



# BALLOT MEASURE ADDITIONAL INFO & COUNCIL DIRECTION

City Council

June 13, 2022

[www.cityofpaloalto.org/fiscalsustainability](http://www.cityofpaloalto.org/fiscalsustainability)

## OVERVIEW

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**Updates and additional staff work related to the April 25<sup>th</sup> City Council meeting.  
Discussion by and seeking direction from the Council regarding:**

- Business Tax
  - Summary of additional business tax research and analysis (Attachment A)
  - Draft ballot question, ordinance, and resolution of Council's intentions regarding use (Attachments B & C)
- Measure to Affirm Gas General Fund Transfer
  - Draft ballot question and ordinance (Attachment D)
- Community & Stakeholder Engagement Plan
  - Summary of Feedback Survey and Additional Focus Groups (Attachments E & F)
- Results of Third Poll (Attachment H)

## SUMMARY OF TONIGHT'S DECISION POINTS

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Direct staff to return to the City Council on June 20<sup>th</sup> with:

- Completed documents for placement of a business tax measure on the November 2022 ballot question with the following refinements:
  - Recommended “key policy questions”
  - Final tax rate not to exceed \$0.10/sf per month
  - Characteristics outlined in Table 3 of the staff report
- Affirm the draft resolution of intent regarding use of Business Tax proceeds
- Completed documents for placement of a measure to affirm the gas utility transfer on the November 2022 ballot



# COMMUNITY & STAKEHOLDER ENGAGEMENT

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Community Survey, Focus Groups, & Third Poll Results

[www.cityofpaloalto.org/fiscalsustainability](http://www.cityofpaloalto.org/fiscalsustainability)

# COMMUNITY SURVEY & FOCUS GROUPS

**Feedback used for the FY 2023 Budget and priority investments for a ballot measure. Recommended adjustments to ballot measure are outlined in staff report.**

## Highly Ranked Priorities in Order:

1. Maintaining basic services
2. Repairing streets/roads
3. Investment in community-owned assets
4. Adding public safety services such as police, fire, and emergency medical
5. Funding affordable housing and homeless services

## Focus Groups

- Six sessions with 43 participants
- Listening session with 8 participants

## Community Survey (Online/Mail)

- Over 433 respondents



*Thank you to the community for this input!*







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# **Assessing Support for Potential Finance Ballot Measures**

*Key Findings from a Survey of Palo Alto Voters Conducted May 22-26, 2022*



OPINION  
RESEARCH  
& STRATEGY

# Survey Methodology

Dates	May 22-26, 2022
Survey Type	Dual-mode Voter Survey
Research Population	Likely November 2022 Voters in Palo Alto
Total Interviews	463
Margin of Sampling Error	(Full Sample) $\pm 4.9\%$ at the 95% Confidence Level (Half Sample) $\pm 6.6\%$ at the 95% Confidence Level
Contact Methods	 Telephone Calls  Email Invitations  Text Invitations
Data Collection Modes	 Telephone Interviews  Online Interviews

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

# Survey Goals and Approach

## *Business Tax and Utility Questions Rotated*

**Business Tax**

**Utility Fund Transfer Ratification**

**Vote on One, Both, Neither?**

**BLT Amounts and Exemptions**

**Uses of Funds**

## *Message Blocks Rotated*

**Pro-BT Messages and Re-Vote  
Anti-BT Message and Re-Vote**

**Demographics**

- Assess voter reactions to two potential ballot measures, with draft legal language: a business tax and a measure to ratify utility fund transfers.
  - ✓ Business tax and utility measure rotated to assess impact of ballot sequence.
- Evaluate voters' priorities for business tax structure.
- Gauge the impact of pro and con messaging on breadth and intensity of support for the businesses tax.





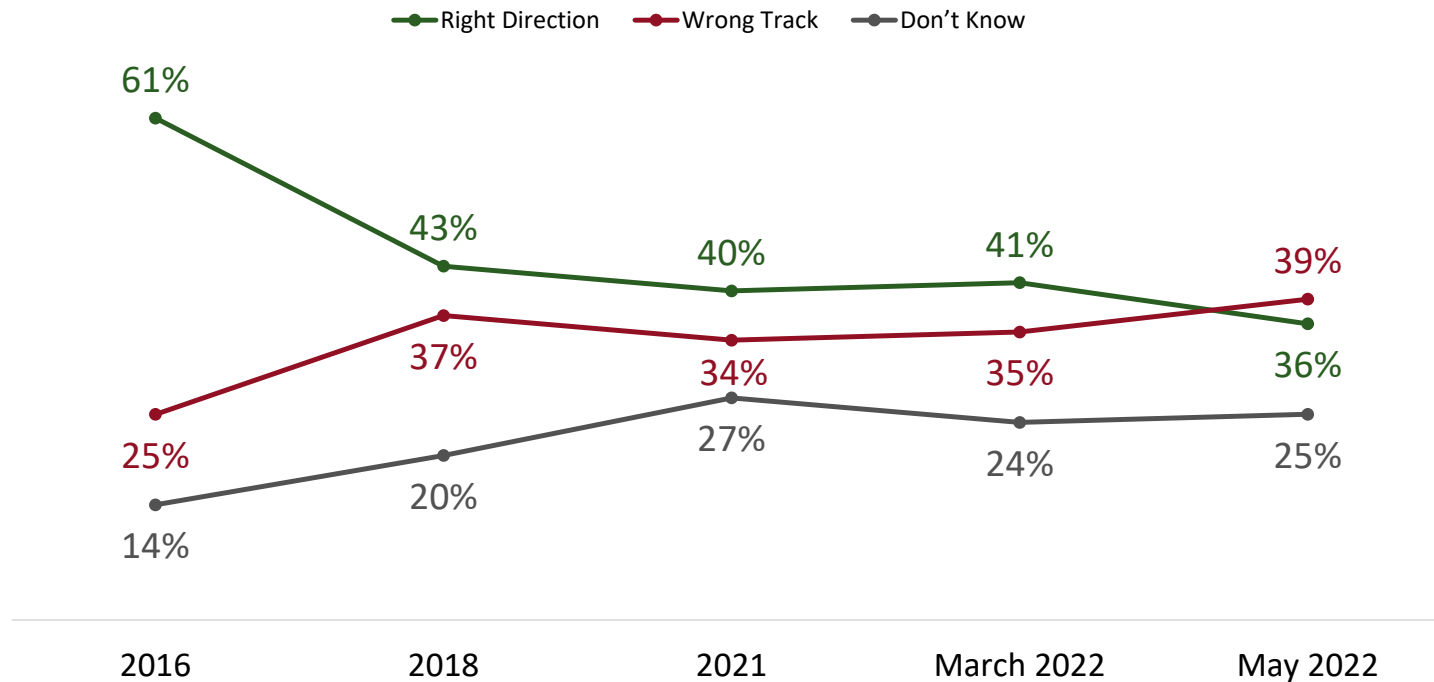
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# Context

