POTENTIAL REVENUE GENERATING LOCAL BALLOT MEASURE Updates, Further Refinement & Draft Outline for Initial Polling
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

Analysis

Polling

Outreach
<table>
<thead>
<tr>
<th>June</th>
<th>August - September</th>
<th>October</th>
<th>November</th>
<th>December</th>
</tr>
</thead>
</table>
| **Finance:**  
  • Recommendation to Council on Workplan; Review and Discuss Affordable Housing | **Finance:**  
  • Direction to staff on ballot measures to pursue and allocation of resources | **Finance:**  
  • Accept refined revenue estimates | **Council:**  
  • Confirm potential revenue-generating proposals, including revised revenue estimates  
  • Direction to complete initial polling  
  • Award of Outreach Consultant Contract | **Council:**  
  • Decision on revenue-generating ballot measure(s) to pursue  
  • Direction to initiate outreach strategy efforts  
  • Discuss roles of Councilmembers, Community Leaders, and Advocates |
<table>
<thead>
<tr>
<th>December 2022 (and beyond)</th>
<th>November 2022</th>
<th>August 2022</th>
<th>May – June 2022</th>
<th>January – April 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Implementation of any ballot measure that passes</td>
<td>• Election</td>
<td>• Language submitted to Santa Clara County Registrar of Voters</td>
<td>• Final Approval of November 2022 Ballot Measures, including ballot measure language</td>
<td>• Provide iterative policy decisions and direction based on staff work related to stakeholder outreach, polling, and draft legal documents</td>
</tr>
</tbody>
</table>
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?
<table>
<thead>
<tr>
<th>Structure</th>
<th>Revenue &amp; Modeling</th>
<th>Administration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Method(s)/Unit of Measure</td>
<td>Taxation Level (% of General Fund, $ value)</td>
<td>Data Sources</td>
</tr>
<tr>
<td>General/Specific &amp; Passage Rate</td>
<td>Rate Structure (flat or tiered)</td>
<td>E.A.S.E.</td>
</tr>
<tr>
<td>Legally Required Exemptions</td>
<td>Avg. Annual Fee</td>
<td>Administration/Staffing Levels</td>
</tr>
<tr>
<td>Exemptions by Council Policy</td>
<td>Tax Rate per Unit</td>
<td></td>
</tr>
</tbody>
</table>
## POTENTIAL TAX MEASURE PRELIMINARY CALCULATIONS

<table>
<thead>
<tr>
<th>TAX OPTION</th>
<th>SQUARE FOOTAGE BASED TAX (Attachment A)</th>
<th>UTILITY TAX (Attachment B)</th>
</tr>
</thead>
</table>
| 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

<table>
<thead>
<tr>
<th></th>
<th><strong>Parcel Tax: Non-Residential Properties</strong></th>
<th><strong>Business License Tax: Square Footage Occupied</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Voter Approval Requirement</strong></td>
<td>Requires 2/3 approval, considered to be a special tax</td>
<td>General Tax, simple majority approval</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Special Tax, 2/3 approval</td>
</tr>
</tbody>
</table>
| **Requirements Regarding Who May be Taxed** | - Applies to all parcels within a jurisdiction; rates may vary by property type  
  - *Tiered option for residential*  
  - *Develop a business support program* | + Applied to square footage occupied for business activity carried on within the City, regardless of landowner category.  
  + Potential leakage (common areas, hallways, etc.)  
  + Broad discretion to define:  
    + 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 |
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

Models reflect a range of rates per square foot:
From $0.50/SF to $2.11/SF (annual)

