Proposed Boundary	6,921	54.52	2,089	100.0%	$738,568	100%	$513,486	$1,502,235	$488,933	$576,202
Proponents' Proposed Boundary minus Area 4	6,373	48.02	1,924	92.1%	$737,504	88%	499,304	1,141,730	$476,006	$561,106
Proponents' Proposed Boundary minus Area 5	6,478	43.42	1,955	93.6%	$711,493	80%	471,732	1,227,550	$476,006	$561,106
Proponents' Proposed Bdry minus Area 4 & Area 5	5,930	36.92	1,790	85.7%	$710,429	68%	457,550	867,045	$463,079	$546,009

(1) EPS review of census data
(2) Roads Dept., spreadsheet dated 1/18/08 as revised for Areas 4 and 5 2/4/2008 (see also Table C-1, note 16)
(3) County of Santa Clara
(4) Sheriff's Dept., 2/5/08 less estimated traffic enforcement
(5) Sheriff's Dept., 2/5/08

APPENDIX V

IMPACT ON COUNTY ROAD FUND REVENUES

Item	Total Countywide Revenue	Impact
Gas Tax		
Sec. 2104 a	$20,004	No impact (fixed pmt)
Sec. 2104 b	$1,443	No impact (snow removal)
Sec. 2104 c	$0	
Sec. 2104 d, e, f	$16,411,440	No Impact; $'s based on countywide vehicles
Sec. 2105	$7,376,698	Impact minimal based on reduction in County maintained miles (25 percent of 2105a(2) only)
Sec. 2106	$366,207	Impact $27,491 based on reduction in unincorporated assessed valuation (2106c only)
Subtotal	$24,175,792	
Other Monies		
Traffic Congestion Relief (Prop. 42)	$8,493,712	Impact $42,334 based on reduction in County maintained miles (25 percent of State TCR)
TEA-21 Matching Funds	$100,000	No Impact
Other State Aid	$241,526	No Impact
Subtotal	$8,835,238	
Total Road Fund Revenues	$33,011,030	

Source: Annual Road Report FY 07

APPENDIX VI

REVIEW OF COMPARABLE CITIES

Table 1
Comparable Cities Revenues
San Martin Incorporation Analysis, EPS #17060

Total Revenues	Loomis		La Habra Heights		Portola Valley		San Martin	
	Budget	Per Capita	Budget	Per Capita	Budget	Per Capita	Budget	Per Capita
Population	6,529		6,145		4,618		5,930	
Square Miles (1)	7.3		6.2		9.2		16.4	
Median House/Condo Value 2005 (2)	$392,900		$1,065,500		$1,626,400		$746,600	
Taxes								
Property Tax	$775,000	$119	$965,580	$157	$1,324,046	$287	$654,729	$110
Sales Tax	$1,155,000	$177	$50,000	$8	$148,050	$32	$806,924	$136
Transient Occupancy Tax	$37,000	$6	$0	$0	$0	$0	$221,557	$37
Franchise Fees	$207,000	$32	$160,000	$26	$189,154	$41	$248,484	$42
Business License Tax	$18,000	$3	$45,000	$7	$110,000	$24	$0	$0
Property Transfer Tax	$75,000	$11	$60,000	$10	$100,813	$22	$5,453	$1
Utility User Tax	$0	$0	$0	$0	$543,571	$118	$0	$0
Property Tax In-Lieu of VLF	$425,000	$65	$0	$0	$0	$0	$440,341	$74
Motor Vehicle In-Lieu Tax	$28,026	$4	$400,000	$65	$32,000	$7	$53,593	$9
Other	$0	$0	$0	$0	$14,500	$3	$0	$0
Total	$2,720,026	$417	$1,680,580	$273	$2,462,134	$533	$2,431,082	$410
Licenses and Permits	$101,300	$16	$506,000	$82	$516,150	$112	$0	$0
Fines and Forfeitures and Revenue from Money and Property								
Fines and Forfeitures	$0	$0	$80,300	$13	$24,000	$5	$28,067	$5
Revenues from Money and Property	$155,000	$24	$110,000	$18	$369,342	$80	$0	$0
Total	$155,000	$24	$190,300	$31	$393,342	$85	$28,067	$5
Intergovernmental State	$8,017	$1	$5,500	$1	$5,642	$1	$0	$0
Current Service Charges								
Planning and Building Fees	$98,000	$15	$300,000	$49	$50,390	$11	$274,742	$46
Public Works/Engineering Fees	$0	$0	$10,000	$2	$5,500	$1	$89,020	$15
Other Fees	$0	$0	$127,575	$21	$80,065	$17	$0	$0
Total	$98,000	$15	$437,575	$71	$135,955	$29	$363,762	$61
Other Revenue	$22,500	$3	$100,750	$16	$87,000	$19	$56,458	$10
Total Revenue	**$3,104,843**	**$476**	**$2,920,705**	**$475**	**$3,600,223**	**$780**	**$2,879,369**	**$486**

Sources: 2006-2007 budgets for Loomis, La Habra, Portola Valley, Economic & Planning Systems, Inc.