## Voters in the city are have become more pessimistic than optimistic about the city's direction.

*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?*





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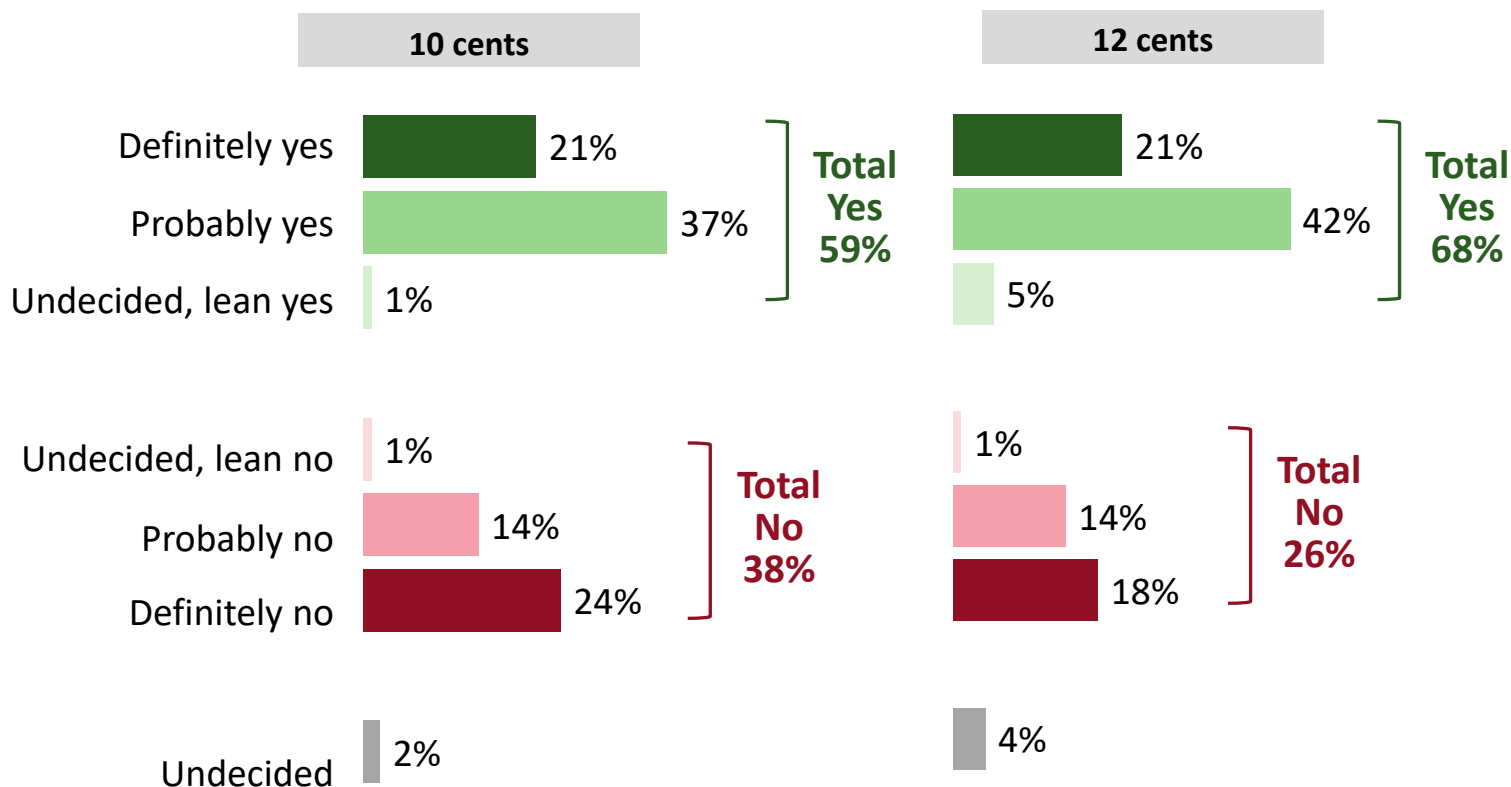