- 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>
<thead>
<tr>
<th>Types of Businesses</th>
<th>Medium 30,000 Square Feet</th>
<th>Large 100,000 Square Feet</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office buildings, retail, specialty shopping centers, service stations</td>
<td>$10 M Annual Fee: $15,125 Tax Rate: $0.50/SF</td>
<td>$10 M Annual Fee: $50,420 Tax Rate: $0.50/SF</td>
</tr>
<tr>
<td>International Hotel Brands, manufacturing</td>
<td>$20 M Annual Fee: $30,250 Tax Rate: $1.01/SF</td>
<td>$20 M Annual Fee: $101,840 Tax Rate: $1.01/SF</td>
</tr>
<tr>
<td>$30 M Annual Fee: $45,380 Tax Rate: $1.51/SF</td>
<td>$30 M Annual Fee: $151,260 Tax Rate: $1.51/SF</td>
<td></td>
</tr>
<tr>
<td>$40 M Annual Fee: $60,505 Tax Rate: $2.02/SF</td>
<td>$40 M Annual Fee: $201,680 Tax Rate: $2.02/SF</td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Total Square Footage in City, excluding less than 20,000 sf (Table A3)</th>
<th>Medium 30,000 Square Feet</th>
<th>Large 100,000 Square Feet</th>
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</thead>
<tbody>
<tr>
<td>$10 M Annual Fee: $15,840 Tax Rate: $0.53/SF</td>
<td>$10 M Annual Fee: $52,800 Tax Rate: $0.53/SF</td>
<td></td>
</tr>
<tr>
<td>$20 M Annual Fee: $31,680 Tax Rate: $1.06/SF</td>
<td>$20 M Annual Fee: $105,600 Tax Rate: $1.06/SF</td>
<td></td>
</tr>
<tr>
<td>$30.M Annual Fee: $37,530 Tax Rate: $1.58/SF</td>
<td>$30.M Annual Fee: $158,400 Tax Rate: $1.58/SF</td>
<td></td>
</tr>
<tr>
<td>$40.M Annual Fee: $63,390 Tax Rate: $2.11/SF</td>
<td>$40.M Annual Fee: $211,300 Tax Rate: $2.11/SF</td>
<td></td>
</tr>
</tbody>
</table>

Table A3: Total Square Footage in City, excluding less than 20,000 sf

<table>
<thead>
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<td></td>
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</table>

Table A4: Square footage of properties with taxable value, excluding less than 20,000 sf

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</tr>
<tr>
<td>$40.M Annual Fee: $63,390</td>
<td></td>
</tr>
</tbody>
</table>
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 B1: Modification to City’s Utility Rates

<table>
<thead>
<tr>
<th>Utility</th>
<th>Estimated UUT Rate</th>
<th>Add’l Revenue for each 1%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gas</td>
<td>32%</td>
<td>$284,000</td>
</tr>
<tr>
<td>Gas, Electric, Water</td>
<td>9%</td>
<td>$1.9M</td>
</tr>
<tr>
<td>Gas, Electric, Water, Wastewater, Refuse, Storm, Fiber</td>
<td>7%</td>
<td>$2.5M</td>
</tr>
</tbody>
</table>

### Table B2: Gas Residential and Commercial Monthly Bill Comparisons

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

Dave Metz
Partner & President

Miranda Everitt
Vice President
# Survey Methodology

<table>
<thead>
<tr>
<th><strong>Survey Type</strong></th>
<th>20-Minute Dual Mode Voter Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Research Population</strong></td>
<td>Likely November 2022 Voters in Palo Alto</td>
</tr>
<tr>
<td><strong>Total Interviews</strong></td>
<td>400 to 800</td>
</tr>
<tr>
<td><strong>Margin of Sampling Error</strong></td>
<td>±4.9% at the 95% Confidence Level for 400 Interviews&lt;br&gt;±3.5% at the 95% Confidence Level for 800 Interviews</td>
</tr>
<tr>
<td><strong>Contact Methods</strong></td>
<td>Telephone Calls&lt;br&gt;Text Invitations&lt;br&gt;Email Invitations</td>
</tr>
<tr>
<td><strong>Data Collection Modes</strong></td>
<td>Telephone Interviews&lt;br&gt;Online Interviews</td>
</tr>
</tbody>
</table>
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:

1999 Harrison St., Suite 2020
Oakland, CA 94612
Phone (510) 451-9521
Fax (510) 451-0384

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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