



# SUMMARY MINUTES

Finance Committee  
Special Meeting  
September 21, 2021  
Virtual Only

The Finance Committee of the City of Palo Alto met on this date in virtual teleconference at 6:00 P.M.

Present: Burt, Cormack (Chair), Filseth

Absent: None

## Oral Communications

None

## Agenda Items

The agenda was reordered to hear item 3 first, and item 1 last.

3. Update and Refinement of Potential Revenue Generating Local Ballot Measure.

Assistant City Manager Kiely Nose introduced Administrative Services Assistant Director Christine Paras and Property Tax Consultant Paula Cone and Consultant Joel Herman who presented the item to the Finance Committee (Committee). The presentation provided an update to the Committee on Staff's work that has been completed so far on possible tax measures that City Council (Council) can choose to pursue for the November 2022 ballot.

Administrative Services Assistant Director Christine Paras shared that Staff has been exploring a business tax, utility use-based tax, and Documentary Transfer Tax (DTT). Staff recommended that the Committee provide recommendations to Council on revenue target ranges for a business tax, unit of measure, and areas for consideration for exemptions. Also, provide guidance to Staff on continuing to pursue a utility use-based tax and start to craft the outline for polling. The pursuit of any potential tax for the 2022 Ballot is part of Palo Alto's (City) Community and Economic Recovery Workplan that was approved by Council in March of 2021. The components

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of a potential ballot measure and how it is structured within the work plan included analysis, polling, and outreach.

Ms. Nose noted that Staff's presentation will focus on the analysis component of a potential ballot measure.

Ms. Paras shared that concerning the timeline, Staff currently is working on additional analysis, considering the Committee's revenue-generating proposals, discussing, and providing guidance on the initial polling and stakeholder outreach. Through October, November, and December of 2021, Staff will be working through refined measures as outlined by Council and the Committee. Staff hopes that the Committee and Council will have decided on a revenue-generating ballot measure by December 2021. Following that, additional polling and refinement will take place in January through April 2022, and by June 2022, receive final approval for a November 2022 Ballot Measure. The framework used to review and decide on a local ballot measure included equity, administrability, stability, and economic (E.A.S.E) benefits. The major components for consideration in structuring the tax included the actual structure of the tax, revenue and modeling, and administration. Within the tax structure, the unit of measure is considered along with whether the tax is general or specific, legally required exemptions, and exemptions by Council Policy. With respect to revenue and modeling, the taxation level is included, along with rate structure, average annual fee, and tax rate per unit. Included under the administration umbrella were the data sources, the E.A.S.E framework, and administration Staff levels. Other characteristics that were previously highlighted in work done 2019 included consideration of an annual escalator, no sunset, how easy can the tax be administrated, can it be done online, and other discussion areas.

Ms. Nose clarified that the Committee and Council do not have to use the characteristics outlined in the work done in 2019. However, Staff wanted the Committee and Council to know where the work ended in 2019. Staff requested that the Committee and Council provide direction on the characteristics.

Ms. Paras presented a chart showing the potential tax measures and preliminary calculations. The chart focused on a square-footage based tax, an on-bill tax for the Electric and Gas Utility, and a DTT. For the square-footage based tax, Staff used parcel information data provided by the City's consultant HDL Coren and Cone. The information is used by Santa Clara County to assess property tax. Santa Clara County categorizes the data by business type and/or industry. Non-residential square footage is based on size and category. The categories include commercial, government-owned,

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industrial, miscellaneous, recreational, and vacant. Approximately 70 percent of the City's square footage is within the commercial category and the majority of those properties are within the 30,000-square foot range. The preliminary calculations for a square footage tax equated to an average monthly commercial rate per square footage of \$6.88 with a target revenue rate of \$30 million. The rate reflected a 0.5 percent increase in rent at the \$10 million revenue target and up to a 2 percent increase for the \$30 million revenue target.

Ms. Nose explained that the \$10 to \$30 million range correlates with the range that Council had provided Staff and the Finance Committee. Also, the calculations show taxable value and Staff is comparing that to how the typical property value is assessed. Staff will be bringing forward the legal constructs of a parcel tax versus a business tax at a later time.

Ms. Paras noted that the preliminary calculations do not consider any exemptions by law or policy other than size. With respect to the on-bill tax for Gas and Electric Use, the City's General Fund (GF) includes an equity transfer of \$21.7 million from the Gas and Electric Fund pursuant to voter-approved charter provisions. The funds support City services. To break down the \$21.7 million, \$7 million comes from the Gas Fund and \$14 million from the Electric Fund. The calculation of the annual transfer is based on the 2009 Council adopted methodology. A ballot measure can simplify the transfer to a flat tax or as a percentage of gross revenue. The City's current Utility User Tax (UUT) is 5 percent for water, gas, and electric use. For every 1 percent increase of the UUT rate, that generates approximately \$2 million in revenue. With respect to the DTT, Staff has modeled what a tiered DTT would look like. The City's current rate is \$3.30 per \$1,000. Based on historical data, additional revenue would range from \$8.6 million to \$14.9 million or \$11 million on average. The DTT is a very volatile tax because it depends on large property sale figures.

