

POTENTIAL REVENUE-GENERATING LOCAL BALLOT MEASURE & AFFORDABLE HOUSING REFERRAL

June 15, 2021

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OVERVIEW

- City Council voted for Economic Recovery as one of four priorities for 2021 in January
 - Community and Economic Recovery Workplan approved by City Council in March
 - Second Progress Report on the Community and Economic Recovery Workplan transmitted as an Informational Item for June 21
- Exploration of a Potential Revenue-Generating Local Ballot Measure was Item J on the Community and Economic Recovery Workplan
 - Tonight's conversation resumes prior conversations held with City Council and Finance Committee that were paused by COVID-19
- Addresses the referral on affordable housing funding
- Significant work effort to reach the ballot in November 2022



RECOMMENDATION

Staff recommends that the Finance Committee recommend to the City Council approval of the workplan for pursuit of a November 2022 or other local ballot measure(s) and any additional guidance including but not limited to:

- A. Affirming pursuit of a business tax, and refinement of the basis for such a tax (e.g. headcount, payroll, square footage, gross receipts, or other);
- B. Affirming pursuit of a utility use-based tax;
- C. Direction to proceed with refinement of estimates and evaluation of potential tax measures, including stakeholder outreach, polling and further feasibility analysis; and
- D. Review of additional information regarding affordable housing funding as directed by the City Council.



REVIEW OF GENERAL FUND REVENUE ESTIMATES

	FY 2019 – Actual	FY 2020 – Actual	FY 2021 – Estimate*	FY 2022 Proposed
Property Tax	\$47.3	\$51.1	\$53.17	\$51.2
Sales Tax	36.5	30.6	25.03	28.2
Transient Occupancy Tax	25.6	18.6	4.8	8.4
Utility Users' Tax	16.4	16.1	14.1	14.4
Documentary Transfer Tax	6.9	6.9	6.9	7.1
Charges for Services & Licenses and Permits	35.8	31.6	29.5	32.5
All Other Revenues	57.3	54.8	55.4	63.8**
Total General Fund Revenues	\$225.8 M	\$209.7 M	\$188.9 M	\$205.6 M

Table 1. Summary of General Fund Revenues: FY 2019 and FY 2020 Actuals, FY 2021 Estimate and FY 2022 Proposed

* This reflects the FY 2021 estimate as shared with the Finance Committee at the outset of the budget development process; staff subsequently communicated to the Finance Committee and the City Council that it anticipated slightly higher levels at year-end depending on activity levels in certain revenue streams.

**The FY 2022 Proposed Estimate for other revenue did not include the 60/40 Split of American Recovery Plan Act (ARPA) funding, nor the final allocation of that funding. Subsequent to the issuance of the proposed budget, all other revenues have increased to \$65.8 million bringing total FY 2022 Proposed Revenues to a total of \$207.6 million.



REVIEW OF REVENUE-GENERATING TAX OPTIONS

The City has different options for pursuing a revenue-generating local ballot measure:

- **General Tax** must be approved by a simple majority of voters, 50% +1; must be put before voters at a regular general election
- **Special Tax** Requires 2/3 super majority of voters for specific purpose; must be put before voters at regular general election [**Note:** Parcel Taxes are Special Taxes]
- Types of Taxes that appear before voters include:
 - Parcel taxes
 - Sales taxes
 - Business taxes
 - Transient Occupancy Taxes (TOT) Also called hotel taxes
 - Utility users tax



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.

- <u>Equity</u>: Who does the tax impact and how is that felt across all residents or businesses in the same industry?
- <u>Administrability</u>: How is the tax administered and what would be the cost of compliance on taxpayers and the City?
- <u>Stability</u>: 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)?
- <u>Economic Benefits</u>: Is the tax efficient, promote economic development objectives and minimize disruption on the taxpayer?



RECAP OF PRIOR BUSINESS TAX WORK

Previous work on a Business Tax included the following elements:

- Research, Analysis, and Modeling Matrix Associates
- Stakeholder Outreach TBWB
- Polling FM3

Mechanisms / unit of measure for assessing a business tax include:

- Employee Headcount
- Square Footage (Assessed either on Landlords or Tenants)
- Gross Receipts
- Payroll



POTENTIAL USES FOR ADDITIONAL REVENUES

Numerous needs beyond current funding levels include but not limited to:

- Affordable Housing
- Electrification and Climate Change Resilience and Adaptation
- Funding for Capital Needs (including, but not limited to, grade separation)
- Funding for Delivery of Core Services (i.e. Parks, Youth Services, Community Services, Libraries, Fire and Emergency Medical Services, and Police)



AFFORDABLE HOUSING FUNDING OPTIONS

The City has several different options for contributing to affordable housing, including:

- General Taxes
 - Includes Documentary Transfer Tax
- Inclusionary Housing Requirements/Fees
- Commercial Linkage Fee
- Jobs Housing Linkage Policy
- Infrastructure Financing District
- Bond Measures/Bond Financing
 - California Community Housing Agency (Cal-CHA)



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

Council:

• Award of Consultant Contracts

October

Finance:

- Accept refined revenue estimates
- Discuss and provide guidance and initial polling and stakeholder outreach

Council:

 Discuss roles of Councilmembers, Community Leaders, and Advocates

November

Council:

- Confirm potential revenuegenerating proposals, including revised revenue estimates
- Direction to complete initial polling and initial stakeholder outreach

December

Council:

 Decision on revenuegenerating ballot measure(s) to pursue

WORKPLAN: JANUARY 2022 AND BEYOND



January – April 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

Council:

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

August

Language submitted to Santa Clara County Registrar of Voters

November

• Election

December (and beyond)

 Implementation of any ballot measure that passes

NEXT STEPS

Staff recommends that the Finance Committee recommend to the City Council approval of the workplan for pursuit of a November 2022 or other local ballot measure(s) and any additional guidance including but not limited to:

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Through the above:

- Resumption of work on Business Tax
- Consideration of funding options for various priorities
- Potential On-Bill Tax for Gas and Electric Services





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