# Voter Views of a Business Tax

## Hypothetical Ballot Language Tested

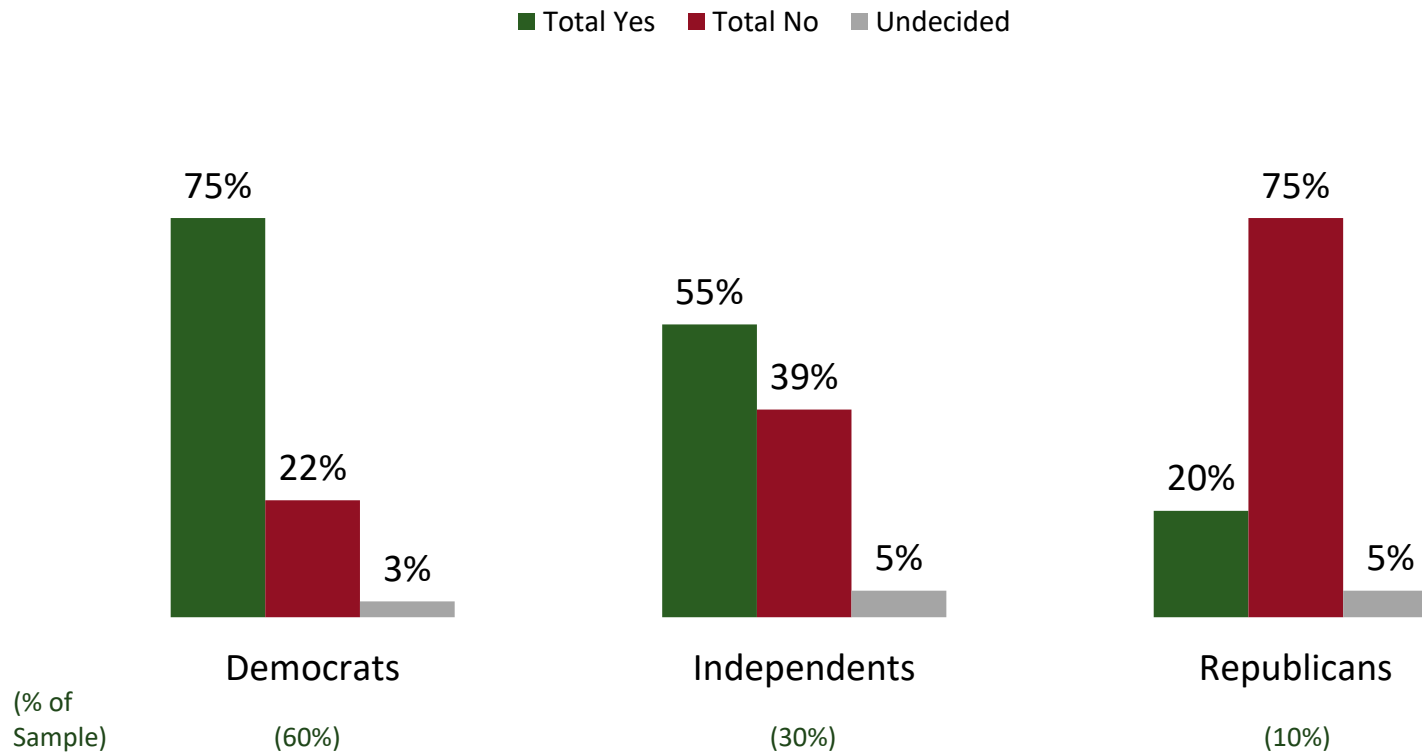
*Shall the measure to raise funds for services such as improving public safety, affordable housing, rail crossing safety, homeless services, economic revitalization and general City services, by levying a tax on businesses in the City of Palo Alto at an annual rate of **(HALF SAMPLE: 10)** **(HALF SAMPLE: 12)** cents per square foot occupied by the business, with annual adjustments for inflation and exemptions for grocery stores, seasonal businesses and all businesses under 5,000 square feet, raising approximately **(HALF SAMPLE: \$22 million)** **(HALF SAMPLE: \$26 million)** per year until ended by voters, be adopted?*

