

Finance MEETING

1/18/2022

☒ Received Before Meeting

1

POTENTIAL REVENUE GENERATING LOCAL BALLOT MEASURE

Further Refinement

Finance Committee

January 18, 2022

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OVERVIEW

Council Direction and Work Plan

January 18, 2022

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OVERVIEW

- Tonight, we continue the exploration of a utility use-based tax as potential revenue-generating local ballot measures for the November 2022 Election.
- **Recommendation to Council square footage business tax characteristics, including:**
 - i. Exemptions for small business, small retail, grocery stores or no exemptions
 - ii. Parameters of an annual escalator
- Receive results of initial polling for consideration as the Committee continues to evaluate potential revenue generating ballot measures.
- Forward to Council results of Initial Polling and draft Community and Stakeholder Engagement Plan
- Confirm Finance Committee direction on 12/7/21 regarding the Utility Tax recommending that Council direct staff to develop a proposal for voter ratification of the existing gas General Fund Transfer

COUNCIL DIRECTION & STATUS

The Council moved to:

- ★ A. Direct staff to model a business license tax at monthly rates of \$0.05 to \$0.20 per square foot, with a preference for no sunset and an annual escalator, and with thresholds for square footage size and possible exemptions for:
 - A. Small retail, measured by square footage;
 - B. Grocery stores;
 - C. No exemptions;
- ✓ B. Direct staff to model two methods to replace the General Fund Equity Transfer (GFET) at risk in the Green case:
 - A. Seek voter approval in modifying the 2009 GFET formula to transfer a percentage of gas utility gross revenues;
 - B. Distribute the change across gas and electric as an increase in the percentage of Utility Users Tax (UUT); and
- ✓ C. Direct staff to execute initial round of polling (**Attachment A**), delegate review of the polls to the Finance Committee, pending availability to stay on the workplan timeline, and incorporate the Council's feedback of the poll, including the modeling assumptions identified in Parts A and Parts B of the motion; and
- ✓ D. Remove the parcel tax as an option from the polling questions.

November 8, 2021 (Passed 6-1, Tanaka no)

WORKPLAN – LAST 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:

- Accept Finance Committee’s recommendation of potential revenue-generating proposals, including revised revenue estimates
- Direction to complete initial polling
- Direction to initiate outreach strategy efforts
- Award of Outreach Consultant Contract

December

Finance:

- Accept third round of analysis for revenue generating proposals (utility tax only)

WORKPLAN: JANUARY 2022 AND BEYOND

<div>January 2022 <i>Recommended Special Finance Meeting:</i><ul style="list-style-type: none">Review third round of analysis for revenue generating proposals (business license tax only)Review results of initial polling; recommend to Council focus areas for stakeholder outreach <i>Council:</i><ul style="list-style-type: none">Review initial polling and stakeholder engagement plan; direction to proceed</div>	<div>Feb – April 2022 <i>Finance and Council:</i><ul style="list-style-type: none">Decisions regarding tax proposals based on Finance and staff feedbackProvide iterative policy decisions and direction based on staff work related to stakeholder outreach, polling, and draft legal documentsSecond refined round of polling to be reviewed by Finance and Council</div>	<div>May – June 2022 <i>Council:</i> Final Approval of November 2022 Ballot Measures, including ballot measure language</div>	<div>August 2022 Language submitted to Santa Clara County Registrar of Voters</div>	<div>November 2022 Election</div>	<div>December 2022 (and beyond) Implement any ballot measure that passes</div>
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SQUARE FOOTAGE BUSINESS TAX

Focus Areas, Scenarios, and Options

January 18, 2022

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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
- ★ Rate Structure (flat or tiered)
- Avg. Annual Fee
- Tax Rate per Unit

Administration

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



SQUARE FOOTAGE BUSINESS TAX – SCENARIOS

Baseline Scenario: No Exemptions

- Excludes properties likely to be exempt per CA law
- Est. revenues: \$15M to \$59M

Option 1: Exemption for Retail (less than or equal to 5,000 sf) and all grocery stores

- Est. revenues: \$14M to \$57M

Option 2: Tiered Rates

- Flat fee for businesses less than or equal to 5,000 sf (\$50/year)
- For all others, assume monthly rate per square foot
- Est. revenues: \$14M to \$56M

Option 3: Tiered Rates After Square Footage Threshold

- Flat fee for first 5,000 sf (\$50/year) and apply monthly rate/sf beyond threshold
- Est. revenues \$12M to \$47M

SQ FT BASED TAX CALCULATIONS

Models reflect a range of rates per square foot:
From \$0.05/SF to \$0.20/SF (monthly)

Avg. monthly commercial rent, ~\$6.96/sq. ft.

- Low end (\$0.05/sf): 0.7% increase in rent*
- High end (\$0.20/sf): 2.9% increase in rent*

- Model distinguishes businesses less than 5,000 sq. ft. as “small”
 - Staff seeks Council direction on definition for any small business exemption
- Baseline scenario excludes properties that are likely exemptions by California law
- Initial polling reflects majority support up to 1.5% of rent (approx. \$0.10/sf monthly, \$1.25/sf annual)

Table A1: Business License Tax Baseline Scenario and Options (Non-Retail)			
	5,000 sf	30,000 sf	100,000 sf
Baseline Scenario			
\$0.05/sf	\$250	\$1,500	\$5,000
\$0.10/sf	\$500	\$3,000	\$10,000
\$0.15/sf	\$750	\$4,500	\$15,000
\$0.20/sf	\$1,000	\$6,000	\$20,000
Option 1: Exemption for Retail (less than or equal to 5,000 sf) and all Grocery Stores			
\$0.05/sf	\$250	\$1,500	\$5,000
\$0.10/sf	\$500	\$3,000	\$10,000
\$0.15/sf	\$750	\$4,500	\$15,000
\$0.20/sf	\$1,000	\$6,000	\$20,000
Option 2: Flat Fee for First Tier (annual \$50 for less than or equal to 5,000 sf)			
\$50 or \$0.05/sf	\$4.20	\$1,500	\$5,000
\$50 or \$0.10/sf	\$4.20	\$3,000	\$10,000
\$50 or \$0.15/sf	\$4.20	\$4,500	\$15,000
\$50 or \$0.20/sf	\$4.20	\$6,000	\$20,000
Option 3: Flat Fee for Defined Threshold (annual \$50 for first 5,000 sf) and Apply Monthly Rate Beyond Threshold			
\$50 + \$0.05/sf	\$4.20	\$1,250	\$4,750
\$50 + \$0.10/sf	\$4.20	\$2,500	\$9,500
\$50 + \$0.15/sf	\$4.20	\$3,750	\$14,250
\$50 + \$0.20/sf	\$4.20	\$5,000	\$19,000



SQUARE FOOTAGE BUSINESS TAX – OPTIONS FOR ESCALATOR

Two options presented in staff report.

Other parameters to consider:

- Basis of the escalator (e.g. CPI)
- Apply to calendar year or fiscal year
- Percentage cap that potentially limits the max. annual amount the tax can be increased
- Alternative index or factor should a CPI not be published
- Whether the tax rate can be reduced below the rate in effect immediately prior to the applicable adjustment



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INITIAL POLLING RESULTS

Summary of Key Findings

January 18, 2022

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Assessing the Context for Potential Finance Measures in Palo Alto in 2022

*Key Findings of a Survey of Palo Alto Voters Conducted November
24-December 5, 2021*



OPINION
RESEARCH
& STRATEGY

Survey Methodology

Dates	November 24 – December 5, 2021
Survey Type	Dual-mode Voter Survey
Research Population	Likely November 2022 Voters in Palo Alto
Total Interviews	801
Margin of Sampling Error	(Full Sample) $\pm 3.5\%$ at the 95% Confidence Level (Half Sample) $\pm 4.9\%$ at the 95% Confidence Level
Contact Methods	 Telephone Calls  Email Invitations
Data Collection Modes	 Telephone Interviews  Online Interviews

(Note: Not All Results Will Sum to 100% Due to Rounding)

Survey Goals & Approach

BLT and Utility Fund Measures Rotated

**Business License Tax
BLT Tax Structure**

BLT and Utility Fund Measures Rotated

Utility Fund Transfer Ratification

Utility Users Tax

Uses of Funds

**Pro-BLT Messages and Re-Vote
Anti-BLT Messages and Re-Vote**

- Assess voter reactions to concepts of three potential ballot measure concepts: a business license tax, a measure to ratify utility fund transfers, and a utility users tax increase.
- Evaluate voters' priorities for uses of funds.
- Check the impact of campaigns for and against the BLT measure specifically – these were also rotated.
- To that end, voters heard either the BLT or gas tax measures first in a random order.



