



FINANCE COMMITTEE FINAL MINUTES

Special Meeting
October 1, 2019

The Finance Committee of the City of Palo Alto met on this date in the Community Meeting Room at 5:44 P.M.

Present: Cormack, DuBois, Fine

Absent:

Oral Communications

Stephen Levy commented that the Finance Committee had to decide on exemptions and rates in terms of a Business Tax. He requested that Staff review surrounding cities including Mountain View and Sunnyvale that have been implementing Business Taxes. Also, he requested that the Committee receive a briefing from a Stanford professional on tax incidents and how that might affect competition.

Agenda Items

1. Approve Revised Workplan to Address the City Council Direction for Further Consideration of a Ballot Measure.

Kiely Nose, Chief Financial Officer and Director of Administrative Services presented the revised Workplan to the Finance Committee (Committee), which incorporated the direction that the City Council (Council) had provided to Staff on September 16, 2019. The Committee's role was to assist and review Staff work, the consultant work, stakeholder feedback, and make recommendations to the full Council. Staff's recommendation was to return to the Committee in October, 2019 with recommendations to forward to the Council prior to work being initiated on polling.

Chair DuBois wanted to know if Staff would be able to make the December, 2019 deadline if polling was not completed in October, 2019.

Ms. Nose clarified that polling would continue through October, 2019 and into November, 2019. Staff needed to present the polling results to the full Council in December, 2019.

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Michelle Poché Flaherty, Deputy City Manager noted that at the next meeting Staff would be looking to the Committee to make refinements to a proposal that Staff would formulate based on the direction from the Committee.

Chair DuBois inquired if the Committee would receive all the data points that they had requested at the November, 2019 meeting.

Ms. Nose confirmed that was correct.

Tiffany Griego, the Managing Director of Stanford Research Park wanted to encourage the City to structure a tax to facilitate transparency and oversight by the public and to demonstrate the most effective return on investment to the community. Also, she wanted to encourage the City to assess the long-term consequences of letting a tax that exceeded the immediate adjacent neighboring cities. Several concerns from local businesses included the type of tax, whether it would discourage startup companies from locating within the City, and impacts to larger scale companies.

Dan Kostenbauder with Silicon Valley Leadership Group confirmed there may be multiple tax increases on businesses in 2020 before there was even a Business Tax implemented.

David Metz, Partner & President of FM3 declared that the best way for Palo Alto to approach a Business Tax was to have two polls. The first poll explored the building blocks that would be part of any revenue measure. The second poll tested two or three models of what a Ballot Measure might look like and then it tested the feasibility of those measures.

Chair DuBois requested that Mr. Metz walk the Committee through a couple of past polls the City had done in prior years.

Mr. Metz commented that the polls in 2016 followed the exploratory poll model. He believed several questions on that poll should be used for the new poll. Most of Staff's time was spent reviewing data from the exploratory poll and making structural changes to the Ballot Measure in 2016.

Council Member Cormack spoke regarding the Library Measure in 2008 and said the focus groups helped dramatically in terms of understanding the opposition and favorable messaging.

Chair DuBois asked if the Small Business Summary was something FM3 did.

Ms. Nose answered no.

Chair DuBois suggested that Staff present the business outreach piece before starting the discussion.

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Ms. Nose stated that the business outreach from 2016 had been done by a separate firm and they had held individual meetings with businesses. Staff was able to do something similar in parallel with voter polling activities.

Council Member Cormack was interested in doing a Business Outreach Study and to include small businesses and large businesses in a variety of industries.

Chair DuBois moved the Committee onto a stakeholder engagement discussion.

Ms. Nose declared that the Committee was to confirm that the Workplan was in alignment with the execution of the Council's direction from September, 2019. Secondly, Staff wished the Committee to think through the timeframe and outreach. Staff was working on a revised timeframe for the Expanded Community Advisory Panel (XCAP) based on new direction from Council and polling for grade separation would not be ready until January, 2020.

Vice Mayor Fine reported the Workplan needed prioritization and structure. He wanted more information on tiering and exemptions before he made any recommendations.

Council Member Cormack asked if the Committee could talk about exemptions.

Ms. Nose answered yes, for broad categories.

Vice Mayor Fine thought it was helpful to hear that business engagement may be longer tailed than the polling.

Council Member Cormack commented that the Staff Report was discussing a Parcel Tax on commercial square footage.

Ms. Nose confirmed that the Committee had discussed commercial only but the Motion did not state commercial specifically.

Council Member Cormack wanted future Motions to be clearer in terms of what the Committee discussed.

Vice Mayor Fine requested to see more granularities regarding stakeholder engagement. He was not sure how to treat exemptions but possibly to include the business community and said it should be ongoing.

Council Member Cormack reiterated that the City did not know the economic impacts.

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Chair DuBois agreed that the City should mirror 2016's outreach structure. He agreed that granularities in terms of small, medium, and large businesses should be included. Also, he wanted questions regarding the use of compliance with the different types of taxes, how they felt about phasing in a Business Tax and questions regarding exemptions and how they felt about them included.

Council Member Cormack rephrased the question to ask if there were impacts on certain industries that the City should be aware of.

Chair DuBois agreed to that question.

Council Member Cormack did not believe asking businesses about fairness was a good idea.

Vice Mayor Fine did not like asking what the money should be spent on.

Council Member Cormack emphasized that there needed to be a definition for small businesses.

Ms. Nose advised the Committee to provide general direction so that the consultant could help the City identify the right questions. Administrability of the tax was a question she believed should be asked but asking broader questions may be easier for them to answer.

Chair DuBois asked if businesses paid a Business Tax in other jurisdictions and he asked about trade-off questions and how they would allocate certain funds.