## Support for the 12-cent version is no lower than the 10-cent version, but backing for both is very tentative.



# Three-quarters of Democrats support the measure; a majority of independents do.

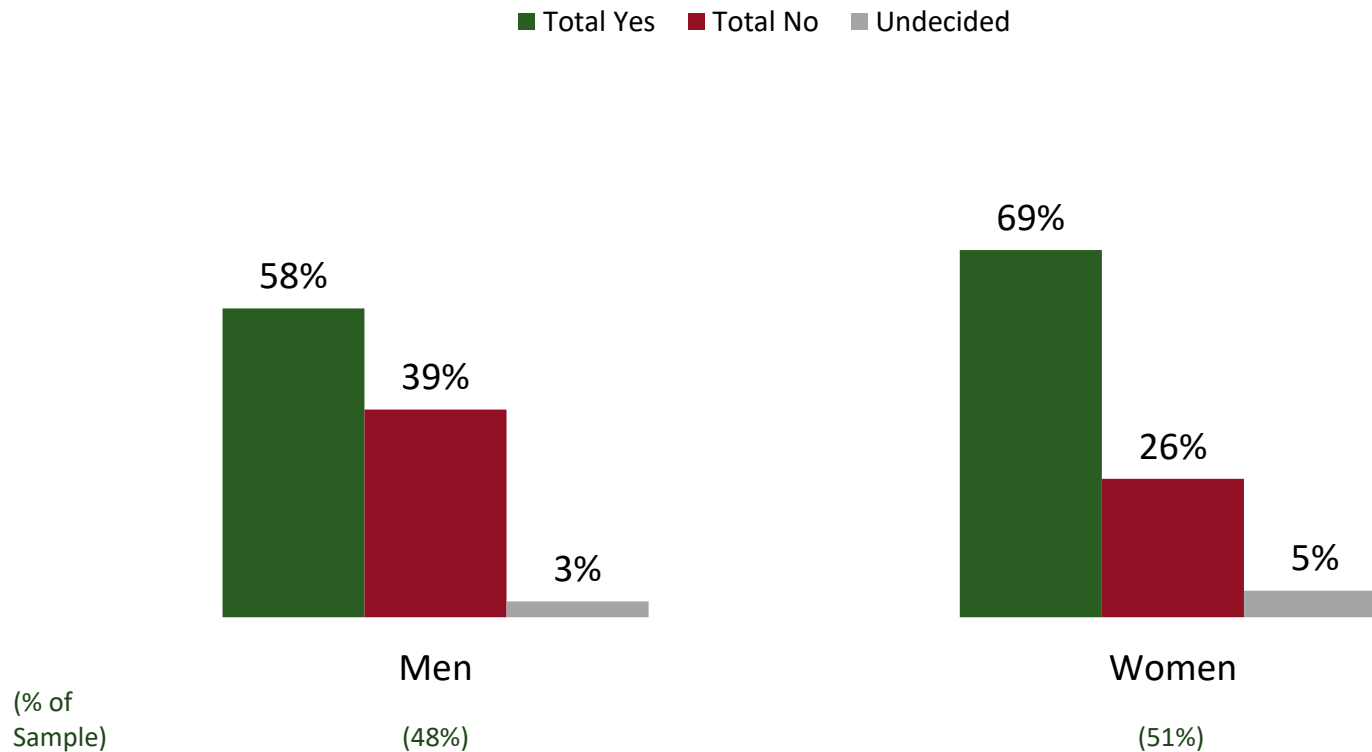
*Initial Business License Tax Vote (Rates Combined) by Party*





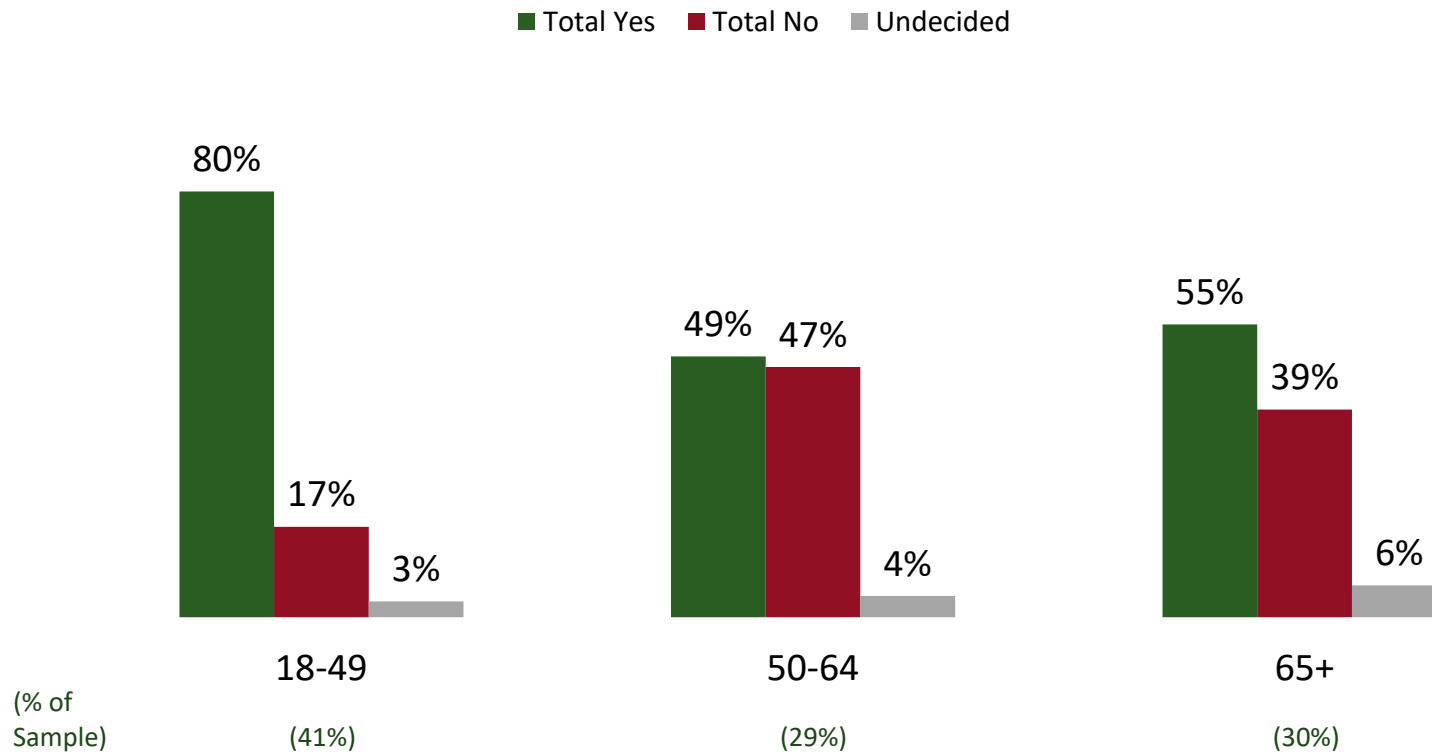
# Seven in ten women support the measure.