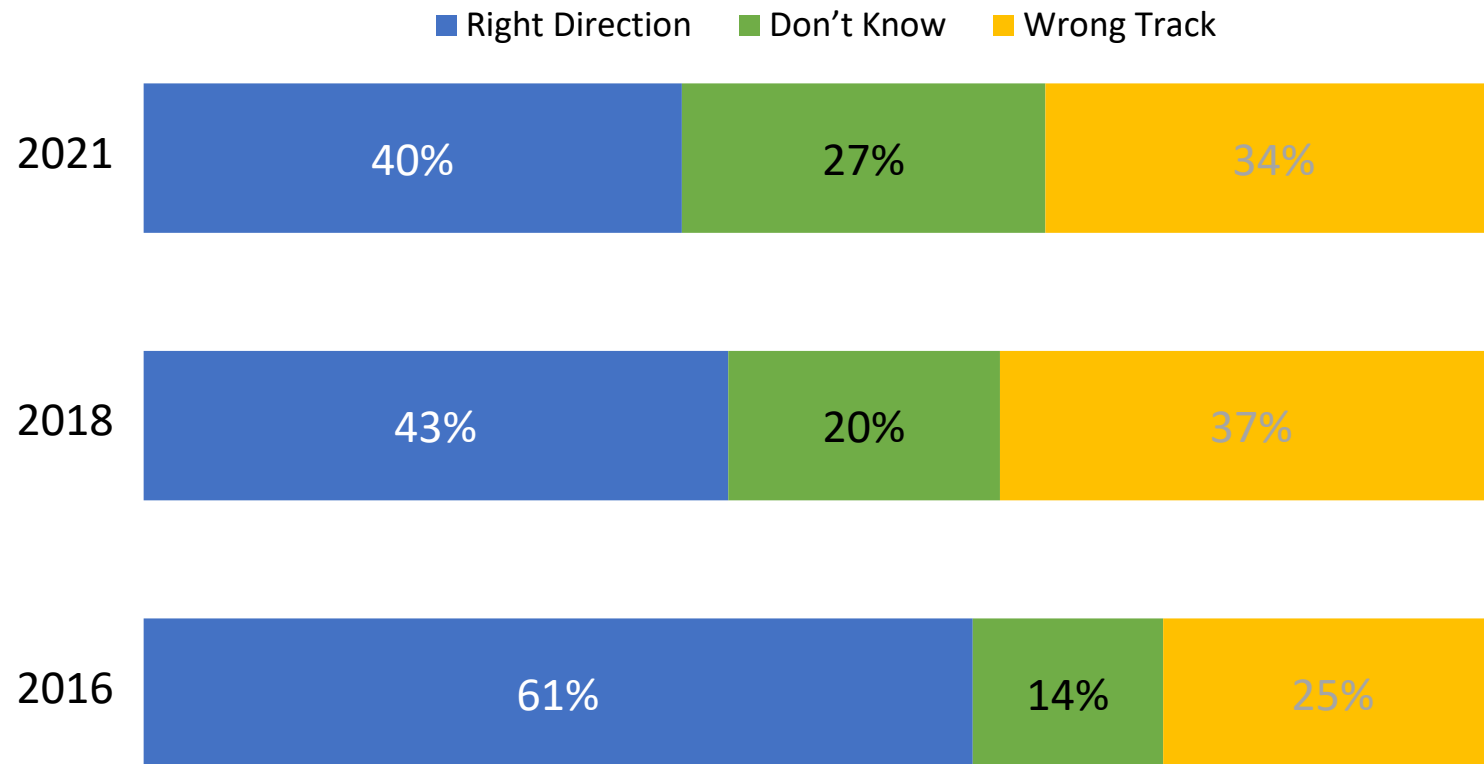
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Issue Context

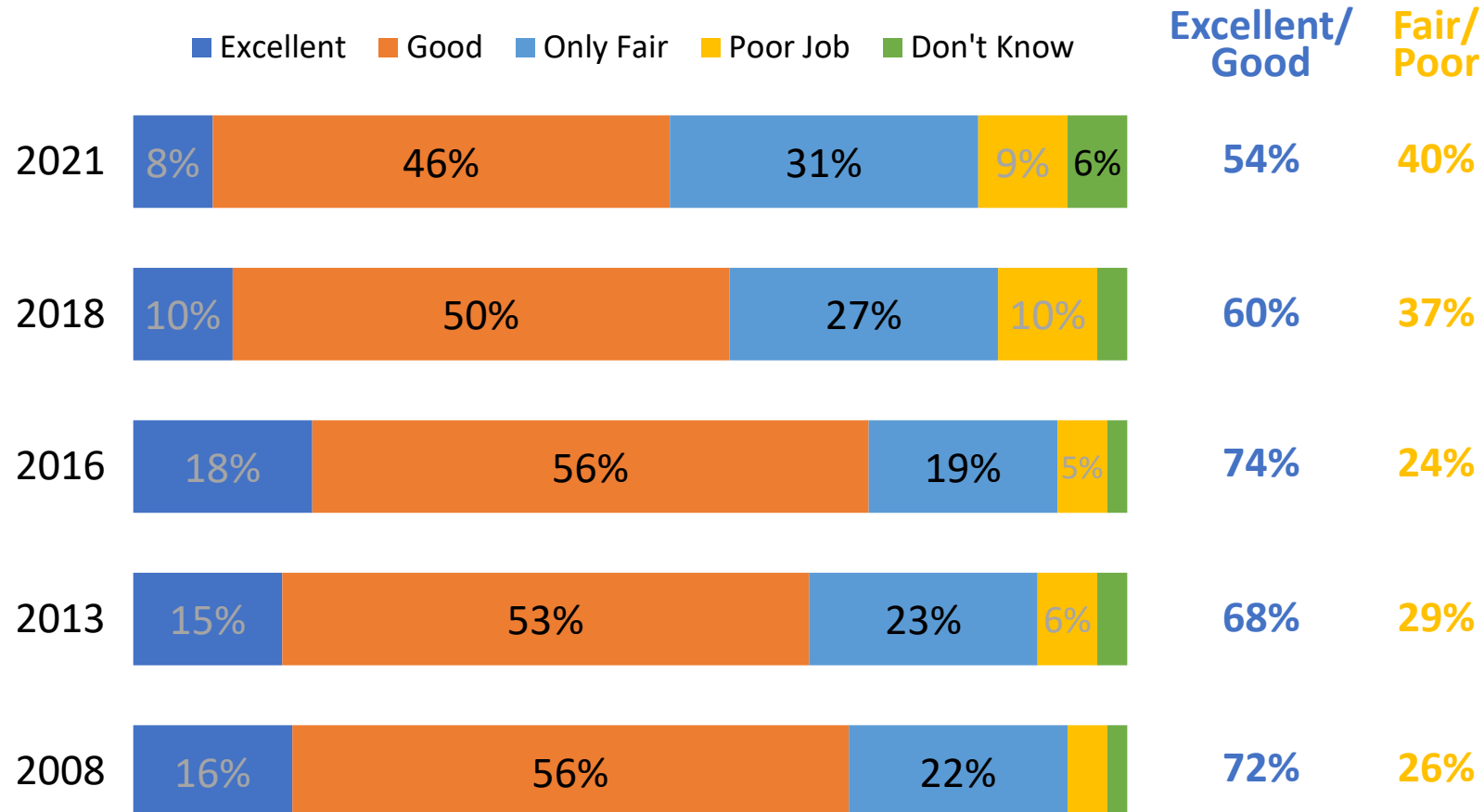
Voters are much less optimistic than 2016.

Would you say that things in Palo Alto are generally headed in the right direction, or do you feel that things are headed in the wrong direction?



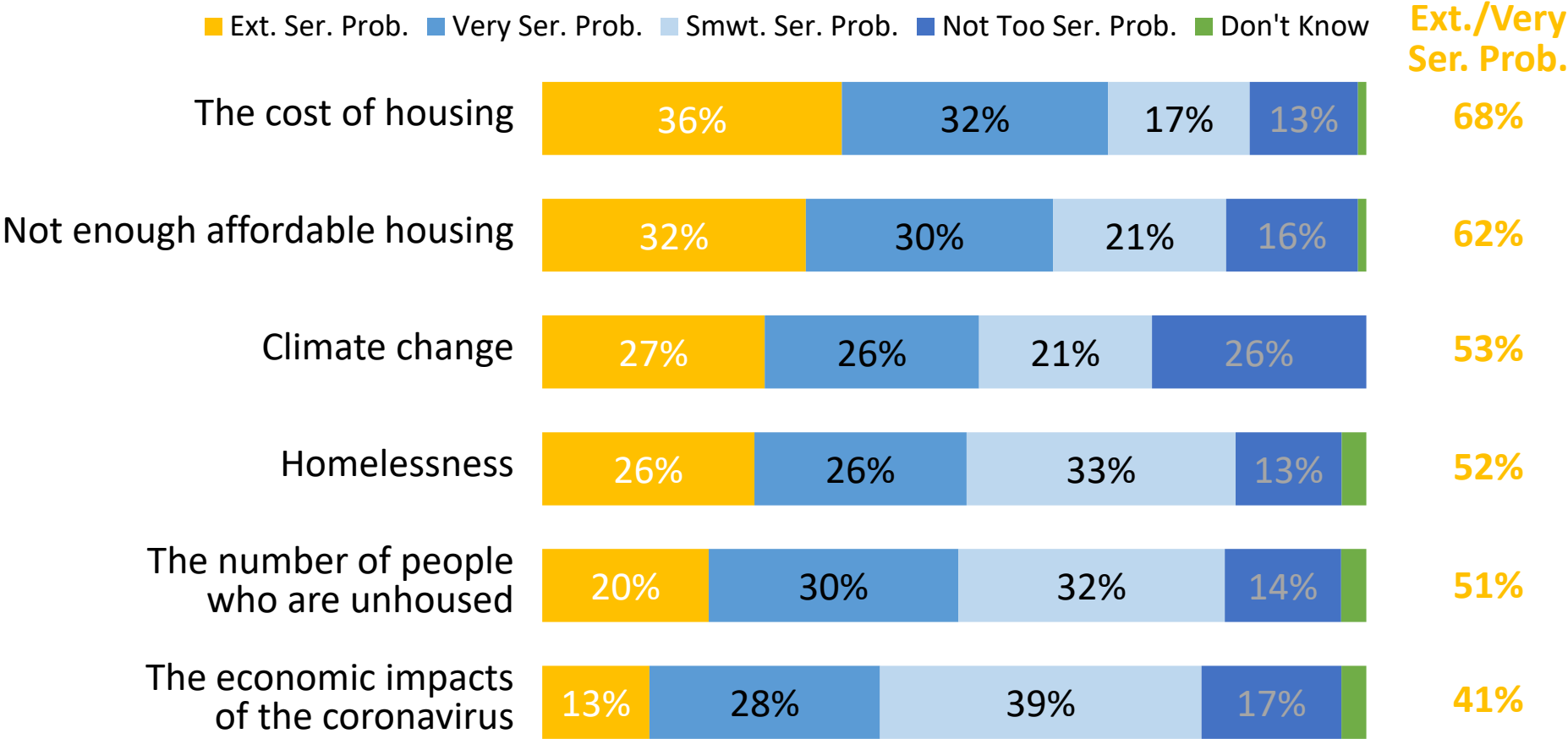
In the environment of COVID, a smaller majority believes City government is doing an “excellent” or “good” job.