(1) www.wikipedia.com

(2) www.city-data.com

Table 2
Comparable Cities Expenditures
San Martin Incorporation Analysis, EPS #17060

Expenditures	Loomis		La Habra Heights		Portola Valley		San Martin	
	Budget	Per Capita	Budget	Per Capita	Budget	Per Capita	Budget	Per Capita
Population	6,529		6,145		4,618		5,930	
Square Miles	7.3		6.2		9.2		16.4	
Median House/Condo Value 2005	$392,900		$1,065,500		$1,626,400		$746,600	
General Government								
City Council	$99,250	$15	$10,000	$2	$0	$0	$29,500	$5
City Clerk	$58,675	$9	$134,669	$22	$0	$0	$0	$0
Codification	$3,000	$0	$0	$0	$3,500	$1	$0	$0
Elections	$7,000	$1	$0	$0	$7,000	$2	$10,000	$2
Town Attorney	$75,000	$11	$90,000	$15	$80,000	$17	$76,131	$13
City Manager		$0	$225,301 (2)	$37		$0	$328,659 (7)	$55
Administration/Personnel	$324,034 (1)	$50	$0	$0	$418,281 (2)	$91	$222,507 (8)	$38
Finance	$158,645	$24	$162,133	$26	$21,530	$5	$0	$0
Other	$0	$0	$0	$0	$52,900	$11	$0	$0
Total	$725,604	$111	$622,103	$101	$583,211	$126	$666,797	$112
Public Safety								
Police	$1,110,752	$170	$617,867	$101	$461,303	$100	$546,161	$92
Fire	$20,000	$3	$0	$0	$0	$0	$0	$0
Emergency Medical	$0	$0	$0	$0	$11,995	$3	$0	$0
Animal Control	$67,500	$10	$7,000	$1	$30,861	$7	$73,154	$12
Weed Abatement	$0	$0	$42,950	$7	$0	$0	$0	$0
Other	$1,320	$0	$0	$0	$22,400	$5	$0	$0
Total	$1,199,572	$184	$667,817	$109	$526,559	$114	$619,315	$104
Community Development								
Planning & Building	$496,850	$76	$625,106	$102	$1,100,865	$238	$443,032	$75
Engineering	$80,000	$12	$67,900	$11	$17,500	$4	$0	$0
Other	$0	$0	$0	$0	$8,000	$2	$0	$0
Total	$576,850	$88	$693,006	$113	$1,126,365	$244	$443,032	$75

Table 2
Comparable Cities Expenditures
San Martin Incorporation Analysis, EPS #17060

Expenditures	Loomis		La Habra Heights		Portola Valley		San Martin	
	Budget	Per Capita	Budget	Per Capita	Budget	Per Capita	Budget	Per Capita
Culture and Leisure								
Parks and Recreation	$6,500	$1	$107,106	$17	$143,000	$31	$0	$0
Community Center & Auditorium	$0	$0	$0	$0	$121,701	$26	$0	$0
Other	$0	$0	$0	$0	$300	$0	$0	$0
Total	$6,500	$1	$107,106	$17	$265,001	$57	$0	$0
Other								
Streets, Highways, and Storm Drains	$0	$0	$0	$0	$129,976	$28	$0	$0
Public Utilities	$0	$0	$0	$0	$2,000	$0	$0	$0
Solid waste	$0	$0	$0	$0	$4,600	$1	$0	$0
Other	$0	$0	$0	$0	$131,338	$28	$0	$0
Total	$0	$0	$0	$0	$267,914	$58	$0	$0
Allocate								
Public Works	$412,027 (3)	$63	$255,562 (3)	$42	$8,100 (4)	$2	$178,040 (3)	$30
Office Supplies/Equipment	$0	$0	$0	$0	$81,200 (5)	$18	$132,500	$22
Benefits	$0	$0	$0	$0	$434,309 (6)	$94	$0	$0
General Services			$262,767	$43			$0	$0
Code Enforcement			$31,074	$5			$0	$0
Other	$100,000	$15	$0	$0	$176,324	$38	$381,274	$64
Total	$512,027	$78	$549,403	$89	$699,933	$152	$691,815	$150
Total Expenditures	**$3,020,553**	**$463**	**$2,639,435**	**$430**	**$3,468,983**	**$751**	**$2,420,959**	**$408**

Sources: 2006-2007 budgets for Loomis, La Habra, Portola Valley, Economic & Planning Systems, Inc.