*Initial Business License Tax Vote (Rates Combined) by Gender*



# Four in five voters under 50 support the business tax; older voters are more divided.

*Initial Business License Tax Vote (Rates Combined) by Age*





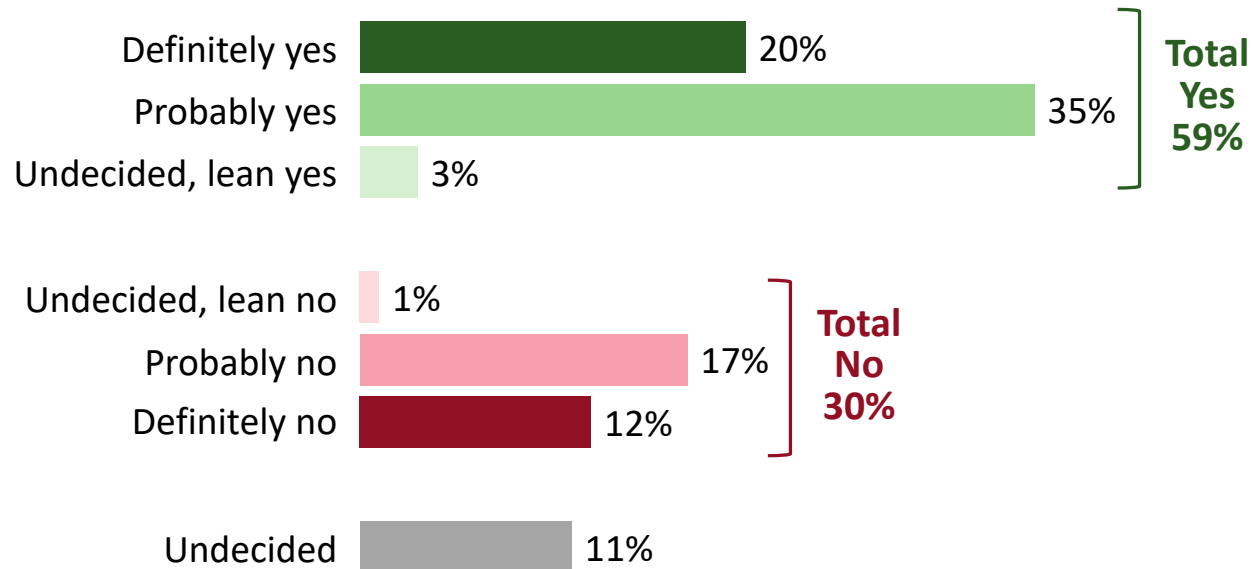
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# Voter Views of a Utility Fund Measure

# The utility measure also has support from nearly three in five, and backing is also soft.

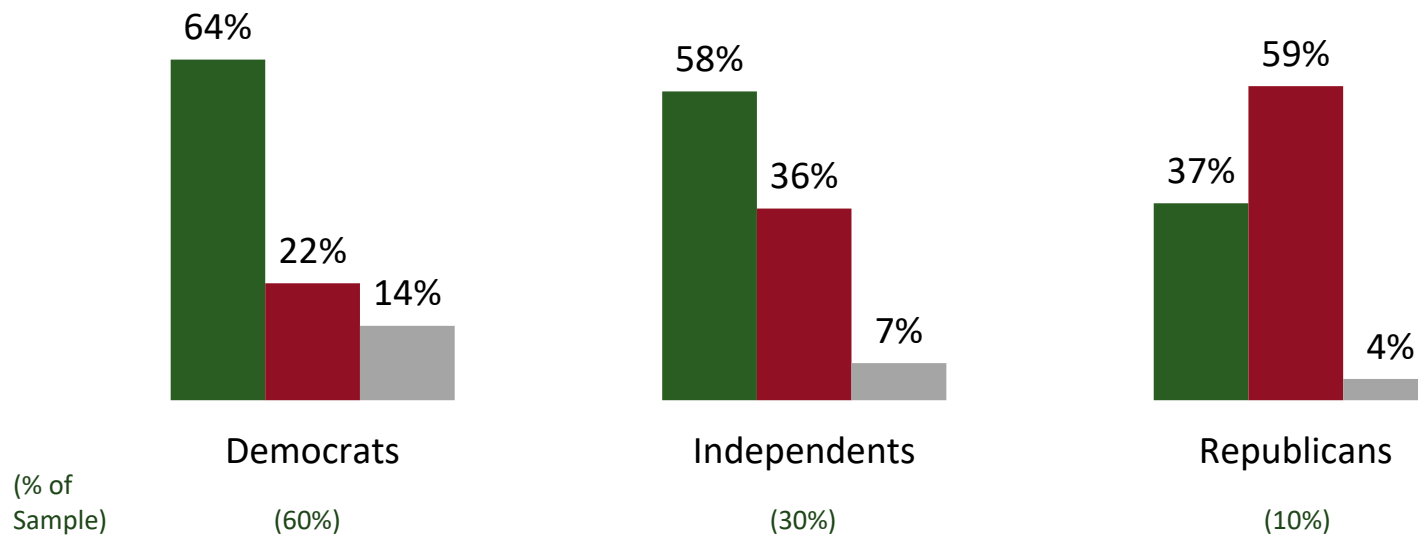
*Shall the measure affirming the City of Palo Alto's existing routine budget practice since 1950 of annually transferring no more than 18% of the gross revenues from the City's natural gas utility (generated by the City's retail natural gas rates) to its general fund to support general city services such as library services; climate change reduction; transportation; and police, fire, emergency medical, and 911 response; providing approximately \$7 million annually in existing revenues, be adopted?*