How would you rate the overall job being done by Palo Alto City government in providing services to the city’s residents? Would you say the City is doing an ...?

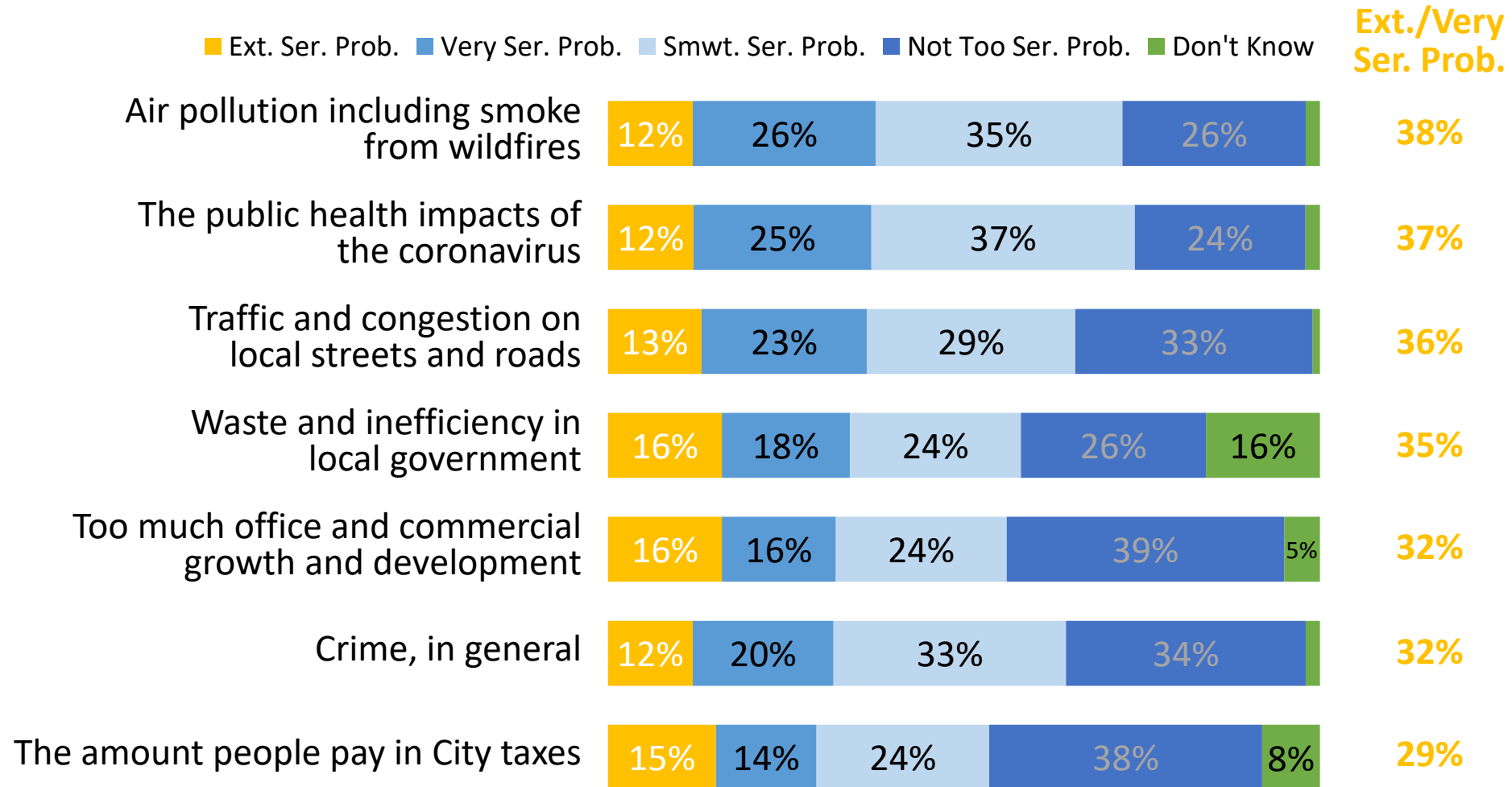


Housing costs, climate change and homelessness are concerns for majorities.

*I'd like to read you some problems facing Palo Alto that other people have mentioned.
Please tell me whether you think it is an extremely serious problem, a very serious problem,
somewhat serious problem, or a not too serious problem in Palo Alto.*

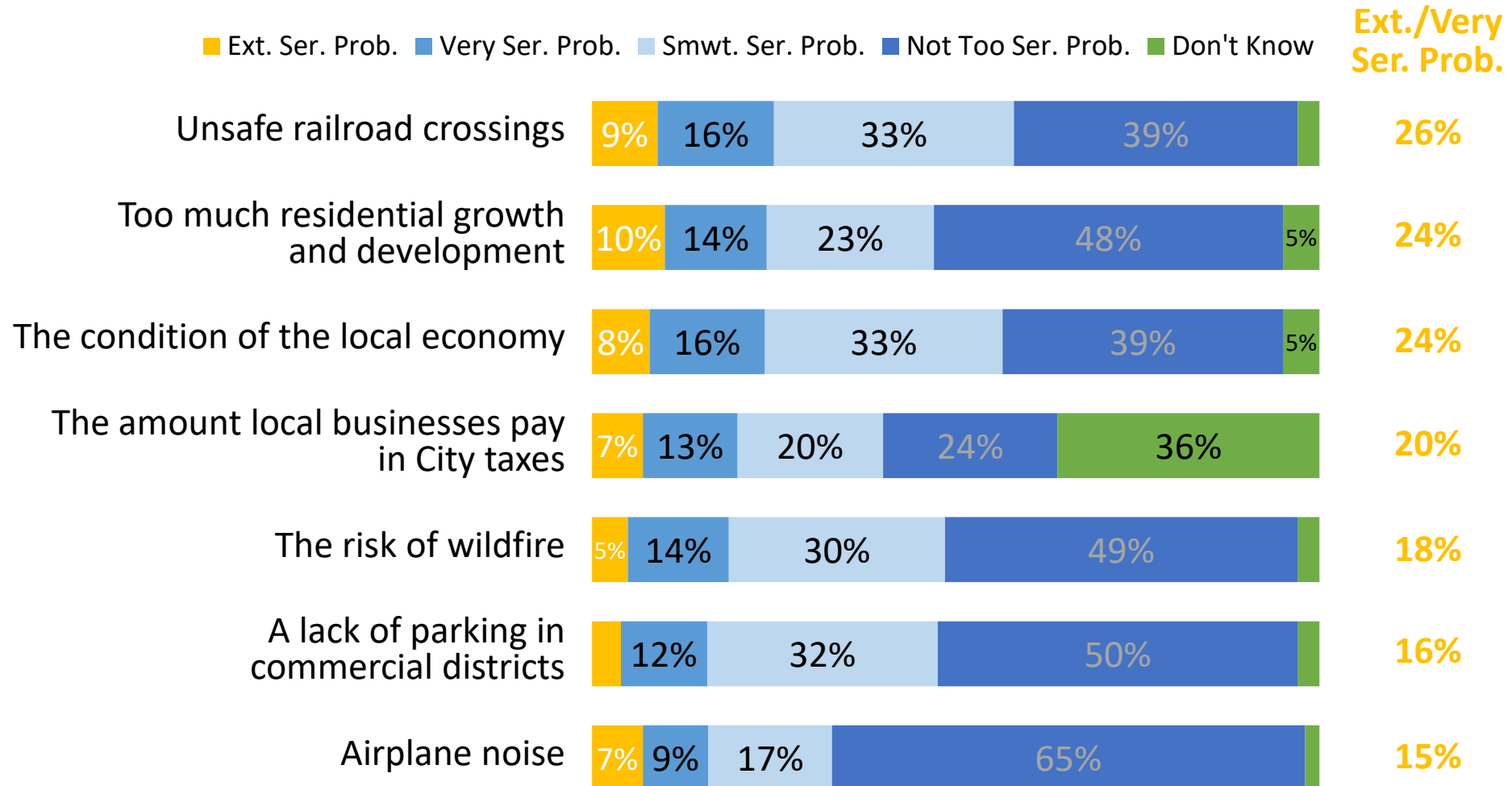


Concerns about air pollution, public health, traffic, and crime are less-broadly shared.



Q3. I'd like to read you some problems facing Palo Alto that other people have mentioned. Please tell me whether you think it is an extremely serious problem, a very serious problem, somewhat serious problem, or a not too serious problem in Palo Alto. Split Sample

Notably, more than one-third say they don't know enough about taxes on business to offer an opinion.



Q3. I'd like to read you some problems facing Palo Alto that other people have mentioned. Please tell me whether you think it is an extremely serious problem, a very serious problem, somewhat serious problem, or a not too serious problem in Palo Alto. Split Sample

Crime has become a broader concern, though it is still much lower than in other communities.