(1) Includes City Manager expenditures.
(2) Includes administration and finance staff expenditures.
(3) Includes Public Works expenses for the whole department.
(4) Includes only Public Works tools and equipment expenses. The remaining expenses for the department have been included in other department expenses.
(5) Includes office supplies and equipment expenditures for all city departments.
(6) Includes benefit expenditures for all city staff.
(7) Includes City Clerk expenditures.
(8) Includes Finance expenditures.

Table 3
Positions and Salaries
San Martin Incorporation Analysis, EPS #17060

	Loomis			La Habra Heights			Portola Valley		Gilroy		Morgan Hill		San Martin	
Positions	# Positions	Min Sal	Max Sal	# Positions	Min Sal	Max Sal	# Positions	Salary	Min Sal	Max Sal	Min Sal	Max Sal	# Positions	Salary
Legislative														
Council	5		$4,464							$8,752			5	$4,000
Clerk	1		$600						$92,148	$122,856	$91,800	$114,720	1	$75,000
Deputy City Clerk				1	$36,984	$44,892	1							
Finance														
Finance Director	1	$70,452	$85,632	1	$60,000	$90,000			$130,728	$174,300	$120,420	$150,600	1	$90,000
Financial Analyst				1	$42,000	$57,600			$69,179	$92,230	$50,880	$65,160	1	$50,000
Treasurer	1		$600											
Accounting Assist							1		$35,443	$43,430	$37,020	$47,280		
Administration														
Town Manager	1	$92,928	$112,956	1					see town administrator				1	$140,000
Town Clerk/ Admin Serv Ope	1	$46,680	$56,736											
Office Technician	1	$32,124	$39,048						$40,643	$49,402	$31,080	$39,720		
Senior Admin Secretary				1	$28,068	$41,412			$48,675	$59,163	$46,140	$58,800		
HR Manager				1	$42,000	$60,000			$130,728	$174,300	$120,420	$150,600		
Town Administrator							1			$209,760		$139,300		
Asst. Town Administrator							1		$130,728	$174,300	$103,860	$129,840		
Admin. Serv. Officer							1		$44,809	$54,465	$37,920	$48,420		
Planning & Building														
Planning Director	1	$72,180	$87,744	1	$84,000	$102,000	1		$109,707	$146,281	$120,420	$150,600	1	$100,000
Dev. Services Coordinator	1	$29,952	$36,408								$52,200	$66,660		
Building Official	0.25		(1)				1		$68,149	$82,835	$62,100	$79,260	1	$60,000
Planning Technician				1	$33,600	$54,000	1		$52,126	$63,358			1	$65,000
Planning Clerk				1	$30,000	$45,000			$71,557	$86,978	$63,600	$81,120		
Planning & Building Assist.							1		$61,814	$75,135	$59,100	$75,420		
Fire														
Fire Chief				1	$66,000	$96,000								
Fire Marshall/ Inspector				1	$45,600	$72,000								
Senior Admin Secretary				1	$28,068	$41,412								
Public Works														
PW Director	1	$82,572	$100,368	1	$5,400	$78,000	1		$120,420	$150,600	$120,420	$150,600	1	$100,000
Operations Assistant	1	$44,448	$54,024											
Lead Worker	1	$37,944	$46,116				1		$49,643	$60,342	$49,680	$63,360		
Equipment Operators	2	$34,236	$41,604											
Maintenance Worker				1	$31,956	$47,244	1		$45,028	$54,733	$45,060	$57,480		
Engineering Technician							1		$53,396	$64,904	$59,100	$75,420		
Clean Water Specialist													0.25	$76,800
Parks & Rec														
Rec Facilities Coordinator							1		$50,855	$61,814	$49,680	$63,360		
Total	18.25			14			14						13.25	

(1) Building official is contracted and is paid $30 per hour for inspection , plus plan checking based on square footage.

Sources: 2006-2007 budgets for Loomis and La Habra, Portola Valley Staff Directory, Economic & Planning Systems, Inc.

Table 4
Animal Control Expenditures
San Martin Incorporation Analysis, EPS #17060

City	Population	Expenditure	Expenditure per Capita
Portola Valley	4,618	$30,861	$6.68
La Habra Heights	6,145	$7,000	$1.14
Loomis	6,529	$67,500	$10.34
Fairfax	7,375	$74,906	$10.16
Los Altos Hills	8,607	$70,000	$8.13
Morgan Hill	38,418	$97,499	$2.54
Average		$57,961	$6.50
San Martin (1)	6,992	$72,068	$10.31

(1) Includes contact with County animal shelter for an estimated $21,700.

