



POTENTIAL REVENUE GENERATING LOCAL BALLOT MEASURE

Updates, Further Refinement & Draft Outline for Initial Polling

October 19, 2021

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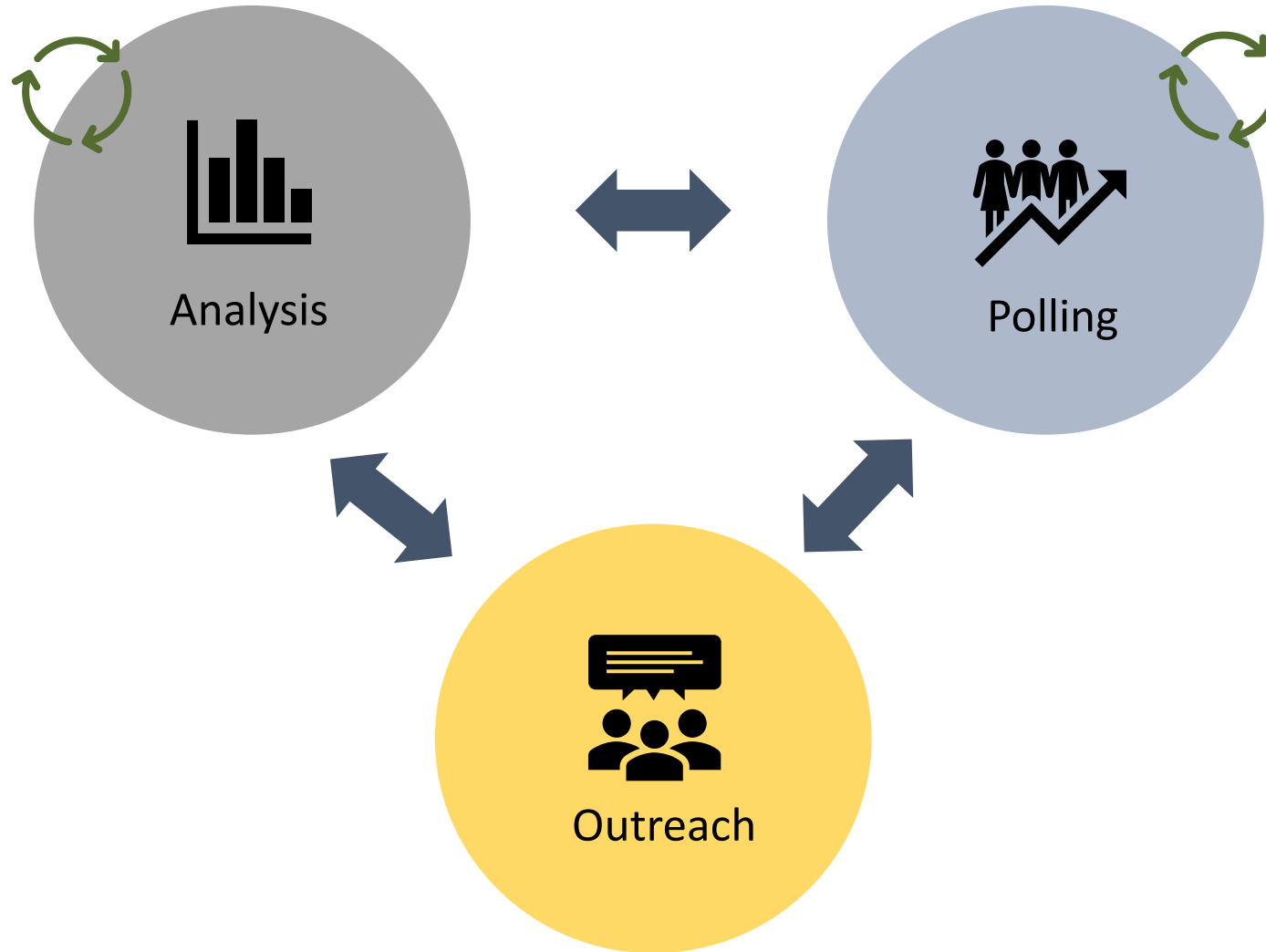
- Tonight, we continue the exploration of a potential business tax, utility use-based tax, and documentary transfer tax as potential revenue-generating local ballot measures for the November 2022 Election.
- **Provide recommendation to Council on:**
 - **Refinement of a square footage tax such as tax method, range of revenue, and areas for consideration of exemptions**
 - **Continued pursuit of a modification to UUT or a utility tax**
 - **Outline of initial polling to inform whether one or more taxes may be feasible on the 2022 ballot**
- Significant work effort in a finite timeframe to reach the 2022 general election
- Economic Recovery is one of four Council priorities for 2021
 - Community and Economic Recovery Workplan approved by City Council in March