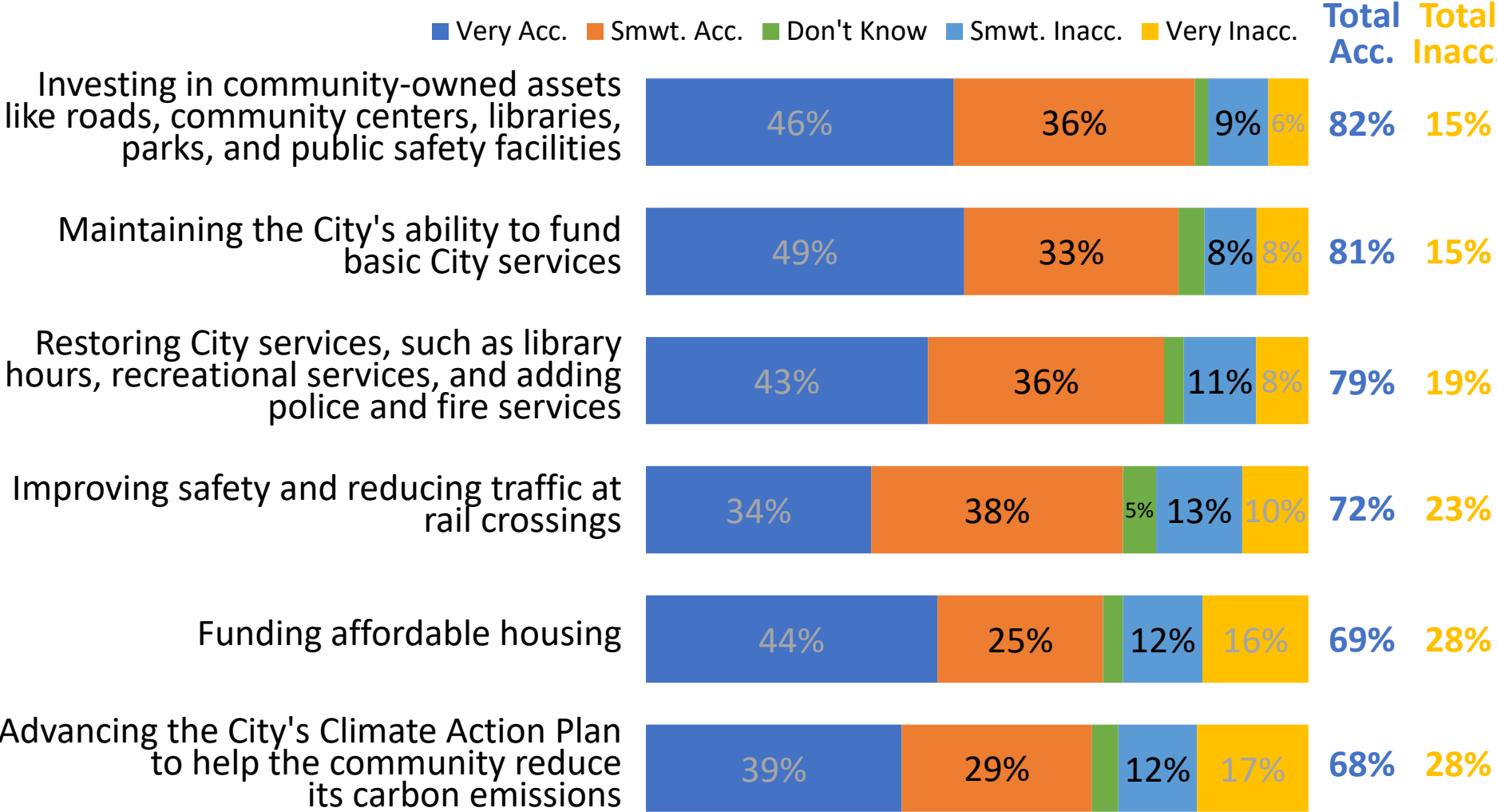
(Extremely/Very Serious Problem)

Problem	2016	2020	2021	Difference (2021-2020)
Crime, in general	6%	16%	32%	+16%
The condition of the local economy	6%	13%	24%	+11%
The amount people pay in City taxes	18%	19%	29%	+10%
Homelessness	22%	44%	52%	+8%
The amount local businesses pay in City taxes	--	13%	20%	+7%
Waste and inefficiency in local government	17%	29%	35%	+6%
Too much office and commercial growth and development	--	34%	32%	-2%
Unsafe railroad crossings	--	29%	26%	-3%
Too much residential growth and development	--	32%	24%	-8%
The cost of housing	76%	77%	68%	-9%
A lack of parking in commercial districts	37%	30%	16%	-14%
Traffic and congestion on local streets and roads	53%	53%	36%	-17%

Q3a, b, f, l, j & n-t . I'd like to read you some problems facing Palo Alto that other people have mentioned. Please tell me whether you think it is an extremely serious problem, a very serious problem, somewhat serious problem, or a not too serious problem in Palo Alto. Split Sample

Voters see a wide range of rationales motivating a tax measure as “acceptable.”

I am going to read you a list of reasons the City may place a tax measure on the ballot. Please tell me whether each purpose is an acceptable or unacceptable reason for raising new revenue.





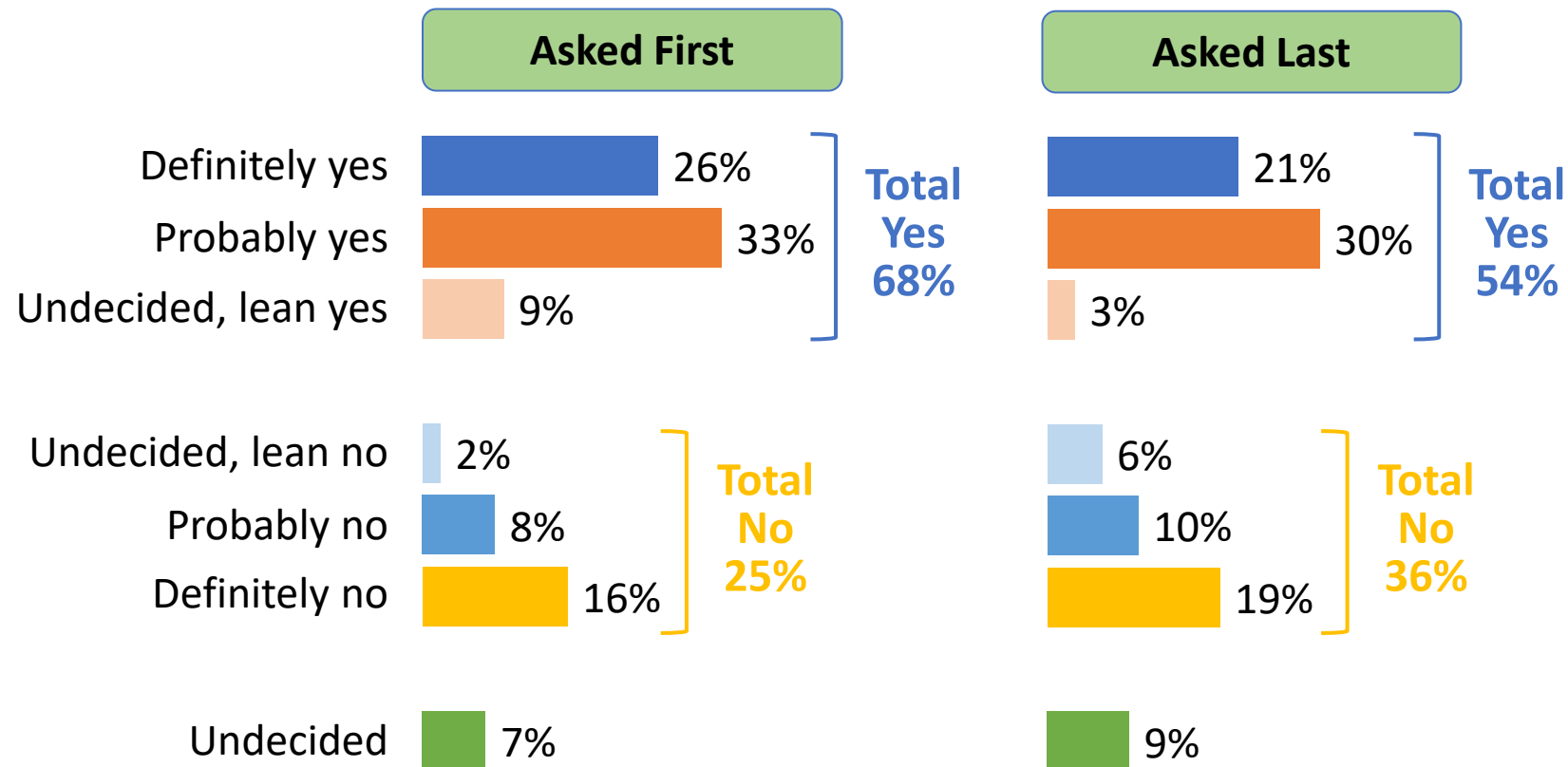
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Views of a Business License Tax Concept

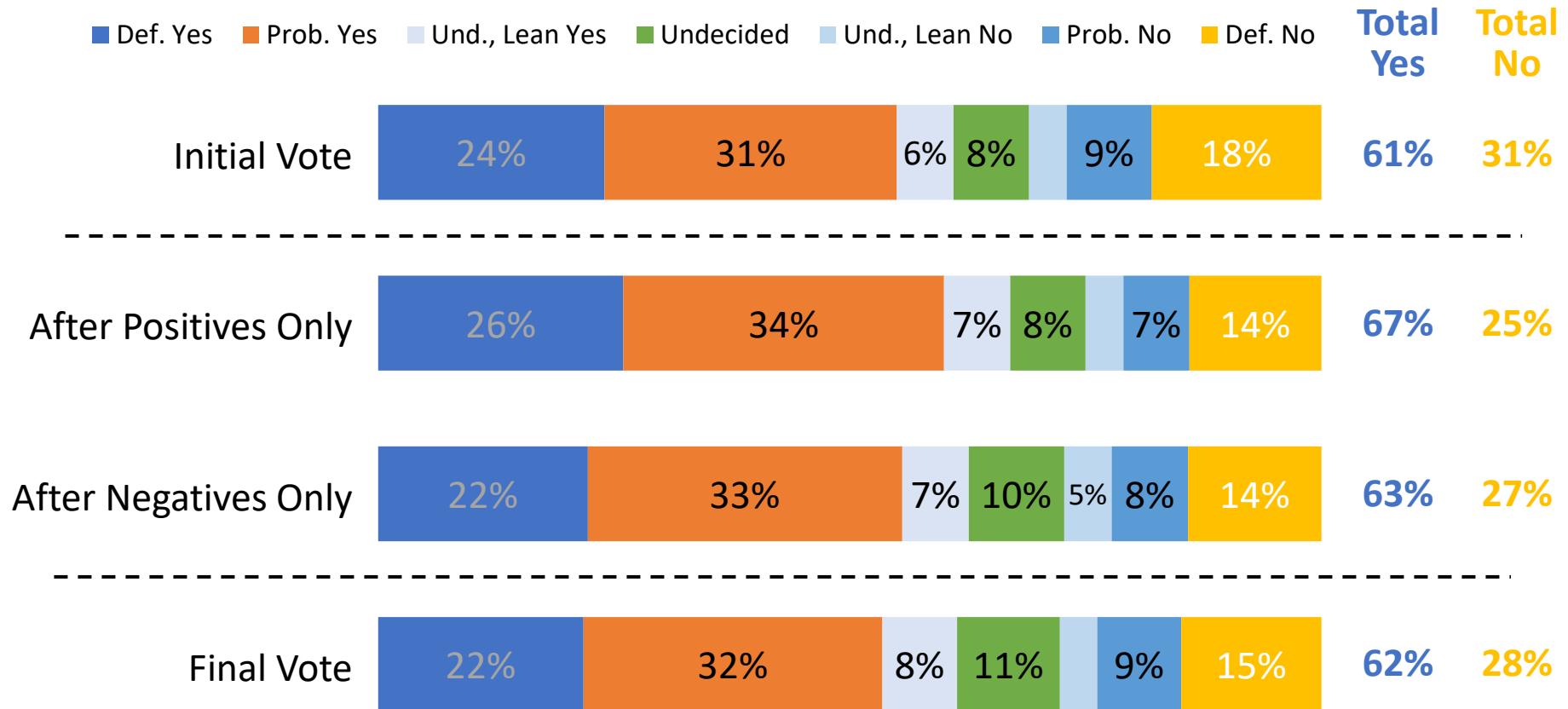
Nearly seven in ten support the business license tax when they hear about it first.