Ms. Nose explained that the calculations associated with the DTT stemmed from the housing referral. Council had given Staff a referral on how to generate funds for affordable housing and other housing initiatives.

Ms. Paras shared the City of San Francisco's payroll and business tax information. The City of San Francisco has a gross receipt tax, a commercial rent tax, a cannabis business tax, homelessness gross receipts tax, overpaid executive tax, and an administrative office tax. Staff requested that the Committee provide feedback on how Staff should craft the proposed outline of the initial polling to gather feedback on structure and elements to include for Council to review in November/December 2021. The purpose of the initial polling is to understand how voters view various individual structure

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elements that might be part of a ballot measure. The second poll will test more fully-developed models for potential ballot measures that build on the results of the first poll and Council direction. Initial polling that was completed in November of 2019 included overall voter mood, conceptual support for a business tax, opinion and ranking of funding priorities, tax mechanisms, and several others. If the Committee adopts Staff's recommended action, Staff will resume pursuing a business tax and a potential on-bill tax of gas and electric services.

Committee Member Filseth stated that there is a reference to taxable square feet and non-taxable square feet. He requested examples of facilities that do not have taxable square feet.

Property Tax Consultant Paula Cone explained that some properties have exemptions such as churches or government entities. She acknowledged that Santa Clara County data is not perfect data and the data is not up to date.

Council Member Filseth inquired if the DTT preliminary calculations are based on all transfers or just commercial.

Ms. Cone answered all transfers.

Council Member Filseth wants to know how much of the City's receipts are commercial versus residential.

Ms. Cone answered that Staff would have to do that analysis. She clarified that the sale transactions are reviewed annually and then the rate change is applied.

Council Member Filseth suggested that information be explored if the City becomes serious about having a transfer tax. He recalled that the City of San Francisco has a rent tax. He asked how much of Palo Alto's commercial square footage is rented versus owned.

Ms. Cone responded that Staff does not know and that is not something that the assessors would know either.

Council Member Filseth wanted to know if financial institutions are exempted from business taxes.

Ms. Cone proclaimed that they are not exempted from property taxes and it is up to the City whether or not to include them.

Council Member Filseth pressed what about medical and hospital facilities.

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Ms. Cone remarked that it depended upon whether or not they are non-profit or for-profit. Non-profits do not receive a tax bill but their gift shops are taxable.

Council Member Filseth asked if the City moves forward with a square footage tax, will Stanford Medical Center be exempt.

Ms. Nose answered that Staff would have to investigate it further. She mentioned that Staff has not explored the legal restrictions for a parcel tax versus a business tax.

Council Member Filseth recalled the discussion about the General Fund Equity Transfer (GFET) and that the formula that was adopted in 2009 is complicated. There was a suggestion to change it to a percentage of revenues and he asked what the difference is between that and a UUT.

City Attorney Molly Stump clarified that there are different options, but the label that is applied is not critical. The City currently has a set of UUT already. The rate can be changed on the existing UUT as well as do a funding mechanism that aligns with residential and commercial users' gas and electric bills.

Council Member Filseth restated that having a GFET that is based on the percentage of revenue is very similar to a UUT.

Ms. Stump confirmed that is correct.

Council Member Filseth recalled that the UUT is more heavily weighted toward commercial than residential.

Chair Cormack noted that it depended on the utility.

Ms. Nose explained that the utility is a rate. Depending on how much the consumption is happening by residential, commercial and the rate associated with those groups, the utility will adjust.

Council Member Filseth inquired if Staff knows what the City's commercial electricity revenues are.

Ms. Nose disclosed that she did not have that information on hand.

Council Member Filseth stated that the City's commercial electricity bills are 25 percent less than Pacific Gas and Electric Company (PG&E). If the City can retain a percentage of that savings by having a square footage tax, commercial businesses are still better off being located in Palo Alto because there is still a cost-saving.

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Ms. Nose shared that in 2019, commercial electric revenues were less than \$95 million.

Council Member Filseth comments that if the City pursues a ballot measure for the equity transfer, there are good reasons why the City should focus strictly on the Gas Utility, and not couple it with the Electric Utility. One reason is that there are components in the Gas Utility that are not happening in the Electric Utility. Also, the utilities are separate from one another because there is a strong climate argument against the Gas Utility. He inquired if the City's annual turnover real estate transaction are subject to DTT.

Ms. Nose indicated that Staff will provide that answer shortly.

Council Member Filseth wanted to know how the City of San Francisco tracks gross receipts.

Ms. Nose disclosed that all of the taxes are self-reported and local agencies can ask for supporting documents.

Ms. Stump noted that the City of San Francisco and the County of San Francisco have an entire department dedicated to the tax.

Council Member Filseth inquired if Staff would be able to find similar sources for that data for Palo Alto.

Ms. Nose restated that it is self-reported.

Ms. Stump added that it is then checked through audits.

Council Member Filseth asked if any or all of the tax measures the City wishes to pursue have to be on the same ballot.