FINANCE COMMITTEE DIRECTION

- A. *Continue to evaluate a business tax on square footage with a potential protection/deference to small retail and services with a view towards 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 Users Tax increase in gas to restore the amount at risk from the Green Litigation*
- C. *Polling should include:*
 - A. *Support for a business tax and characteristics of it*
 - B. *Willingness to support an equity gas transfer*
 - C. *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 the Finance Committee's preferences of the sunset and the annual escalator to the Council.*

September 21, 2021 (Passed 3-0)

COMPONENTS OF A POTENTIAL BALLOT MEASURE



WORKPLAN – NEXT 6 MONTHS



June

- Finance:*
- Recommendation to Council on Workplan; Review and Discuss Affordable Housing

August - September

- Council:*
- Direction to staff on ballot measures to pursue and allocation of resources

- Finance:*
- Accept initial analysis of revenue generating proposals
 - Discuss and provide guidance and initial polling and stakeholder outreach

October

- Finance:*
- Accept refined revenue estimates

November

- Council:*
- Confirm potential revenue-generating proposals, including revised revenue estimates
 - Direction to complete initial polling
 - Award of Outreach Consultant Contract

December

- Council:*
- Decision on revenue-generating ballot measure(s) to pursue
 - Direction to initiate outreach strategy efforts
 - Discuss roles of Councilmembers, Community Leaders, and Advocates

WORKPLAN: JANUARY 2022 AND BEYOND



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January – April 2022

Finance and Council:

- Provide iterative policy decisions and direction based on staff work related to stakeholder outreach, polling, and draft legal documents
- Second refined round of polling to be reviewed by Finance and Council

May – June 2022

Council:

- Final Approval of November 2022 Ballot Measures, including ballot measure language

August 2022

- Language submitted to Santa Clara County Registrar of Voters

November 2022

- Election

December 2022 (and beyond)

- Implementation of any ballot measure that passes

PRIOR WORK ON LOCAL BALLOT MEASURE

The City Council had previously directed pursuit of a local revenue-generating ballot measure through the Fiscal Sustainability Workplan.

- **Equity**: Who does the tax impact and how is that felt across all residents or businesses in the same industry?
- **Administrability**: How is the tax administered and what would be the cost of compliance on taxpayers and the City?
- **Stability**: What are the drivers of the tax and how does the tax type in question affect the volatility of the revenue over time (including potential recessionary or modernization scenarios)?
- **Economic Benefits**: Is the tax efficient, promote economic development objectives and minimize disruption on the taxpayer?

MAJOR COMPONENTS FOR CONSIDERATION

★ Focus area tonight

Structure

- ★ Tax Method(s)/Unit of Measure
- General/Specific & Passage Rate
- Legally Required Exemptions
- ★ Exemptions by Council Policy

Revenue & Modeling

- ★ Taxation Level
(% of General Fund, \$ value)
- ★ Rate Structure
(flat or tiered)
- Avg. Annual Fee
- Tax Rate per Unit

Administration

- Data Sources
- E.A.S.E.
- Administration/
Staffing Levels

POTENTIAL TAX MEASURE PRELIMINARY CALCULATIONS

TAX OPTION	SQUARE FOOTAGE BASED TAX (Attachment A)	UTILITY TAX (Attachment B)
Voter Passage Rate	General Tax: simple majority OR 2/3 supermajority Special Tax: 2/3 supermajority	General Tax: simple majority Special Tax: 2/3 supermajority
Rate Structure	Tax rate / sq ft. Modeled total sq. ft in the City & properties with taxable value (Attachment A, Table A4, pkt p. 23)	% of Gas/ Electric Use
Annual Revenue	Est. \$10M to \$40M (Attachment A, Table A2, pkt p. 20)	1% in UUT yields \$0.3M (gas only) or \$2M (gas, electric, water) in revenue
Data Source	Third Party Real Estate Databases & City's Property Tax Consultant	Customer Utility Billing Information
Administration	Consultant and/or staff overseeing tax administration and contract administration	City's Utility Billing staff

SQUARE FOOTAGE TAX: PARCEL TAX & BUSINESS TAX

	<i>Parcel Tax: Non-Residential Properties</i>	<i>Business License Tax: Square Footage Occupied</i>
Voter Approval Requirement	Requires 2/3 approval, considered to be a special tax	General Tax, simple majority approval Special Tax, 2/3 approval
Requirements Regarding Who May be Taxed	<ul style="list-style-type: none"> ▣ Applies to all parcels within a jurisdiction; rates may vary by property type <ul style="list-style-type: none"> ▣ <i>Tiered option for residential</i> ▣ <i>Develop a business support program</i> 	<ul style="list-style-type: none"> + Applied to square footage occupied for business activity carried on within the City, regardless of landowner category. <ul style="list-style-type: none"> ▣ Potential leakage (common areas, hallways, etc.) + Broad discretion to define: <ul style="list-style-type: none"> + Entity categories, by type or size + Various rates categories or exemptions
Mandatory Exemptions	Ad valorem exemptions for religious, educational, and charitable institutions; hospitals; and non-profits entities, do not apply to locally-adopted parcel taxes	Banks and financial corporations; non-profit entities, including medical and educational institutions, are exempt from this type of local tax