It would create a business license tax on commercial property in the city, based on their square footage, to pay for City services such as police, fire and emergency medical response; road repair and transportation improvements; recreation, arts, and theatre programs, library and community center hours, and shuttle service, affordable housing, and the City’s climate action plan.



Q4 Split C & D. Do you think you would vote yes or no on such a measure?

The concept has consistent support from three in five through an exchange of pro and con messaging.

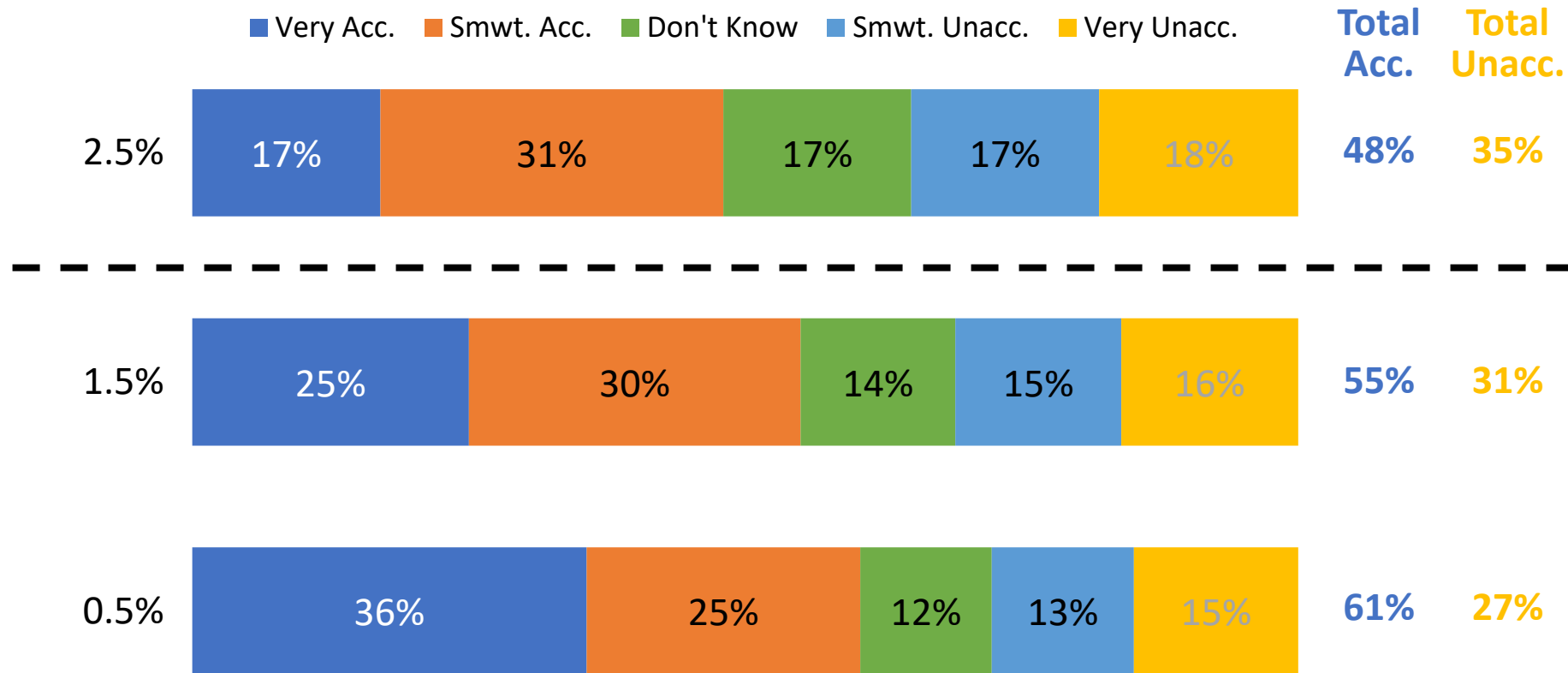




Priorities for Measure Spending and Structure

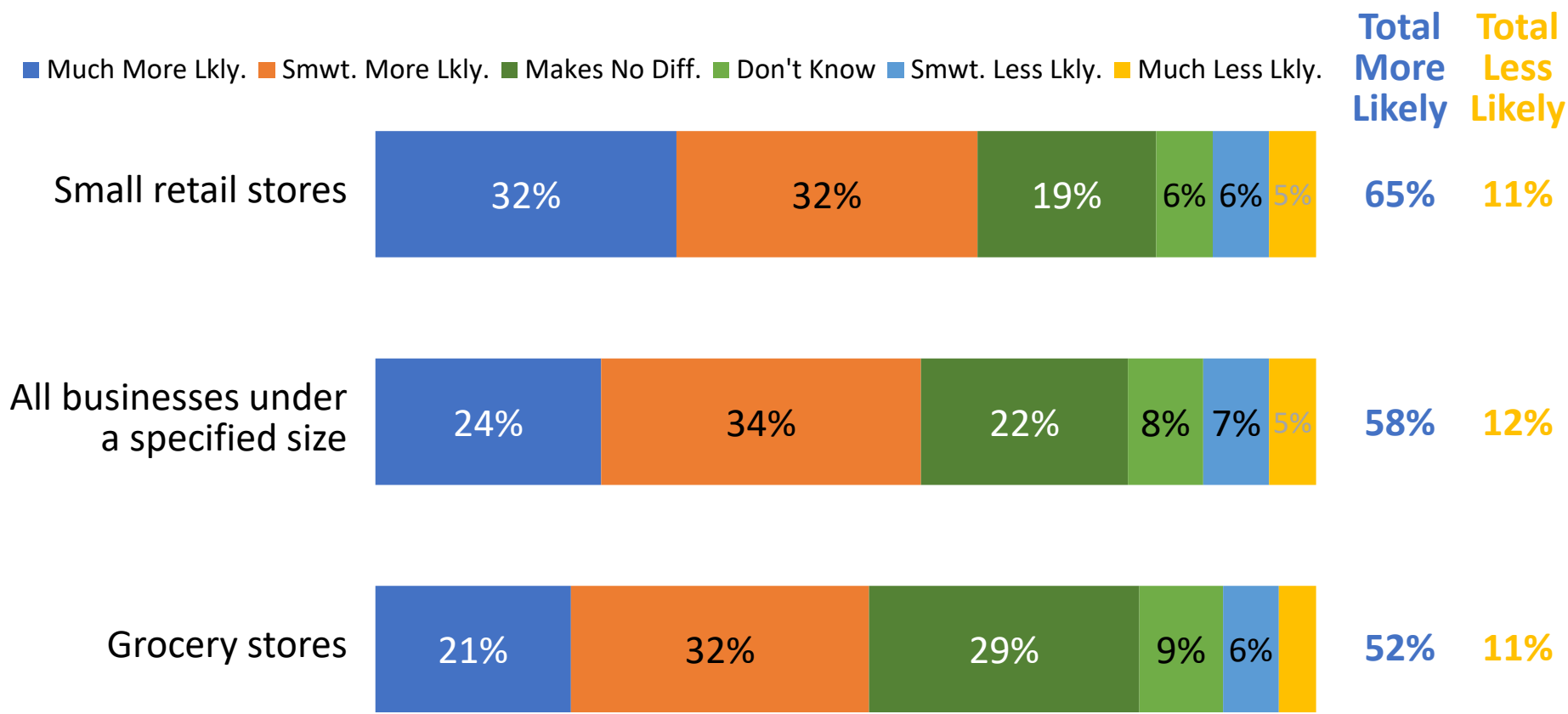
Majorities support a tax that would add up to 1.5% to rent per square foot.

Would a measure that increased business rent per square foot by roughly _____ be an acceptable or unacceptable amount?