# Nearly two-thirds of Democrats back the measure, as do almost three in five independents.

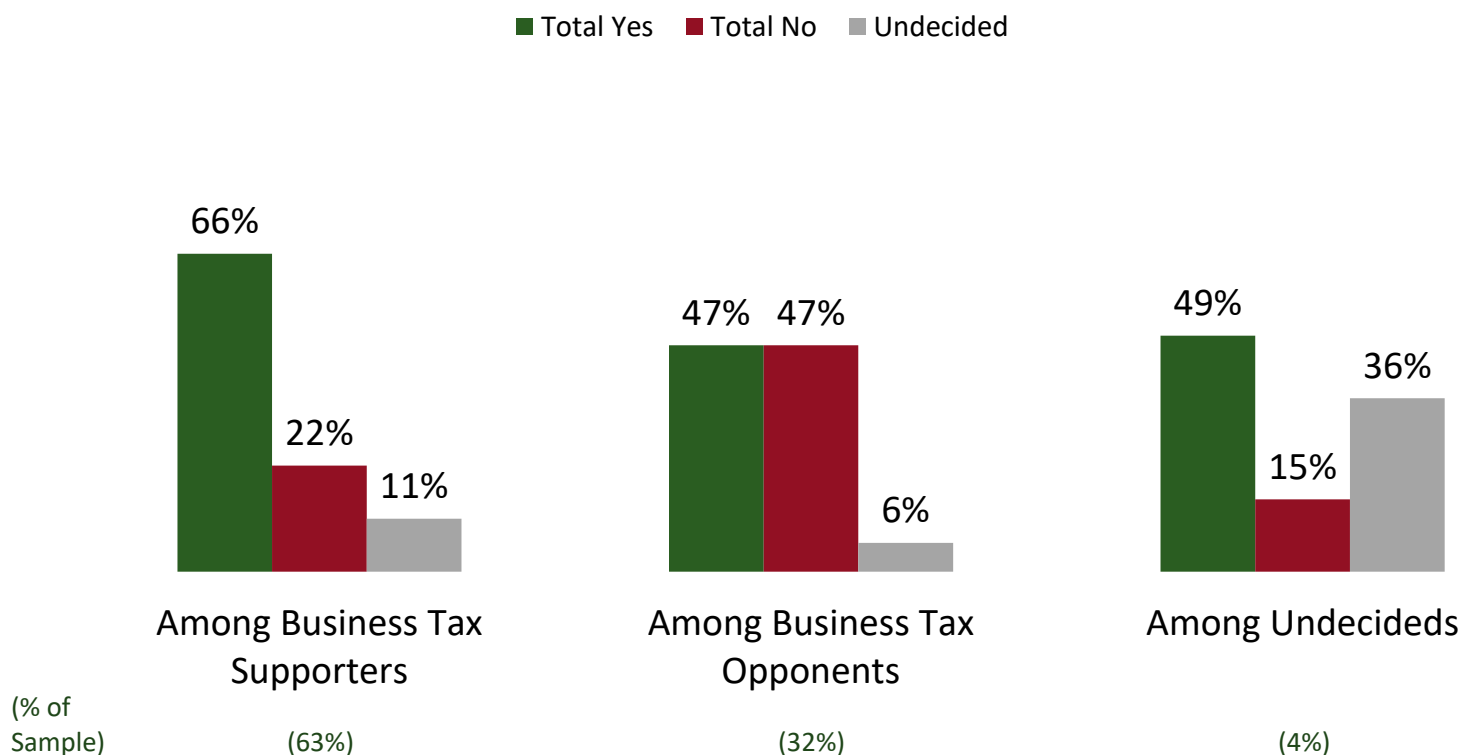
*Initial Utility Measure Vote by Party*

■ Total Yes ■ Total No ■ Undecided



# Two-thirds of business tax supporters also back the utility measure.

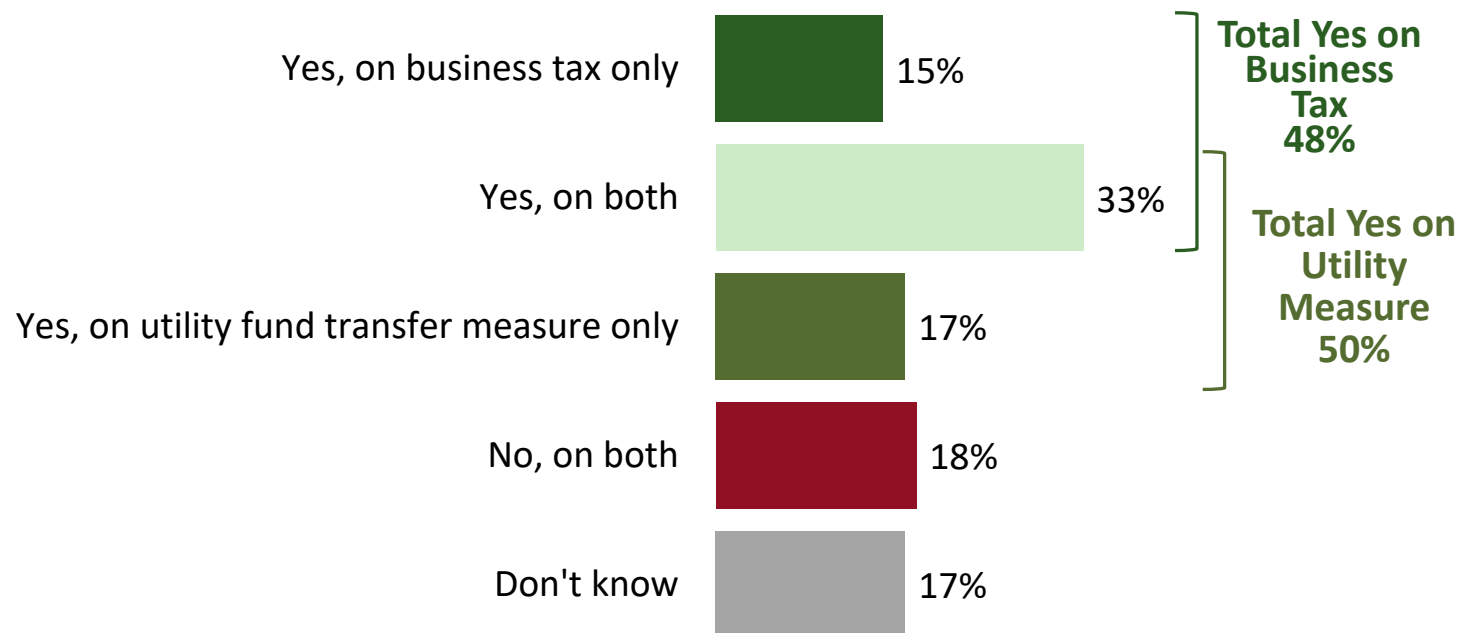
*Initial Utility Measure Vote by Initial Business Tax Support*