Ms. Nose remarked that unless the City pursues a special tax that is dedicated towards something. That special tax can happen during a special election cycle. Any general tax has to be on a general election.

Ms. Cone disclosed that the City's annual turnover real estate transaction subject to DTT ranges from \$7 million to \$7.8 million depending on the year. The DTT transfer record is 90 percent for all 5-years and 95 percent in some years.

Vice Mayor Burt clarified that any properties sold in the Stanford Research Park are just the property and does not include the land transaction. He mentioned that because Stanford University owns the land, the value is not captured in the DTT or Property Tax sales. He concurred that the Committee

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is discussing several taxes with some being very interrelated and some discrete. He suggested that the Committee focus questions and comments on the square footage tax towards the end of the discussion. He agreed with Council Member Filseth's comments that there is lost revenue in the Gas Utility transfer to the GF. He commented there is a potential for a citizen lead initiative and that the Climate Action Plan may be one of those initiatives. He requested that Staff explain the parameters around a citizen initiative.

Ms. Stump recalled that one case argues that a tax can be on any ballot, even if it is a general-purpose tax. The other case addresses the voter threshold for a special tax. Also, it has been decided that a simple majority does pass a citizen initiative.

Vice Mayor Burt articulated that given the concern that there is a potential to have multiple taxes on a general election ballot. That is one acceptance where a citizen lead initiative that would require a simple majority and does not need to be on a general election ballot. In terms of the DTT, he recalled that the second tier would apply to sales that are above the threshold of the first year. He asked what amount is the threshold set at, would the first \$3 million be taxed at the lower tier, and then the remaining amounts above be taxed at the higher tier.

Ms. Cone explained that for the City of Santa Monica, they have a two-tier system. If the amount exceeds the lower tier, then the entire amount is taxed at the higher tier.

Consultant Joel Hermann shared that Culver City has a marginal rate. The modeled for Palo Alto is similar to the City of Santa Monica where as soon as the threshold is reached. There is a new rate for the entire amount.

Vice Mayor Burt supported that approach. He appreciated that the Staff report breaks down the pros and cons of the different forms of taxes. He reiterated that he has yet to find a form of a tax or a structure that is close to perfectly fair. He cautioned the City that if there is an attempt to achieve that standard, it will never be achieved. He remarked that the more complex the tax is, the more opportunities there are to make it fair, but the more complex a tax is, less voters will support it. He inquired what revenue amount does each of the City of San Francisco's tax produce.

Ms. Nose confirmed that the revenues are not provided in the report.

Vice Mayor Burt suspected that the revenues are listed in the City of San Francisco budget reports.

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Ms. Nose answered that they are lumped together but yes, they are listed in the report.

Vice Mayor Burt concurred that he could not find where the revenue is broken down into specific taxes, but recalled that he had seen it before. He articulated that as the City explores the context and the scale of the taxes. It is important to see what the City of San Francisco and the City of East Palo Alto are doing. He mentioned that when comparing the City to surrounding local jurisdictions, one of the constant metrics to compare together is how much is the total business tax for each employee working in the city. He emphasized that he is not proposing a tax rate that is comparable to the City of San Francisco, but comparing how much the total business tax is for each employee working in the city can be a very valuable reference point. He agreed that the City of San Francisco has the highest tax rate in the region, but their tax structure has not hindered businesses from locating themselves in the City of San Francisco. He stated a similar thing happened in the City of East Palo Alto when they implemented their \$2.50 a square foot tax per year. With respect to the concern that a tax will affect the City's economy, he explained that even if the City exceeds the upper end of the revenue target that is under consideration. Based on surrounding jurisdictions, the evidence shows that the City's ability to retain businesses will not be affected. He articulated that the prices for the needs wanted by the residents far exceeds the targeted amount of \$30 million. With respect to the guiding principles, he did not understand how a tax directly promotes economic development, and the guiding principles do not explain how a business tax meets the needs of the City government and the community. With that said, he believed that the criteria may have been miss framed.

Chair Cormack appreciated the level of information that was provided in the Staff report. She inquired if Staff is requesting that the Committee narrow the revenue target amount.

Ms. Nose shared that Staff is comfortable with the \$10- to \$20- to \$30 million range if the Committee is comfortable with it.

Chair Cormack shared that one of the reasons why the prior business tax failed is because it was too complicated. She stated that the narrower the questions are for polling, the more support the resident will have for a new tax. She encouraged Staff to ask only crucial questions during polling. In terms of a general tax versus a special tax, she did not believe that there should be a polling question asking which is preferred. She found flat verse tiered rates less relevant to understand because the City is not pursuing a headcount tax. She encouraged the Committee to provide Staff direction on



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the polling questions. She appreciated that the Staff report provided details about the DTT and the Vice Mayor's questions about whether it's marginal at the next level. She remarked that there is a real opportunity in having a DTT. A DTT would allow the City to make the tax a progressive tax and tax wealth as opposed to income. She inquired if there are enough Staff resources to prepare the work moving forward.

Ms. Nose answered that Staff will be relying on consultants to be doing some of the work but much of the work has already been completed. Staff is rearranging existing resources, rearranging the list of priorities, and will need the grace from the Council to allow Staff to provide the work as quickly as they can.