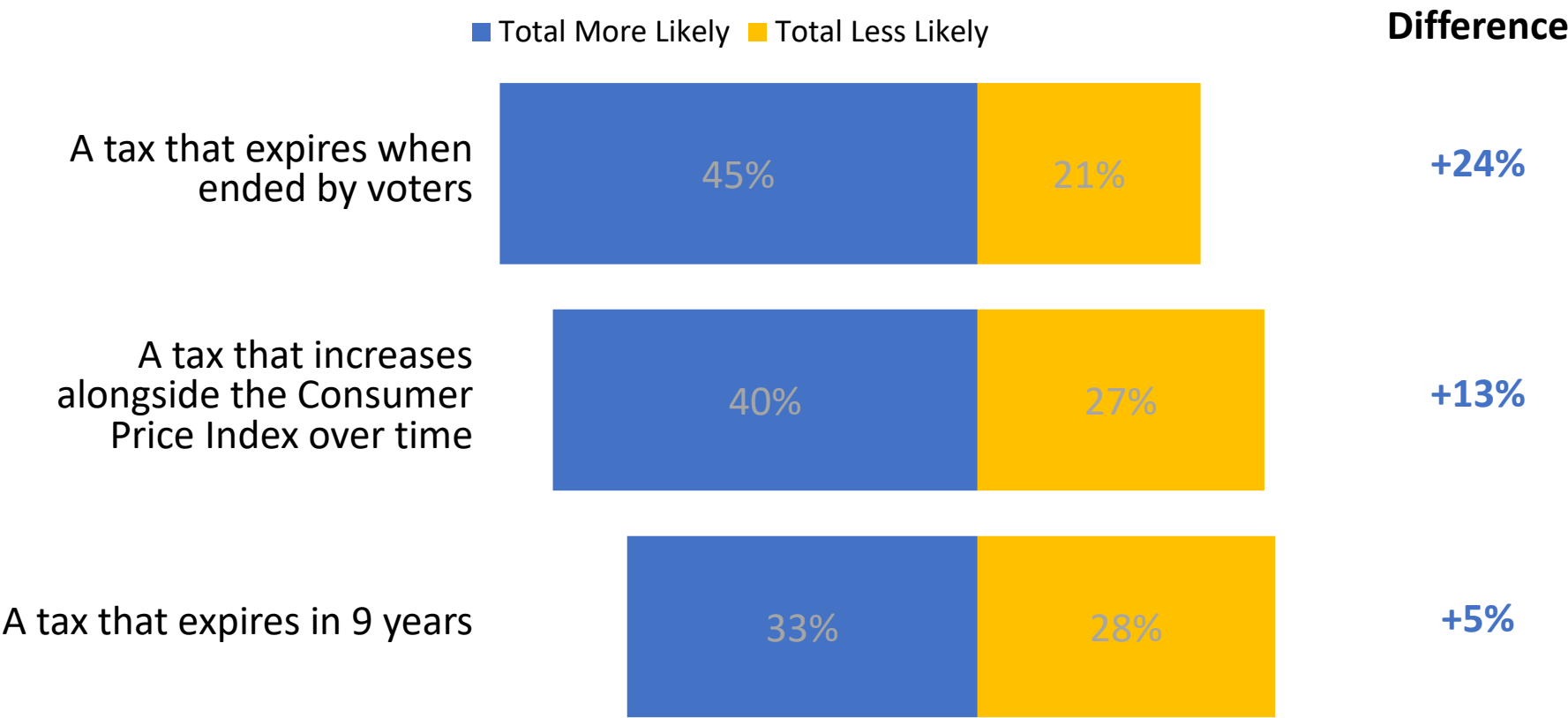
Most voters say various exemptions would make them more likely to back a measure.

The structure of this measure has not been finalized. If it were written to exempt _____ from the tax, would you be more likely to support it or less likely to support it? If it makes no difference, you can tell me that instead.



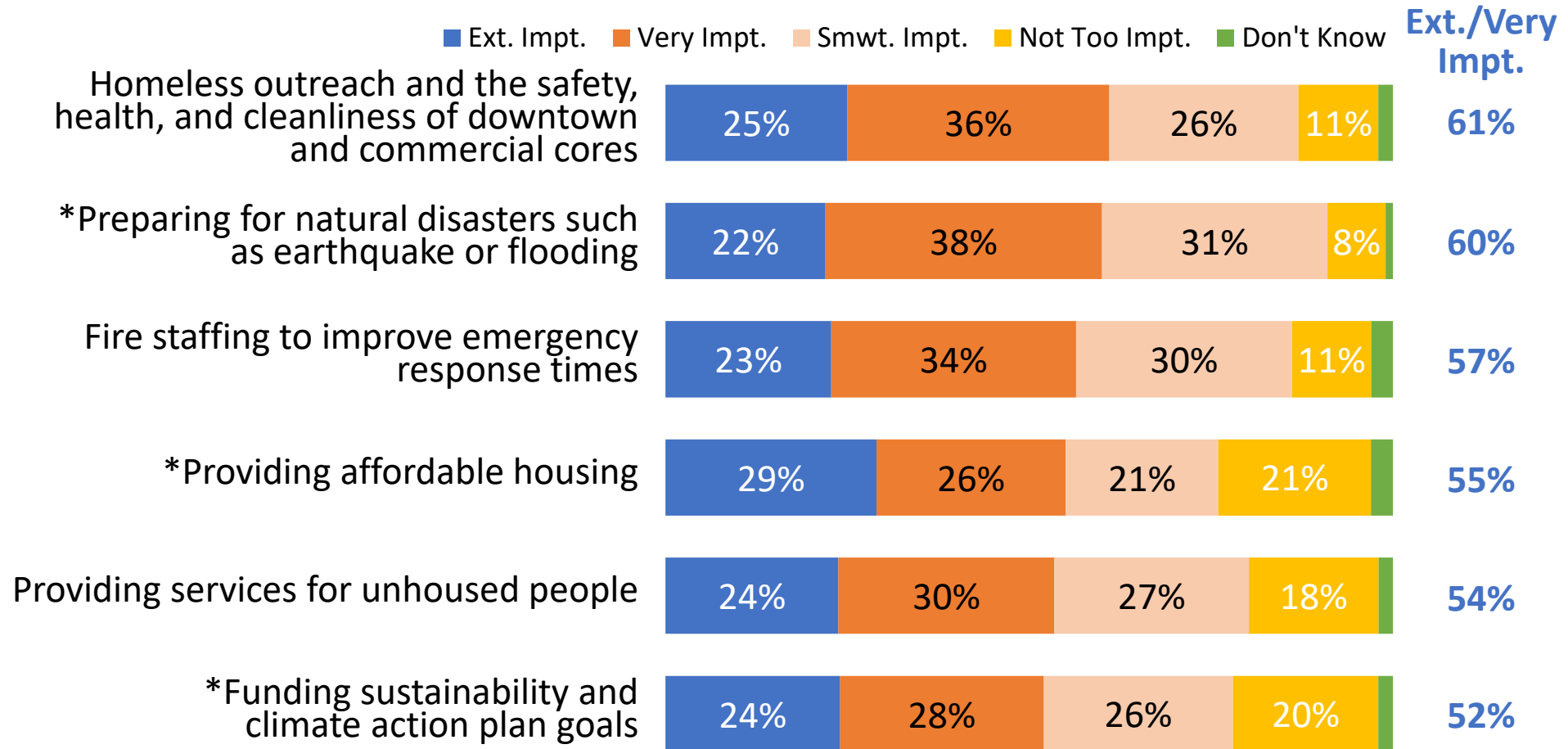
Voters are more likely to favor a tax that expires when ended by voters than one with a specific, nine-year sunset.

Here is a list of several ways a tax on business might be structured to raise funds for some of these services. Please tell me whether you would be more likely or less likely to vote “yes” on a measure that included that provision. If it makes no difference, you can tell me that instead.

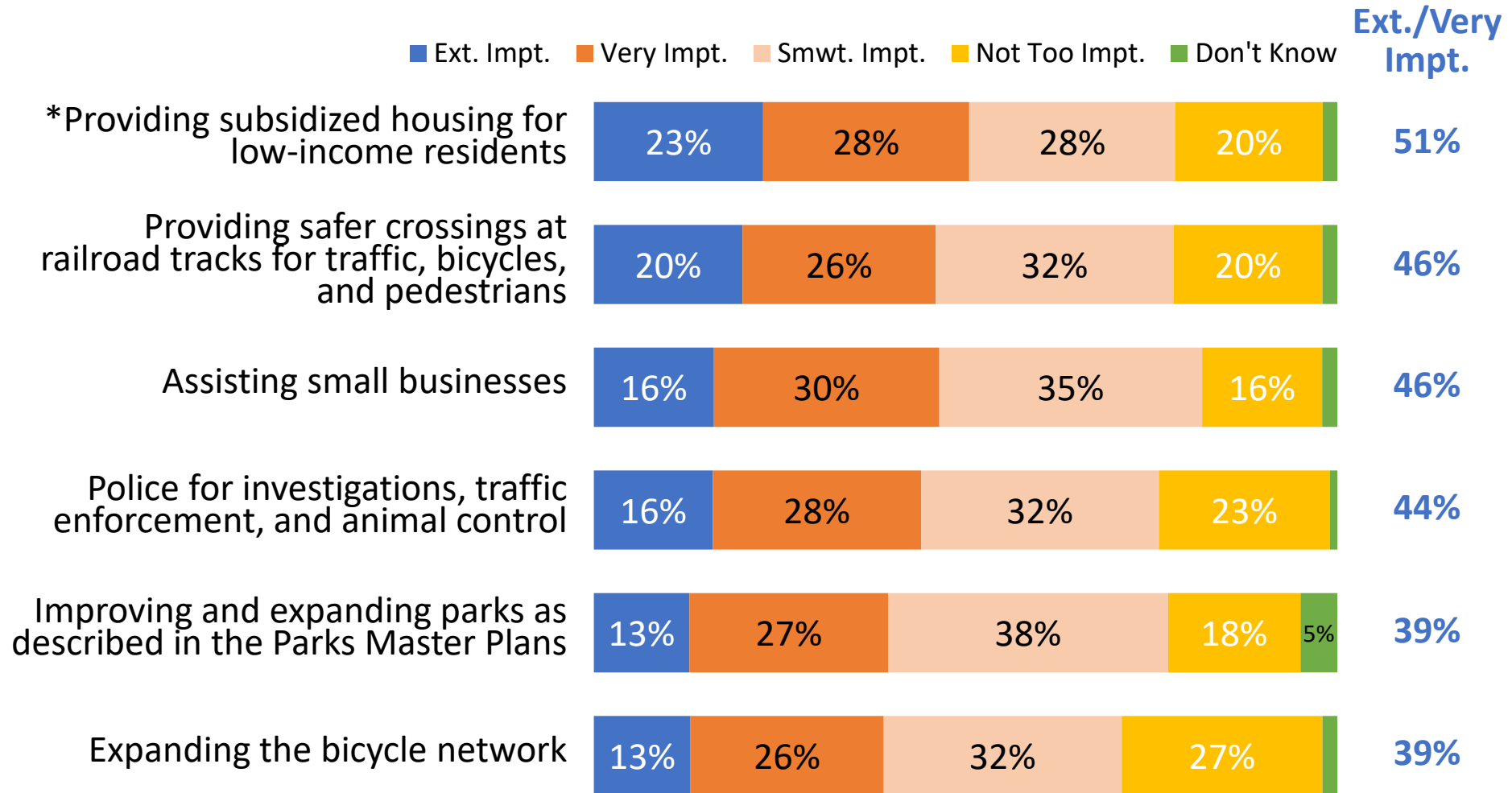


More specifically, they rate homeless outreach, natural disaster and emergency response as important investment categories.