SQ FT BASED TAX: PRELIMINARY CALCULATIONS

Models reflect a range of rates per square foot:

From \$0.50/SF to \$2.11/SF (annual)

Avg. monthly commercial rent, ~\$6.88/sq. ft.

- *Low end (\$10M target): 0.6% increase in rent*
- *High end (\$40M target): 2.6% increase in rent*

- Does not consider any exemptions by law or policy other than size, these reflect simple math for orders of magnitude
 - These basic rates will increase as the base of the tax decreases

Table A2: Annual Flat Rate per Square Foot by Small, Medium, and Large Footage

		Medium 30,000 Square Feet	Large 100,000 Square Feet
Types of Businesses		Office buildings, retail, specialty shopping centers, service stations	International Hotel Brands, manufacturing
Total Square Footage in City, excluding less than 20,000 sf (Table A3)	\$10 M	Annual Fee: \$15,125 Tax Rate: \$0.50/SF	Annual Fee: \$50,420 Tax Rate: \$0.50/SF
	\$20 M	Annual Fee: \$30,250 Tax Rate: \$1.01/SF	Annual Fee: \$101,840 Tax Rate: \$1.01/SF
	\$30 M	Annual Fee: \$45,380 Tax Rate: \$1.51/SF	Annual Fee: \$151,260 Tax Rate: \$1.51/SF
	\$40 M	Annual Fee: \$60,505 Tax Rate: \$2.02/SF	Annual Fee: \$201,680 Tax Rate: \$2.02/SF
Square footage of properties with taxable value, excluding less than 20,000 sf (Table A4)	\$10 M	Annual Fee: \$15,840 Tax Rate: \$0.53/SF	Annual Fee: \$52,800 Tax Rate: \$0.53/SF
	\$20 M	Annual Fee: \$31,680 Tax Rate: \$1.06/SF	Annual Fee: \$105,600 Tax Rate: \$1.06/SF
	\$30.M	Annual Fee: \$37,530 Tax Rate: \$1.58/SF	Annual Fee: \$158,400 Tax Rate: \$1.58/SF
	\$40.M	Annual Fee: \$63,390 Tax Rate: \$2.11/SF	Annual Fee: \$211,300 Tax Rate: \$2.11/SF

UTILITY TAX

Options to Consider

1. Increase or expand City's UUT rate (rates in orange)
2. Seek voter approval to simplify the General Fund Equity Transfer formula to impose a flat tax gas utility gross revenues
 - A. Separate percentage of service charges (rates in orange), or
 - B. Embed in utility rates (rates in blue)

Table B2: Gas Residential and Commercial Monthly Bill Comparisons

Type	Usage level (therms)	Palo Alto	PG&E	\$ Diff	% Diff	Palo Alto Excl. Gas GFET	\$ Diff	% Diff
Residential	Median**	\$45	\$53	(\$8)	-14%	\$37	(\$16)	-30%
Commercial	500	\$685	\$718	(\$33)	-5%	\$562	(\$156)	-22%
Commercial	5000	\$5,986	\$6,831	(\$845)	-12%	\$4,909	(\$1,922)	-28%
Commercial	10000	\$11,875	\$12,045	(\$170)	-1%	\$9,738	(\$2,308)	-19%
Commercial	50000	\$59,005	\$51,419	\$7,586	15%	\$48,384	(\$3,035)	-6%

Table B1: Modification to City's Utility Rates

Utility	Estimated UUT Rate	Add'l Revenue for each 1%
Gas	32%	\$284,000
Gas, Electric, Water	9%	\$1.9M
Gas, Electric, Water, Wastewater, Refuse, Storm, Fiber	7%	\$2.5M

LEGAL CHALLENGES & EASE

Risk of Legal Challenge

- City of Long Beach challenged tax on water and wastewater claiming that 2/3 voter approval is required as a special tax based on an incident of property ownership (gas and electric are exempt from definition of a property-related fee).
- Utility transfer: cities have been challenged and law remains in flux. Sacramento and Pasadena followed an embedded route; appeal was upheld.