Chair Cormack appreciated Table A6 on Packet Page 185. She wanted to understand if a small business is exempt from a square footage tax if they are renting a small portion of a larger building.

Ms. Nose emphasized that it depended on how the tax is structured.

Chair Cormack stated that Table A6 in the Staff report is based on a self-reported business tax, not a parcel tax.

Ms. Nose clarified that a parcel tax can incorporate exemptions. She restated that if the Committee and Council can help identify the characteristic of the measure that they support. Staff can investigate the legal framework, the administrability, and help bring forward a better understanding of which tax best fits the structure that Council prefers.

Chair Cormack stated that her preference is for a simple tax. If there are exemptions, she suggested those be more numerical and less based on industry. With respect to the Vice Mayor's comment regarding the City of San Francisco and City of East Palo Alto, she remarked that Palo Alto has a different business base in terms of the size of the businesses. She did not support the suggestion that Palo Alto anchor off of the City of East Palo Alto or the City of San Francisco. She asked what Staff is seeking from the Committee in terms of the UUT.

Ms. Nose requested indications on whether to use the Gas Utility, the Electric Utility or both; or Gas Utility, Electric Utility, and something else.

Chair Cormack agreed with Council Member Filseth that the tax should focus on the Gas Utility only. She emphasized that during polling, a question must be asked about climate initiatives.

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Council Member Filseth restated that he supports focusing on the Gas Utility only in the polling. With respect to the break at 20,000-square feet, he asked if Staff assumed there was a disjunction at 20,000-square feet or if the first 20,000-square feet would be exempted.

Ms. Paras clarified that the model shows total property.

Council Member Filseth wondered if it made sense to exempt the first 20,000-feet. He agreed with Chair Cormack's comments that the tax must be simple. He recommended that the tax target the commercial sector only.

Ms. Nose requested that Council Member Filseth provide details on what defines a commercial business.

Ms. Cone asked if Council Member Filseth means commercial and industrial, or just commercial.

Council Member Filseth answered commercial and industrial. He clarified that the City should not be taxing government entities, non-profits, and things of that nature. He supported having few exemptions as opposed to many exemptions. He recommended that the City pursue a square foot tax and that the poll should not ask questions about special tax versus general tax. He shared that he has reservations about adding a DTT to the ballot. He supported moving forward on the Gas Utility transfer and he believed that the community will understand the need to make up for the loss of the equity transfer. He predicted that the polling will show that the community is supportive of disincentives to consume large amounts of natural gas. He found the Vice Mayor's comments about a citizen's initiative regarding climate items intriguing. With respect to parcel tax versus an end-user-focused tax, he supported Chair Cormack's notion to make it simple. He liked the idea of having the tax apply to landlords as opposed to renters.

Ms. Stump stated that the City, City Staff, and Council Members cannot be involved in the development of a citizen initiative or pursuit of a citizen initiative.

Council Member Filseth remarked that if the City uses a starting limit for a square footage tax, that will automatically exempt smaller businesses. He worried about tenants that are within a large shopping center and remarked that the City will have to investigate that further.

Ms. Nose noted with respect to the equity transfer and increasing the UUT on the Gas Utility only, one component to consider is that the UUT will encourage folks to discontinue the use of that utility. That also means that the tax revenue will diminish as folks discontinue the service. She

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encouraged the Committee to consider the behavior changes that taxes can facilitate.

Council Member Filseth suggested that Staff model out that scenario.

Vice Mayor Burt stated that the topic is very complex and needs to be flushed out. He mentioned that the City's Climate Action Plan is an aggressive plan to eliminate the Gas Utility. He predicted that many folks within the community would support paying more on their electric bill to help with climate change. He encouraged the Committee not to decide what the answers will be to the polling questions, but rather what the polling questions ought to be. In terms of the square footage tax, he agreed with the retail and hospitality exemptions listed in the 2019 principles that Council had adopted. He strongly encouraged Staff to investigate what uses should be excluded from the tax, rather than focusing on the size of the business. He recalled that the 2008 business tax that failed was not because of complexity, but because the use and the needs were not well defined. He explained that the City of East Palo Alto's square footage tax is deliberately focused on the technology community and buildings above 25,000-square feet. He argued that Palo Alto has a larger technology business community and so the City of East Palo Alto's tax is more applicable when doing comparisons. He encouraged Staff to provide details on why a payroll tax is not suitable for Palo Alto. He asked what is included in Santa Clara County's definition of commercial.

Ms. Cone answered office, shopping centers, restaurants, service stations, and many more. She emphasized that every county is different and it is not a firm rule what should or shouldn't be included.

Vice Mayor Burt noted that many jurisdictions tax residential rental properties and that it is not an uncommon practice.

Chair Cormack summarized that the Committee and Staff are comfortable with the target ranges for revenue at \$10 million to \$30 million and that the City should pursue a square footage tax. She recommended the Committee discuss exemptions, reduced rates, and cut off.