I am going to read you a list of more-specific ways in which funds generated by a tax could be spent. Please tell me how important each item is to you personally: extremely important, very important, somewhat important, or not too important.

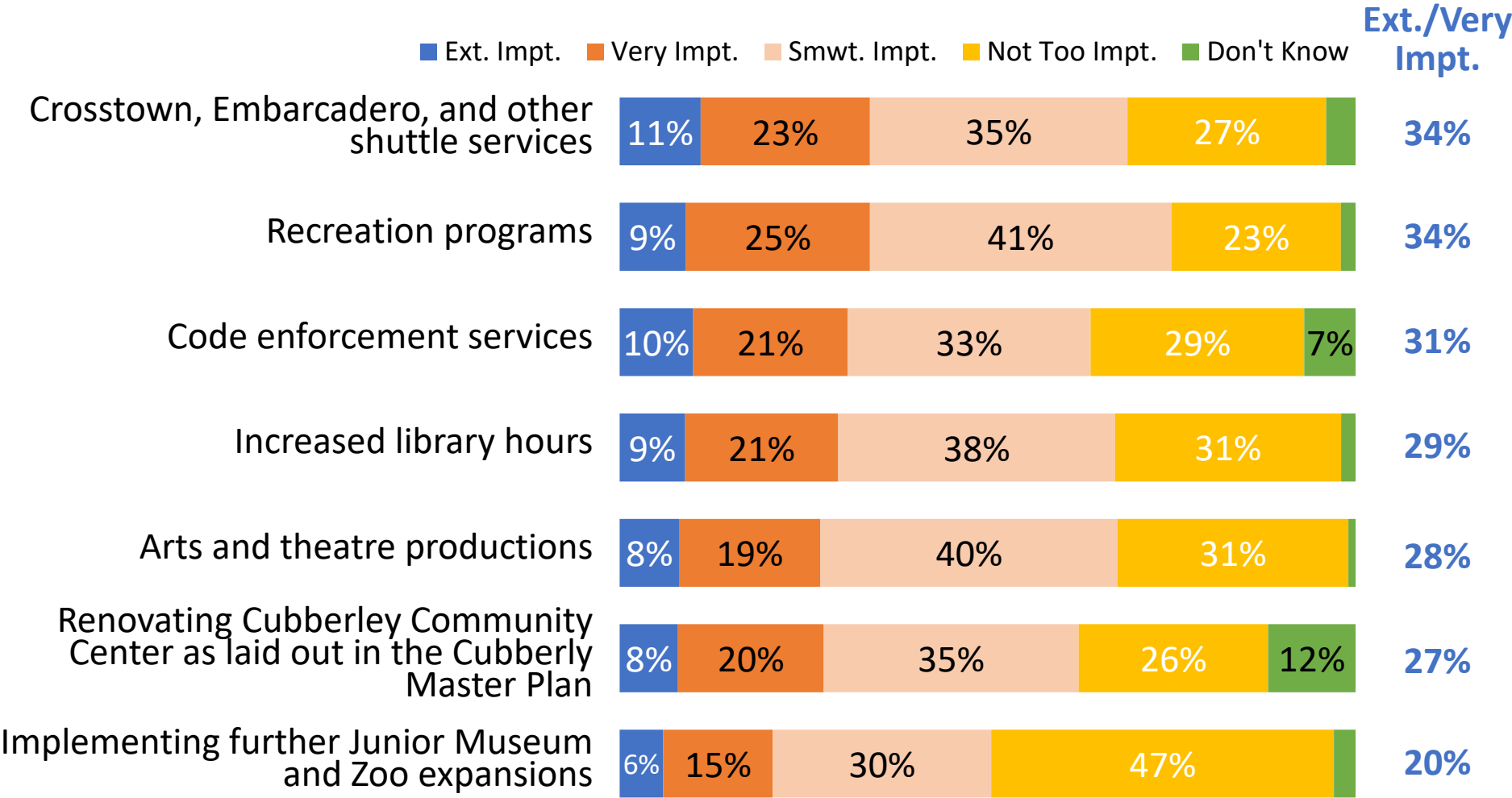


The bicycle network, expanded parks, and policing are relatively lower priorities.



Q10. I am going to read you a list of more-specific ways in which funds generated by a tax could be spent. Please tell me how important each item is to you personally: extremely important, very important, somewhat important, or not too important. *Split Sample

Fewer than three in ten highly value expansions to the Junior Museum and Zoo or renovations to the community center.



Q10. I am going to read you a list of more-specific ways in which funds generated by a tax could be spent. Please tell me how important each item is to you personally: extremely important, very important, somewhat important, or not too important. Not Part of Split Sample



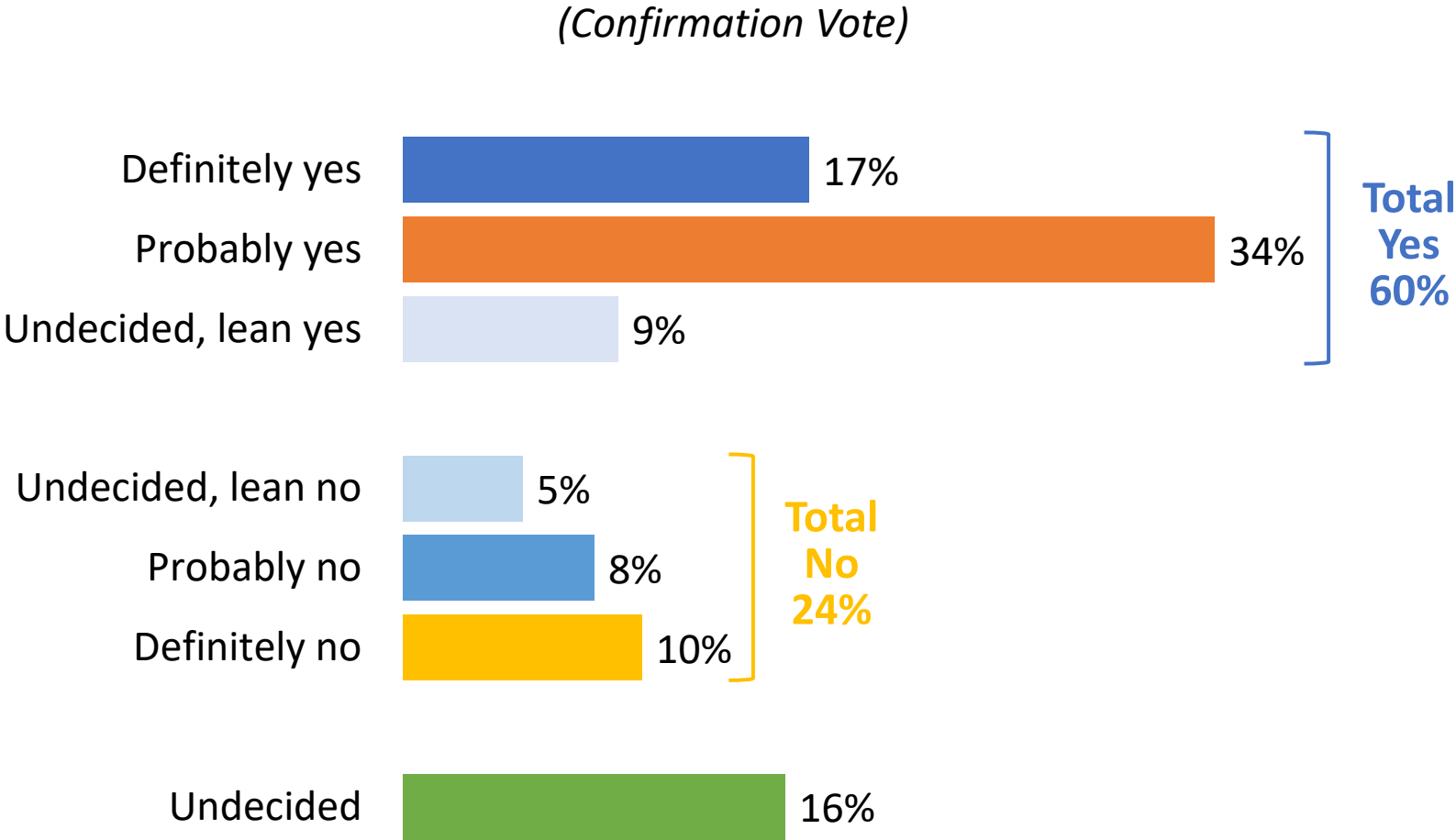
Views of Utility Fund Transfer Measures

Voters heard or read two proposals to address utility fund transfers, in rotated order.