EASE Framework

- Stability: significant, long-term variables that may impact this revenue source, if applied specifically to gas (i.e. S/CAP) goals to reduce use of natural gas and commodity price fluctuations



Assessing Support for Potential Palo Alto Finance Ballot Measures

Methodology and Outline



OPINION
RESEARCH
& STRATEGY

Research Team








Dave Metz
Partner & President



Miranda Everitt
Vice President

Survey Methodology

Survey Type	20-Minute Dual Mode Voter Survey		
Research Population	Likely November 2022 Voters in Palo Alto		
Total Interviews	400 to 800		
Margin of Sampling Error	$\pm 4.9\%$ at the 95% Confidence Level for 400 Interviews $\pm 3.5\%$ at the 95% Confidence Level for 800 Interviews		
Contact Methods	 Telephone Calls	 Text Invitations	 Email Invitations
Data Collection Modes	 Telephone Interviews	 Online Interviews	

Survey Objectives



- Update baseline attitudes about City government and issues of concern by re-asking about those topics in the same way we have in prior years
- Assess the design of a potential business tax measure
- Evaluate the impact of "yes" and "no" campaigns
- Briefly, assess opinions of a measure dealing with an equity transfer from the utility fund

Survey Outline: Introduction and Context

- Survey introduction
- Cell or landline, safety check
- Right direction/wrong track (tracking to prior years)
- Job rating - Palo Alto city government (tracking to prior years)
- Approval rating on specific aspects of City management (tracking most to prior years)
 - Maintaining infrastructure
 - Managing budget/finances
 - Affordable housing
 - Using tax dollars efficiently
 - Transportation
- Need for additional funding (tracking to prior years)
- Need for additional funding to maintain and improve infrastructure (tracking to prior years)

Survey Outline: Problem Seriousness Battery

- Parking
- Affordable housing and housing costs
- Cost of living
- The impacts of the coronavirus (economic and public health, or more general)
- Climate change
- Wildfire and/or smoke/air pollution
- Waste and inefficiency in local government
- Condition of the local economy
- Crime
- Unhoused population / Homelessness
- Traffic
- Growth and development
- Local tax rates
- Changing character of the community
- Airplane noise
- Caltrain electrification/crossings

Survey Outline: Assessing the Ballot Measure

- General support for or opposition to a business tax -- either split sampling each of the two approaches, or rotating both of them
 - Parcel tax
 - Business license tax
- Open-ended question on reason for support/opposition
- Importance of potential projects/priorities, with variations in wording (tracking many to prior years)
 - Infrastructure
 - Streets/roads
 - Traffic congestion and parking
 - Access for people with disabilities
 - Affordable housing
 - Unhoused / Homelessness
 - Caltrain electrification/crossings
 - Operating hours for park, recreation, and community facilities
 - Police and fire services
 - Library services
 - Shuttle programs
 - Sustainability and climate action plan goals

Measure Components and Pro/Con

- Should authority be delegated to City Council to decide on components such as length and exemptions?
- Support for or opposition to business tax components
 - Rate
 - Tax structure, e.g. parcel tax or business tax
 - How it is calculated, e.g. square footage, number of employees or payroll
 - Potential exemptions
 - Sunset or length
 - CPI and escalators
- Arguments in support of a measure, such as fairness, specific uses of the tax revenue, and need for stability in funding. Then a re-vote.
- Arguments opposing a measure, such as too many taxes, cost of living, potential for mismanagement, and impact on local business. Final vote.

Utility tax question and demographics

- General support for or opposition to a utility tax - either split sampling or rotating
 - Assessed on gas, electric, and water usage vs. assessed on only gas usage
 - Separate tax or “on bill tax” change
- Demographics
 - Work in Palo Alto
 - Own a business in Palo Alto
 - Education
 - Ethnicity
 - Income
 - Gender
- Voter file information (will not need to ask this)
 - Party
 - Age
 - Past election participation

Deliverables

Following completion of the survey, we will provide the following deliverables:

- A questionnaire with the topline results of the survey for easy reference
- A complete set of crosstabs in an easy-to-read, comprehensive format
- Verbatim responses to any open-ended questions
- A complete analysis of survey results in PowerPoint
- Presentations of the survey results
- Ongoing consultation and analysis

**For more information,
contact:**



**OPINION
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FINANCE COMMITTEE ACTION

Staff recommends that the Finance Committee recommend that City Council:

- A. Review the refined calculations of a potential tax on non-residential square footage and recommend that the City Council direct staff for further refinement, including the following structure components:
 - 1.
 - 2.
- B. Review refined calculations for a potential Utility User Tax or Utility Tax and consider potential exemptions by City Council policy.
 - 1.
 - 2.
- C. Review Finance Committee's recommended draft outline of initial polling and that City Council direct staff to proceed with initial polling.

Through these actions and the workplan outlined, staff will:

- **Resume pursuing a Business Tax**
- **Pursue a potential Utility Tax**
- **Draft polling outline to Council**



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