Ms. Nose requested guidance on a preference for polling in terms of Staff's recommendation letter B. She noted that one Council Member identified exemptions for commercial and industrial, another suggested the focus be on size of a business, and another suggested type of business. She requested that the Committee narrow those suggestions further. Also, she requested that if the Committee has a strong preference for a flat or tiered rate, to express that now to Staff.

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Council Member Filseth wanted to understand from Staff how the Committee should consider guidance on industry versus size for exemptions.

Ms. Nose recommended that the Committee narrow the preferences and then identifying clearly what the preferences are.

Council Member Filseth announced that he supports small struggling retail, but restated that the tax must be very simple to administer.

Ms. Nose disclosed that this is the first working conversation as a Committee body and Staff expects multiple more working conversations to take place. She recommended that the Committee determine the end goal to help Staff with future work.

Council Member Filseth put forward a motion.

Chair Cormack requested that the motion include language regarding willingness to fund climate action.

Vice Mayor Burt asked Council Member Filseth if the motion is addressing the gas transfer and not the business tax.

Council Member Filseth remarked that the polling is not going to be specific for either one.

Vice Mayor Burt assumed that the questions about the Gas Transfer Fund and the UUT would be for specific purposes. Then the business tax is another subject.

Council Member Filseth commented that he was not assuming that. He understood that the equity transfer goes into the GF. He recommended that the Committee discuss whether it makes sense to separate the funds.

Chair Cormack proposed editorial changes to the motion.

Council Member Filseth agreed to the changes.

Chair Cormack asked what "consider a minimum threshold of size" means.

Council Member Filseth answered square footage.

Chair Cormack addressed Item B of the motion and asked if "model a UUT increase is gas" means restoration.

Council Member Filseth clarified that it means to restore the amount at risk in the Green litigation.

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Chair Cormack wanted to know if the Committee would like Staff to do anything about the potential reduction of the Gas Utility over the next 10-years.

Council Member Filseth agreed with Vice Mayor Burt's comment that the Gas Utility is going to reduce faster than what would naturally be caused by a rate increase. He noted that would happen regardless if there is a rate increase or not.

Chair Cormack recommended an editorial change to Item C of the motion.

Council Member Filseth agreed with the change.

Ms. Nose recommended that the motion state that the Finance Committee recommends that the City Council direct Staff.

Vice Mayor Burt observed that the revenue target range should be increased because the current ranges will not cover all of the City's needs.

Council Member Filseth noted that Item B of the motion will accumulate \$7 million a year by itself.

Vice Mayor Burt understood that it could be either a User Tax increase on gas or a square footage tax and that there is a possibility that it will not be both.

Council Member Filseth agreed that there is that risk.

Vice Mayor Burt recommended that Staff explore a revenue target amount of \$20 million to \$50 million a year between Item A and Item B of the motion.

Council Member Filseth suggested that the revenue target outlined in Item A be changed to \$20 million to \$50 million a year.

Chair Cormack announced that she would not accept the motion if \$20 million is the minimum.

Council Member Filseth recommended the minimum be \$10 million.

Chair Cormack mentioned that \$50 million comes close to what is collected in Property Tax per year.

Vice Mayor Burt wanted to understand why Chair Cormack would not support a revenue target of \$10 million to \$50 million.

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Chair Cormack found it hard to imagine that a \$50 million tax per year would have no impact on the City's economic situation. She emphasized she would not support a \$50 million target until she heard from the community how they felt about it.

Vice Mayor Burt clarified that the motion is not the final decision, but rather the range that the Committee and Council should consider.

Chair Cormack restated that the sources and uses of funds matter as a fiscal policy and it is not clear that the City should expect the business community to support City services that are used by all residents.

Vice Mayor Burt opined that that is more of a philosophical opposition to who pays for what.

Council Member Filseth stated that in practice at this stage, the difference in range is just numbers on a spreadsheet. The Committee and Council will be more informed on what direction the City should take when they discuss sources, uses, and polling. He remarked that it may not make much difference what the ranges are at this point. Once polling is complete, Council can determine what the appropriate range should be based on the information gathered from the polling. He recommended the revenue range by \$10 million to \$40 million.

Vice Mayor Burt supported Council Member Filseth's suggestion.

City Manager Ed Shikada commented that there is still quite a bit of work to do on the math. That would include investigating the business tax structure as it applies to the total square footage and identifying the mandatory exemptions. He predicted that whatever the revenue range is, it will be scalable.

Council Member Filseth summarized that Council will discuss what percentage increase there will be on lease values. This will then determine what the impacts will be on the business community.

Vice Mayor Burt agreed with the City Manager that the ranges will be scalable.

Chair Cormack clarified that her hesitation is that this is the first motion in a multi-step process and there will be future discussions that help clarify what the impacts will be. She informed the Committee that the prior work done on the business tax was narrowed down by using a variety of lenses.

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Vice Mayor Burt mentioned that the prior work did not include the amount per private sector worker as a metric.

Council Member Filseth disclosed that it would be useful to understand that.

Chair Cormack stated that the missing element in the motion is what the funds shall be used for. She recommended that the Committee discuss the items that were not funded during the last budget cycle. She suggested that Staff provide those details so that the Committee and Council can better understand how much funding is needed to fund all the unfunded projects.