Ms. Flaherty noted that large concept recommendations in terms of questions were helpful for Staff.

Vice Mayor Fine was interested in learning about competition and if a Business Tax was implemented.

Judy Kleinberg, Palo Alto Chamber of Commerce expressed that focus groups were only good up to a point and that could potentially leave out larger businesses. The most important thing for businesses was specificity. She advised the City to approach a Business Tax as a Business Plan that the City was pitching to businesses. The business community did not support a General Tax and the business community was interested in knowing where the data was coming from.

Vice Mayor Fine suggested polling questions around what it looked like for the business community if a portion of the Business Tax was used to support the business climate in the City.

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Chair DuBois stated that there were several good questions regarding housing and transportation that Staff suggested in the Staff Report.

Council Member Cormack proposed open-ended questions in terms of transportation.

Chair DuBois believed there should be a list of items that could be presented to the business community that showed what the funds would be used for.

Vice Mayor Fine wanted to use scenarios instead of a list and pose those to the business community.

Council Member Cormack asked what would be helpful to businesses and what things they would like the funds spent on in terms of transportation and affordable housing.

Chair DuBois summarized to include questions that were open-ended probing questions, scenarios, and trade-offs.

Vice Mayor Fine wondered if there were other avenues that the City could use in order to reach businesses.

Chair DuBois confirmed that a consultant would be able to explore all avenues.

Ms. Flaherty added that there was the Business Registry that Staff could use as well.

Council Member Cormack suggested looking at new businesses that had recently applied for Business Permits or had built a facility within the City in the past year.

Chair DuBois asked if the outreach needed to be phased or not.

Ms. Flaherty confirmed that the Committee had voiced support for several rounds of outreach.

Council Member Cormack suggested that the first round of questions be focused on what the money could be used for and the second round of questions be focused towards exemptions and rates.

Chair DuBois mentioned that in terms of consumer polling, he believed Staff should take a similar approach with questions that focused on high-level concepts.

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Mr. Metz articulated that Mountain View had recently followed a similar structure of having two polls and that some of the questions they asked may be helpful to include.

Council Member Cormack reported that 400 was the number of questions asked.

Mr. Metz answered that was the minimum threshold and he recommended using phone and online surveys. He suggested that one model be tested on a group of people and then try a different model for the next group of people.

Council Member Cormack agreed that the 2016 poll was very comparable. She inquired how the City had managed to convey what the City's' needs were to the community.

Mr. Metz answered that there were three things that voters looked at in order to make a decision on voting yes for a tax: 1) the money going to something that they believed was a great need; 2) the funding mechanism was reasonable and fair; and 3) trust for the agency that was asking for the money. He encouraged education and outreach to the community regarding the needs of the City, in order to gain their support.

Council Member Cormack declared that the XCAP should work on more outreach to the community in terms of the rail project. She emphasized that the City needed to explain to the community where they got their revenues and what they were spent on. There were too many questions for the first step of polling and she was in support of explaining the different type's taxes to the community. She was hoping for data from the first set of polling questions that would supply an idea of what the funds should be used for and what type of tax needed to be put on the Ballot.

Vice Mayor Fine wanted questions focused around a recession.

Chair DuBois articulated that there could be questions asking about a tax in the range of \$2-3 billion a year. On the consumer side, he believed there should be a list of specific transportation programs and asked if cities suggested using the funds to pay for Unfunded Liabilities.

Mr. Metz answered that other Cities had tested that but it was not strongly favored.

Chair DuBois questioned if it was done specifically for police and fire.

Mr. Metz was not sure.

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Council Member Cormack wanted to see a Business Tax be simple in terms of exemptions and have questions regarding that on the poll.

Vice Mayor Fine questioned if having regional and State measures on the Ballot would overwhelm voters.

Mr. Metz reported that the local measure would be a priority to voters and any questions regarding State and regional tax measures would be best suited for the second round of polling.

Council Member Cormack advised using the language of transportation infrastructure and services as the title of the list of programs the funds would go towards.

Vice Mayor Fine did not like the suggestion of transportation infrastructure and services.

Ms. Nose wanted to know where housing fell into the categories.

Vice Mayor Fine clarified that the funds were going into the City's Affordable Housing Fund.

Council Member Cormack was interested in hearing from the business community to see if putting funds towards affordable housing was beneficial to them.

Vice Mayor Fine requested for specificity in terms of transportation.

Chair DuBois wanted proposals sent straight to Council and for the data the Committee had requested to the next Committee meeting.

Ms. Flaherty explained Staff would have to bring the proposal back to the Committee for a vote and then it would go to Council on the Consent Calendar.

Council Member Cormack mentioned that some Council Members may be interested in reviewing the poll questions at the full Council meeting.

Mr. Metz declared some Cities sent out draft questions in advance of the Council meeting, the Council Members provided feedback back to Staff, and that minimized editing on the spot in a public hearing setting.

Council Member Cormack liked that process.

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MOTION: Council Member Cormack moved, seconded by Vice Mayor Fine to recommend to the City Council to have the Finance Committee approve the revised workplan.

MOTION PASSED: 3-0

Future Meetings and Agendas

Kiely Nose, Chief Financial Officer and Director of Administrative Services stated the next meeting was to be held on October 15, 2019, and the items for that Agenda included the Workplan for Ballot Measures and the Pension Policy discussion. She suggested moving the November 5, 2019 meeting to November 13, 2019.

Chair DuBois suggested November 14, 2019.

Ms. Nose summarized that the November 5, 2019 meeting was to be moved to November 14, 2019, or November 13, 2019 and keep the November 19, 2019 meeting as scheduled.

Adjournment: The meeting was adjourned at 7:28 P.M.