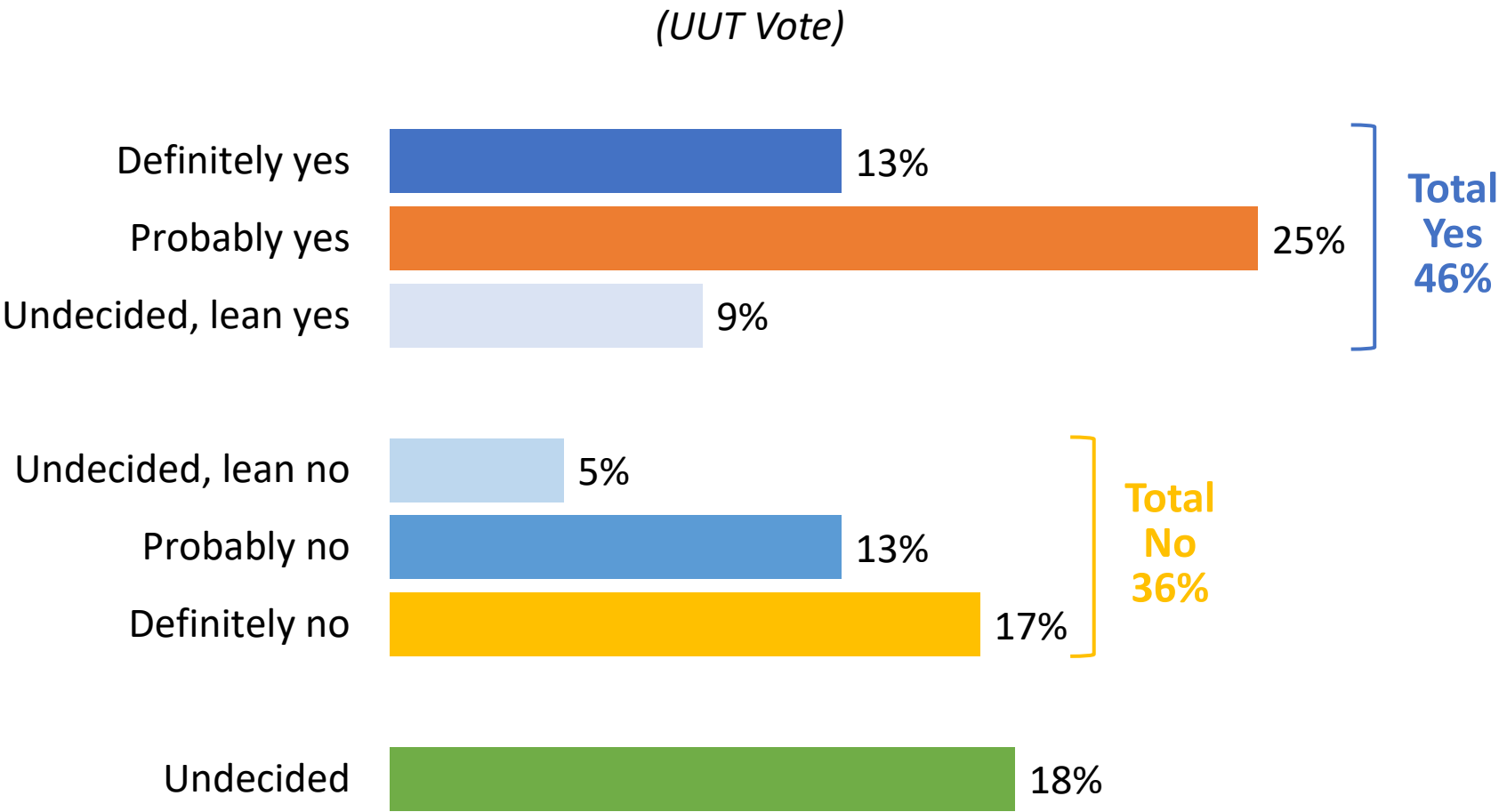
As you may know, the City of Palo Alto provides natural gas service to residents and businesses. As part of its routine budget practices, the City annually transfers some money from the utility fund to the general City budget which maintains core City services used by the community. Next year, there may be a measure on the ballot to update the structure for this practice. I'd like to ask you about 2 different ways it could be structured.

Tax Confirmation Vote	Amendment Tax Vote
<p>ONE/ANOTHER approach would be to seek voter approval to confirm the existing budget practice of transferring not more than 18% of City of Palo Alto Utilities' gross annual sales of gas, paid by retail gas rate payers, providing over \$7 million annually to maintain general City services such as police, fire and emergency medical response; road repair and transportation improvements; recreation, parks, arts, and theatre programs; library and community center hours; and shuttle services. This approach would <u>not increase utility rates</u>.</p>	<p>ONE/ANOTHER approach would be to amend the City of Palo Alto Municipal Code to <u>replace</u> the City's transfer from the utility with a voter-approved measure to increase to the Utilities User's Tax paid by retail gas and electric ratepayers by 5% to provide over \$7 million annually to maintain general City services such police, fire and emergency medical response; road repair and transportation improvements; recreation, parks, arts, and theatre programs; library and community center hours; and shuttle services. This approach would not increase total residential utility bills. Do you think you would vote yes or no on such a measure?</p>

On the measure to confirm existing practice, three in five would vote “yes.”



The measure to increase the UUT
has less than majority support, and does not
appear viable.



Q8 Total. Do you think you would vote yes or no on such a measure?



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Conclusions

Conclusions

- The mood of the city continues to be mixed, as it is in many cities around region. A majority rates City government's performance as "excellent" or "good" (54%).
- The cost of housing and homelessness remain the top two concerns; concern about crime is on the rise, while concern about traffic and parking has (not surprisingly) declined.
- Three in five back the business license tax concept we tested, which – pending a more detailed exploration of measure structure – indicates viability; a measure ratifying utility fund transfers polls at 60% and is viable.
- In contrast, an increase in the UUT polls at only 46%, below the level needed for viability.
- The City might continue to consider the two viable measures, with future polling to determine whether proceeding with both is advised, including the order of ballot placement.
- Voters see maintaining basic services as the strongest rationale for placing a tax measure on the ballot. They are most enthusiastic about allocating funding toward fire staffing, disaster preparedness, affordable housing, and outreach to the unhoused.



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COMMUNITY & STAKEHOLDER ENGAGEMENT PLAN

January 18, 2022

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Work Plan Update

Public Engagement



January 18, 2022
Finance Committee

Introduction

The Lew Edwards Group (LEG) and Public Dialogue Consortium (PDC) work as a team in providing nationally recognized, award-winning communications and engagement services to local governments. LEG/PDC are excited to be joining Council and staff on this important work in 2022!



Engagement & Communications Work Plan



Communication/Engagement Objectives

- Design and execute a multi-disciplinary engagement and communications process to support this project
- Utilize a full range of multi-disciplinary approaches that include:
 - Successful integration of expertise and approaches with Executive Team/FM3 Research
 - LEG/PDC has already been integrated into Executive Team planning and has reviewed all recent FM3 Research studies and pertinent background information
 - Engaging stakeholders in facilitated focus groups to express/collect viewpoints
 - Approaches that embrace all types of engagement/communications methods to collect additional input and report on that input, including online surveys, interactive/report-back mailings, social media information, embedments into routine City communications vehicles, and paid digital media
- Provide information and recommendations to City staff and Council for policy and ballot measure decisions

Stakeholder Focus Groups

To enable participants to identify areas of common ground while managing different views, perspectives and interests, PDC will:

- Conduct up to ten stakeholder focus groups
 - Combination of business and community at large
 - Will include one listening session
- These sessions will be facilitated by a trained, professional facilitator
 - Goal is to engage 80-100 stakeholders
 - Focus Group recruitment will launch this week, with sessions to be conducted through the early part of April
- Participant views will be noted and reported to the City Council in LEG-PDC updates

Online Platform & Outreach

Consistent with the City's practices, LEG/PDC recommends use of online platforms to enable members of the public to provide input, get information, and keep updated.

- Our team has developed an online engagement form which will be an additional tool for informing the public, eliciting feedback and encouraging discussion.

Other Concurrent Planned Outreach

Highlights of additional activities include:

- Informational presentations by City staff
- Two spring informational USPS mailings to ensure residents who still prefer this mechanism can provide input/receive information
- Social and digital media outreach and information

Input Needed from Subcommittee

- Stakeholder Focus Group recruitment will begin this week. Up to ten are envisioned with a combination of the business community and the community at large.
 - What organizations or constituencies of interest should be on our outreach invitation list for each respective type of group?
- Staff Community Outreach presentations supported by LEG/PDC are also planned.
 - What organizations should be on our outreach list with a request for a short City engagement presentation?

Subcommittee Input



Core Stakeholder Communication Elements – Finance Committee Feedback

- A core City goal has been how to enhance a high quality of City services in a fiscally sustainable way. There have been ongoing community conversations on this topic.
- The pandemic continues to be a setback to these efforts, with severe impacts to City services, including library, recreation, and public safety.
- An improving economy gives the City the opportunity to recover from the fiscal impacts of the pandemic and improve efficient, cost effective services.
- Even with improved service delivery, it will be a long time before fiscal sustainability is realized and full City service levels are restored.
- This ballot measure can help invest in the community's future and enhance priority services to the community.
- It can help build on Palo Alto's high quality services as the community evolves and grows by funding needed investments like fire and emergency services, affordable housing and support for the unhoused, parks and recreation, transportation and other public services.

PROPOSED FINANCE COMMITTEE MOTION

The Finance Committee recommends Council:

- A. Direct staff to pursue preparation of a square footage business license tax with the following characteristics:
 - i. A monthly rate of ____ OR rate structure based on Option __ presented in staff report
 - ii. Exemptions for...
 - iii. Define “small” businesses as those that occupy less than or equal to _____ square feet
 - iv. Annual escalator aligned with the [fiscal/calendar] year schedule, with the following characteristics:
 - i. Uses CPI as a basis
 - ii. Capped or uncapped
 - iii. Alternative indexes or factors should a CPI not be published
 - iv. Whether the tax rate can be reduced below the rate in effect immediately prior to the adjustment
 - v. Additional provisions/parameters
- B. Accept the results of the Initial Poll and draft Community and Stakeholder Engagement Plan
- C. Direct staff to develop a proposal for voter ratification of the existing as General Fund Equity Transfer



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