Vice Mayor Burt stated that the motion contains items that he agrees on in terms of if he were asked what to do independent of the poll results. He specified that the motion should be specific on what items the Committee is recommending versus items that need more polling. He noted that there should be an escalator, but that does not need to be determined until polling is complete.

Council Member Filseth agreed and stated that the escalator is too low-level of detail to get meaningful data from polling.

Ms. Nose declared that the identification of items in Item A of the motion does not necessarily mean they will be included in the poll.

Vice Mayor Burt clarified that there are items that need to be investigated in the future. Those items should be listed out in the motions and be included in the polling process.

Council Member Filseth agreed that a question regarding a sunset provision should be included in the polling. He predicted that any questions regarding an escalator are too detailed for polling at this time.

Vice Mayor Burt stated that the motion should reflect reality.

Ms. Nose suggested language in the form of Item D of the motion to address Vice Mayor Burt's recommendation.

Chair Cormack inquired when Staff is meeting with the pollster.

Ms. Nose explained that in prior years the process was that the preferences were identified by the Committee, Staff worked with the pollster to draft an outline, the outline was then sent to Council for approval. She mentioned that staff was not going to bring the outline to the Committee for review. If the Committee desired that, that will delay the process by 3-weeks.

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Council Member Filseth mentioned that he does not have a strong preference whether the outline comes to the Committee first or straight to Council.

Chair Cormack asked if the Committee should add in the motion polling recommendations.

Vice Mayor Burt agreed that feedback on the poll outline will be more effective at a Committee level than with Council.

Chair Cormack wanted to understand if polling would happen in 2021 or 2022 if the draft outline came to the Committee first.

Ms. Nose stated she'd have to talk to the consultant.

Mr. Shikada asked if the recommendation is to request that Council delegate review of the poll to the Finance Committee.

Vice Mayor Burt answered yes.

Mr. Shikada articulated that with that understanding, it is easier to have a meeting with the Committee than with the full Council.

Ms. Nose mentioned that Staff will be back with the Committee in October 2021 to discuss the legal constructs of the taxes. Staff will be bringing the Committee's work to Council in November 2021 with the polling outline and direction to execute the polling. That process allows the poll to be done in time to have the results to either the Committee or Council before the Council's holiday break.

Vice Mayor Burt suggested that under Item D the language read "pending the ability to stay on the timeline".

Council Member Filseth asked if the entire motion will go on the Consent Calendar for Council or as an action item.

Ms. Nose indicated that per policy and procedures, if there is a unanimous vote, the motion will go on the Consent Calendar for Council.

Vice Mayor Burt interjected that the policy states that if the motion is on a substantive issue that the Council would want to evaluate. Then the item would go to Council as an action item.

Ms. Nose concurred that it will be agendized as an action item.

Council Member Filseth wanted to understand if the process will be delayed if Council disagrees with Item D of the motion.



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Ms. Nose answered no.

Chair Cormack expressed that Item D in the motion does not change the existing plan except future review of the polls might be at the Finance Committee and not at Council. The first review will be with Council. She concluded that she supports Item D as written. She recalled that there was another suggestion for the motion that was not included.

Ms. Nose articulated Item E of the motion.

Council Member Filseth agreed with the proposed changes to the motion.

Chair Cormack supported the changes made to the motion.

Vice Mayor Burt stated that he wanted to be informed by polling where it is appropriate. He recommended that the Committee review Item C of the motion and understand the limits of it as drafted.

Council Member Filseth summarized the question is should the polling include receptiveness to a DTT increase.

Vice Mayor Burt added business tax polling as well.

Council Member Filseth announced that business tax should be included in Item C of the motion.

Chair Cormack called the vote on the motion.

**MOTION:** Council Member Filseth moved, seconded by Chair Cormack to recommend the City Council direct staff to:

- A. Continue to evaluate business tax based on square footage with potential protection/deference to small retail and services and a view toward simplicity in administration (10-40 million dollars per year), with no sunset, an annual escalator, and consider a minimum threshold of square footage
- B. Model a Utility User Tax increase in gas to restore the amount at risk from the Green litigation
- C. Polling should also include:
  - i. Support for a business tax and characteristics of it
  - ii. Willingness to support an equity gas transfer

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- iii. Opinion and ranking of funding priorities such as services, infrastructure and climate action
- D. Delegate review of the polls to the Finance Committee, pending ability to stay on the timeline
- E. Direct staff to communicate Finance Committee's preferences of the sunset and the annual escalator to the Council

## **MOTION PASSED:** 3-0

The Committee adjourned to a break at 8:40 and returned at 8:45 pm.

- 2. Review and Recommend to the City Council a Fire Department Ambulance Subscription Program: 1) Adopt Ordinance to Establish Program and Fees, and 2) Approval of a Budget Amendment in the General Fund.