## About half of voters back each measure when asked to consider them in tandem.

*If both of these measures were on the same ballot, would you vote "yes" on both, for just one, or for neither?*



*Note: the sequence in which the measures were presented did not yield any meaningful difference in support.*

Q4.



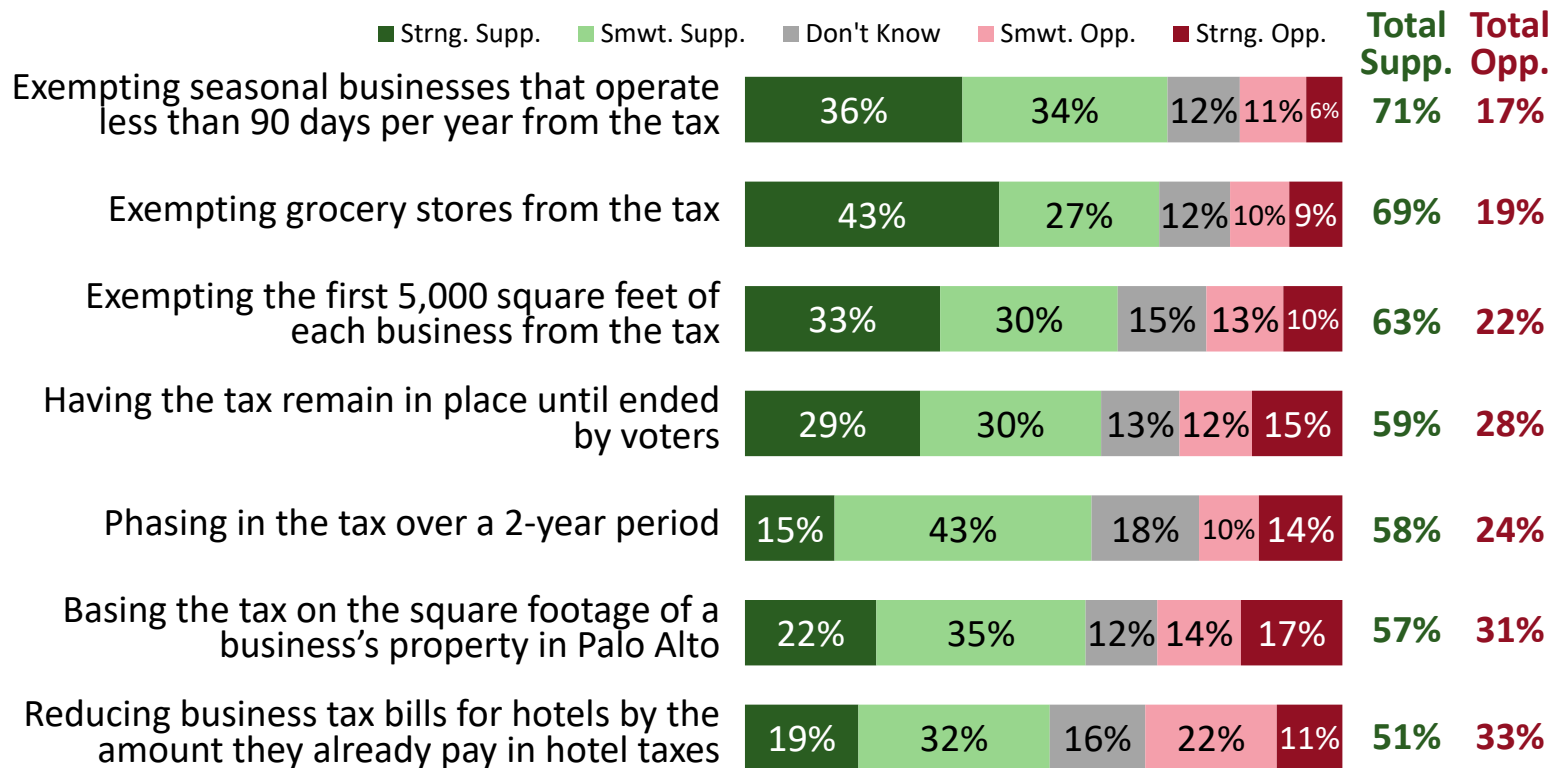
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# Structuring a Business Tax

