TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER
DEPARTMENT: CITY MANAGER'S OFFICE
DATE: JULY 19, 2004
CMR: 365:04
SUBJECT: REQUEST FOR COUNCIL OPPOSITION TO A PROPOSED SALES TAX INCREASE BY THE COUNTY OF SANTA CLARA

RECOMMENDATION
Staff recommends that the City Council authorize the Mayor to sign a letter declaring the City’s opposition to Santa Clara County’s proposed sales tax increase.

BACKGROUND
Staff has received preliminary information that the County of Santa Clara will consider a proposal to increase sales tax in Santa Clara County by ¼ to ½ cent at its August 3, 2004 Board of Supervisors meeting. The County Executive will propose that the Board place a general sales tax increase on the November 2004 ballot.

The Board will have the option to approve either a ¼ cent or a ½ cent increase. If the Board approves a ¼ cent increase, all tax revenues would be directed to the County.

If the Board approves a ½ cent sales tax increase, the tax revenue would be shared between the County and the 15 cities within the County. The distribution of the extra ¼ cent sales tax revenues would be split with 2/3 going to the County and 1/3 going to the cities. The cities’ portion of these funds would be based on a per capita formula. The City of Palo Alto’s share would be approximately 3.8%. As a comparison, the City of San Jose would receive approximately 56.7%.

DISCUSSION
Staff is concerned with this proposal. The first concern is that the ¼ cent sales tax increase would have no known direct benefit to the City or its residents. All of the money would go directly to the County. The second scenario, or ½ cent sales tax increase, would provide an estimated $1.7 million to Palo Alto. However, any tax increase could make it more difficult for other fee or tax proposals, such as the Storm Drain fee or the Transient Occupancy Tax for General Fund needs if circumstances warrant.
The second concern is that while most local government agencies within Santa Clara County are experiencing budget shortfalls, the proposed sales tax increase would disproportionately benefit the County without adequately taking into account the needs of other local agencies such as local school districts and the Valley Transportation Authority. This proposal would most likely have a direct impact on school parcel taxes, specifically the planned PAUSD parcel tax. Therefore, staff believes that a more collaborative approach should be taken prior to submitting a countywide proposal to the voters.

The third concern relates to the decrease the City has experienced in sales tax revenues. During the past three years, the City’s sales tax revenues have dropped 30%. As a result, staff is taking steps to make the public aware of the benefits of buying goods and services in Palo Alto through the “Shop Palo Alto” campaign. In addition, the City is proactively working to retain its auto dealerships as they provide a substantial base of sales tax to the City. Staff is concerned that increasing the sales tax within the county would detract from its efforts to keep auto dealers and other businesses in Palo Alto. It would also make it more attractive for prospective Palo Alto shoppers to make purchases outside of the city limits in a county with lower sales taxes.

POLICY IMPLICATIONS
This request is consistent with existing City policies, including the Council Top 5 priority for City Finances.

ENVIRONMENTAL REVIEW
This staff report does not represent a project under the California Environmental Quality Act (CEQA).

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