Sources: City Budgets 2006-2007

Table 5
Comparable Road Expenditures by Jurisdiction
San Martin Incorporation Analysis, EPS #17060

	La Habra Heights			Loomis			Portola Valley			Gilroy			Morgan Hill			Santa Clara County		
Average Road Expenditures	Expenditure 2005-06	Road Avg. Exp. Miles Per Mi (1)		Expenditure 2005-06	Road Avg. Exp. Miles Per Mi (1)		Expenditure 2005-06	Road Avg. Exp. Miles Per Mi (1)		Expenditure 2005-06	Road Avg. Exp. Miles Per Mi (1)		Expenditure 2005-06	Road Avg. Exp. Miles Per Mi (1)		Expenditure 2005-06	Road Avg. Exp. Miles Per Mi (1)	
Undistributed Engineering and Admin	$129,268	42.57	$3,037	$0	33.67	$0	$113,842	42.47	$2,681	$601,729	82.82	$7,266	$1,936,868	100.88	$19,200	$6,732,757	684.10	$9,842
Construction and Right of Way	$0	42.57	$0	$1,129,689	33.67	$33,552	$421,535	42.47	$9,925	$4,107,396	82.82	$49,594	$607,216	100.88	$6,019	$11,988,151	684.10	$17,524
Maintenance	$158,492	42.57	$3,723	$440,757	33.67	$13,090	$281,843	42.47	$6,636	$1,803,180	82.82	$21,772	$48,000	100.88	$476	$22,385,379	684.10	$32,722
Total	$287,760	42.57	$6,760	$1,570,446	33.67	$46,642	$817,220	42.47	$19,242	$6,512,305	82.82	$78,632	$2,592,084	100.88	$25,695	$41,106,287	684.10	$60,088
3 yr. Avg. Cost (nominal $)	$475,212	42.57	$11,163	$998,731	33.67	$29,662	$753,741	42.47	$17,748	$7,247,804	82.82	$87,513	$2,346,503	100.88	$23,260	$42,520,599	684.10	$62,156
5 yr. Avg. Cost (nominal $)	$539,779	42.57	$12,680	$951,229	33.67	$28,252	$624,825	42.47	$14,712	$6,083,448	82.82	$73,454	$2,519,462	100.88	$24,975	$45,893,358	684.10	$67,086

Sources: California Street and Roads Annual Reports (2001-2006) , Highway Performance Monitoring System California Public Road Data, Economic & Planning Systems, Inc.

APPENDIX VII

AUDITOR'S RATIO

San Martin Incorporation Feasibility Study
County Property Tax as a Percentage of
Revenue Available for General Purposes - FINAL

Revenue Description		2006-07 Total Revenues	
Property Tax			
Secured - Current and Delinquent		347,464,657	
Unsecured - Current and Delinquent	Note 1	37,444,783	
Supplemental		25,060,977	
State Aid - Homeowner's Exemption		3,564,335	
Total Property Taxes		413,534,751	**A**
Other General Purpose Revenues			
Bails, Fines, Forfeitutes, and Penalties		19,763,675	
Cash Discounts, Rebates, Overage/Shartages		243,640	
Conveyance Tax OH Reimbursement		764,672	
Franchise Fee		1,663,899	
Interest and Investment Income		28,990,956	
Judgements and Damages		2,242,286	
Lease and Rental Income		2,795,394	
Local Contributions - Redevelopment Agencies (Pass-through)		17,976,967	
Misc. - Recovered Collections Surcharge (DOR)		2,814,478	
Miscelleneous Revenues		2,063,913	
Msc. - Loan Repayments		2,000,000	
MVLF Swap Revenues		153,703,614	
Penalty and Costs		20,051,965	
Property Transfer Tax		24,700,156	
Sale of Excess Land		4,000,000	
Sales and Use Tax		5,097,288	
Stale-Dated Warrants		166,503	
State - Highway Rental Taxes		61,380	
Tobacco Settlement Proceeds		17,488,355	
Transient Occupancy Tax		424,144	
Unclaimed Money		836,745	
Total Other General Purpose Revenues		307,850,032	**B**
Total General Purpouse Revenues		721,384,783	**C = (A + B)**
Auditor's Ratio		**57.33%**	**A ÷ C**

Notes
1 Unsecured taxes includes $2.9 million in aircraft charges

Date: Feb. 1, 2008.