Fire Chief Geo Blackshire informed the Finance Committee (Committee) that for over 40-years the Palo Alto Fire Department (PAFD) has been providing Palo Alto (City) and Stanford University with an ambulance service. This service is a one of a kind service in Santa Clara County. On average, two-thirds of the fire department's calls are medical emergencies and 3,500 transports happen per year. Staff recommended that the Committee review and approve the Ambulance Subscription Program, the proposed fee, and recommend to City Council (Council) for formal adoption.

Senior Financial Analyst Amber Cameron reported that in the Fiscal Year (FY) 2022 Adopted Budget, \$0.5 million is budgeted for an Ambulance Subscription Program, and the program is scheduled to begin midway through the FY. In terms of transport billing, the FY 2022 base fee is \$2,509 for transport. A contract billing company is used to collect the payments from the insurance company and the individual's co-pay. The subscription program will target folks who have commercial insurance. The Ambulance Subscription Program will be a voluntary program and folks can terminate their subscription at any time. The program will cover the cost of the co-pay for the ambulance transport. The program mirrors other subscription programs found in other California cities. Those programs have an annual fee range of \$43 to \$60 and those cities reported that their participation rate from the general public is 20- to 30-percent of the total population. One residential benefit is that all household members are covered who are permanent residents of the subscribing household. Also, all residential participants will have umbrella coverage for visitors visiting their homes. For

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business participants, the program covers all employees while at the business address or conducting business elsewhere in the city. Participants will pay for the program through a monthly fee that is added to their utility bill. In December of 2020, PAFD presented the program to the Committee and requested feedback on a variety of fee amounts. The Committee directed Staff to conduct community outreach to gather information on interest and fee amounts. PAFD conducted a written survey and focus groups. The online survey consisted of eight questions and the survey was open for one week. The survey results showed that 52 percent of respondents felt the program would be very valuable to the community. More commercial respondents felt that the program would be very valuable. In terms of the focus group, the group felt that the program would be beneficial to the community. They suggested that the program be billed monthly, not annually. The official proposed program would have a monthly fee of \$8. With a 25 percent expected participation rate, that equated to approximately \$600,000 in revenue from residential customers. For business customers, the revenue is on a tiered structure based on employee headcount. It was estimated to bring in \$600,900 of annual revenue from business customers. Implementation costs that have not been budgeted for included a \$60,000 annual charge for utility customer service and a one-time \$50,000 charge for community outreach and education.

Vice Mayor Burt inquired what operational costs are there.

Ms. Cameron stated that there will be minimal operational cost because the department will be able to absorb the work with existing Staff.

Vice Mayor Burt restated that insurance covers ambulance services.

Ms. Cameron agreed that currently, insurance covers the \$2,509 cost and folks pay only their co-pay. The Ambulance Subscription Program will waive the co-pay.

Vice Mayor Burt clarified that he is talking about revenue versus costs to PAFD.

Ms. Cameron responded that PAFD will lose approximately \$15,000 to \$30,000 annually in co-pays that are currently collected. The City will be tracking that data. PAFD predicted that families who are commercially insured will be using the program.

Vice Mayor Burt wanted to understand the projection of revenue versus expenses. He appreciated the survey data that shows that over half of the respondents felt that the program to be valuable to the community.

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Ms. Cameron informed the Committee that the current ambulance program operates at a loss and the new program will help cover those losses.

Council Member Filseth understood that the new program will bring in \$1.2 million in revenues and will cost \$200,000 to \$250,000 to run.

Ms. Cameron answered that is correct.

Council Member Filseth proclaimed that he is interested in seeing the revenue projection.

Chair Cormack asked what happens with senior residential facilities and how will those businesses be handled under the program.

Ms. Cameron explained that for those facilities, the resident's utilities are based on the individual apartments. The Ambulance Subscription Program is tied to the individual and not the business.

**MOTION:** Vice Mayor Burt moved, seconded by Council Member Filseth to recommend the City Council:

- A. Approve a new Ambulance Subscription Program and associated fees for Residential and Business Participants;
- B. Adopt the Finance Committee's recommended fees including the adoption of an Ordinance amending the Fiscal Year 2022 Municipal Fee Schedule, with a monthly fee of \$8 for residents and the 5 tiers of rates for businesses based on employee headcount; and
- C. Approve budget amendments, as necessary, to begin and maintain this program.

**MOTION PASSED:** 3-0

1. Accept CalPERS Pension Annual Valuation Report as of June 30, 2020.

Office of Management and Budget Jessie Deschamps announced that Staff recommends that the Finance Committee (Committee) accept the California Public Employees Retirement System (CalPERS) Annual Evaluation Report as of June 30, 2020. The annual billing of employer contributions included Normal Cost (NC) and Unfunded Accrued Liability (UAL). The NC reflects the cost for current employees and is billed as a percentage of payroll. The UAL reflects the amortization of liabilities that are generated over time. The blended rate is the NC and UAL expressed as a percentage of payroll. The Actuarial Determined Contribution (ADC) is CalPERS calculation for the cost of the NC as a percentage of payroll and the UAL as a flat-rate dollar

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amount. Additional Discretionary Payments (ADP) are payments above the ADC. The overall status as of June 30, 2020, included actual investment returns of 4.7 percent as compared to the 7 percent rate assumed by CalPERS. There was a decrease in overall funded status of 1 percent from 64.4 percent to 63.5 percent. In the Miscellaneous Plan, the overall funding status was reduced from 66.1 percent to 65.1 percent and a decrease from 61.3 percent to 60.3 percent for the Safety Plan. Ongoing from prior years, Palo Alto (City) is still seeing the impacts from the phase-in of the lower Discount Rate from 7.5 percent to 7 percent. The phase-in was completed in Fiscal Year (FY) 2021, but the full cost impact will be felt in FY 2025. Not included in the CalPERS reports is the supplement contributions to the 115 Pension Trust. The trust was established in 2017 as a proactive measure to address long-term pension liability. Through FY 2021, \$37.3 million in principal contributions have been made to the trust. If the 115 Trust contributions were applied to the overall funded status, the status would go from 63.5 percent to 66.1 percent. Several significant variables were not accounted for in the 2020 report. This included the preliminary 21.3 percent return on investments for the period ending on June 30, 2021. The return triggered the CalPERS Risk Mitigation Policy and reduced the Discount Rate from 7 percent to 6.8 percent. Additionally, CalPERS will be completing their Asset Liability Management (ALM) review process and Experience Study by November 2021. The ALM will review investment risk appetite, asset allocation, and set a new Discount Rate for future years. The total blended employer contribution rate is over 6 years for each plan. For the Miscellaneous Plan, the total cost was 42.8 percent for FY 2023. It is estimated to peak at 44.1 percent in FY 2025 and then reduce to 37.2 percent in FY 2028. For the Safety Plan, the employer rates in FY 2023 will be 71.1 percent. That rate will peak in FY 2025 at 74 percent and then reduce to 73.1 percent in FY 2028. The total UAL for both the Miscellaneous Plan and the Safety Plan has increased from the June 30, 2019 evaluations to the June 30, 2020 evaluations by \$33.5 million or 7 percent. The City has 63.45 percent of the funding it needs to meet its obligations. In November 2020, the City Council (Council) adopted a Pension Funding Policy intending to reach a 90 percent funded status within 15 years. Staff will return to the Committee in December 2021/January 2022 with the Long Range Financial Forecast. In May/June 2022, Staff will return to the Committee and Council to review and approve the FY 2023 budget. In September 2022, Staff will return with transmittal of June 30, 2021, CalPERS Annual Valuations, and in Fall 2022, Staff will return to check in on the status on meeting the 90 percent funded status goal.

Council Member Filseth inquired how much was placed in the 115 Trust in FY 2020.

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Assistant City Manager Kiely Nose recalled approximately \$5 million in all funds.

Council Member Filseth asked if the numbers presented in the presentation are CalPERS figures or City generated figures.

Ms. Nose answered CalPERS figures.

Vice Mayor Burt mentioned that the CalPERS funded status is 70.8 percent which was an increase from 70.2 percent. The City's funded status is 65.1 percent for the Miscellaneous Plan and 60.3 for the Safety Plan. He wanted to understand what the return on investments means for the City's unfunded status.

Ms. Nose disclosed that Staff has not done those calculations. She cautioned that there will not be a huge impact because the discount rate will be reduced.

CALPERS Consultant David Clement explained that the 21 percent return does trigger a lowering of the rate from 7 percent to 6.8 percent. However, the CalPERS Board will be exploring different investment options in November 2021. They may decide on a different allocation and different discount rate.

Vice Mayor Burt recalled seeing that the funded status would go from the low 70 percent range to 82 percent. He remarked that he was concerned about CalPERS' risky of investments and he asked if those investments will be part of CalPERS reevaluation discussion in November 2021.

Mr. Clement clarified that the Risk Mitigation Policy was implemented to lower the risk, but the new CalPERS Board will be exploring different asset allocations.

Vice Mayor Burt observed that the City has been making very high contributions for the past 6-years. He inquired if that was because of the adjustment made to the Discount Rate.

Ms. Nose responded that in the Staff report there is a chart that describes what has impacted the rate year over year.

Vice Mayor Burt noticed that the obligation projection for FY 2022 was 40.3 percent, but now it is 41.8 percent. Also, the projected ADC is higher than it was projected in prior years.

Chair Cormack commented that it seemed reasonable that the City could reach a 90 percent funding status by 2036 by relying on excess funds in the

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Budget Stabilization Reserve. Now, the City must reevaluate that target once it comes to a more stable revenue and expense situation. She reflected that the City has not had to factor inflation into the figures for the past decades.

Council Member Filseth interjected that the liability adjusts with inflation.

**MOTION:** Chair Cormack moved, seconded by Vice Mayor Burt to recommend the City Council accept the June 30, 2020, CalPERS Annual Valuation reports for the Miscellaneous and Safety Pension Plans.

**MOTION PASSED:** 3-0

## Future Meetings and Agendas

Assistant City Manager Kiely Nose noted that the Finance Committee meeting dates will be adjusted in November and December 2021 due to the holidays.

Adjournment: The meeting was adjourned at 9:39 P.M.