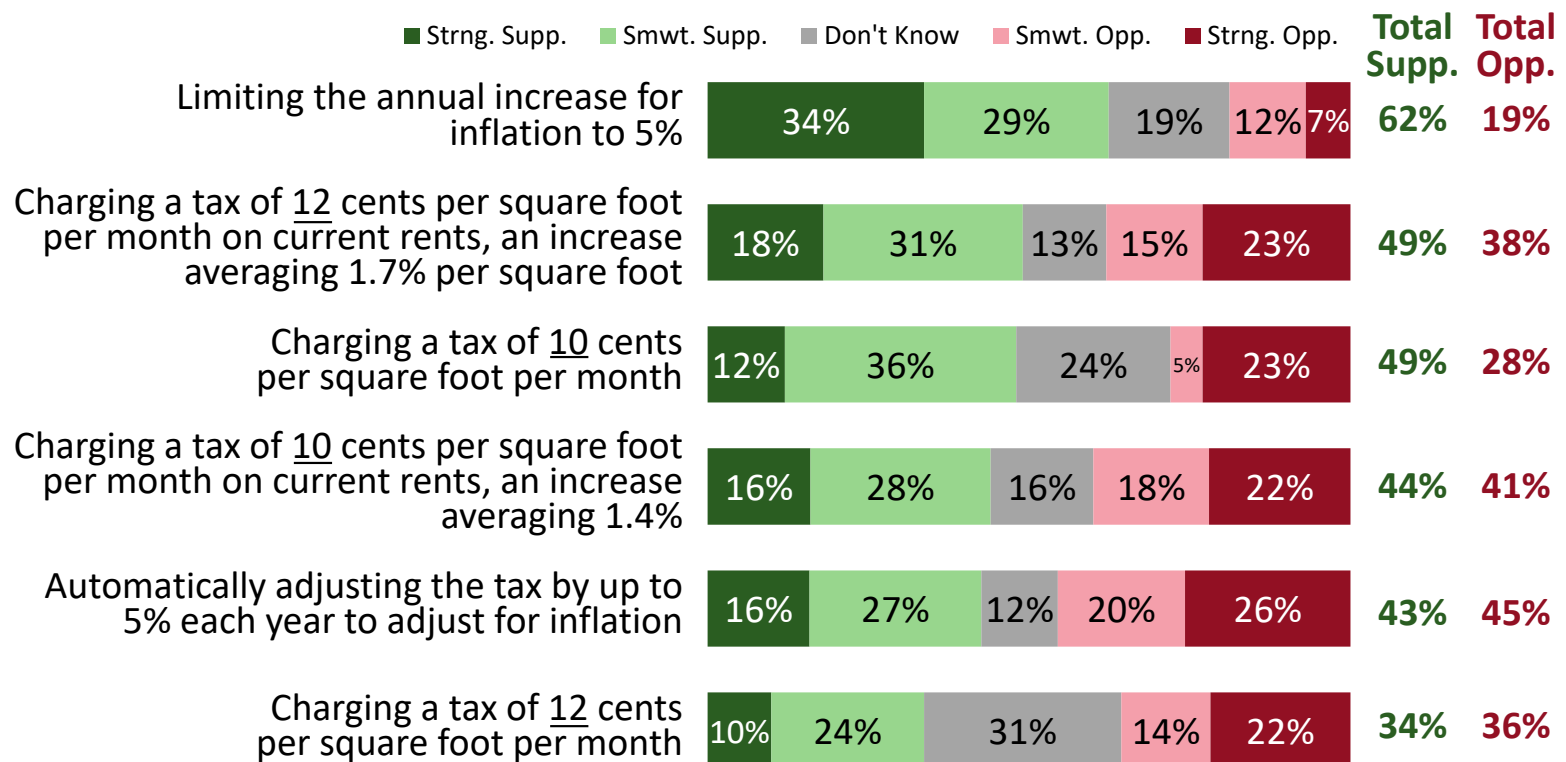
# Voters broadly support a variety of exemptions and phasing in the tax over two years.

*I am going to read you a list of some of the major provisions of this measure.  
Please tell me whether you support or oppose that aspect of the measure.*

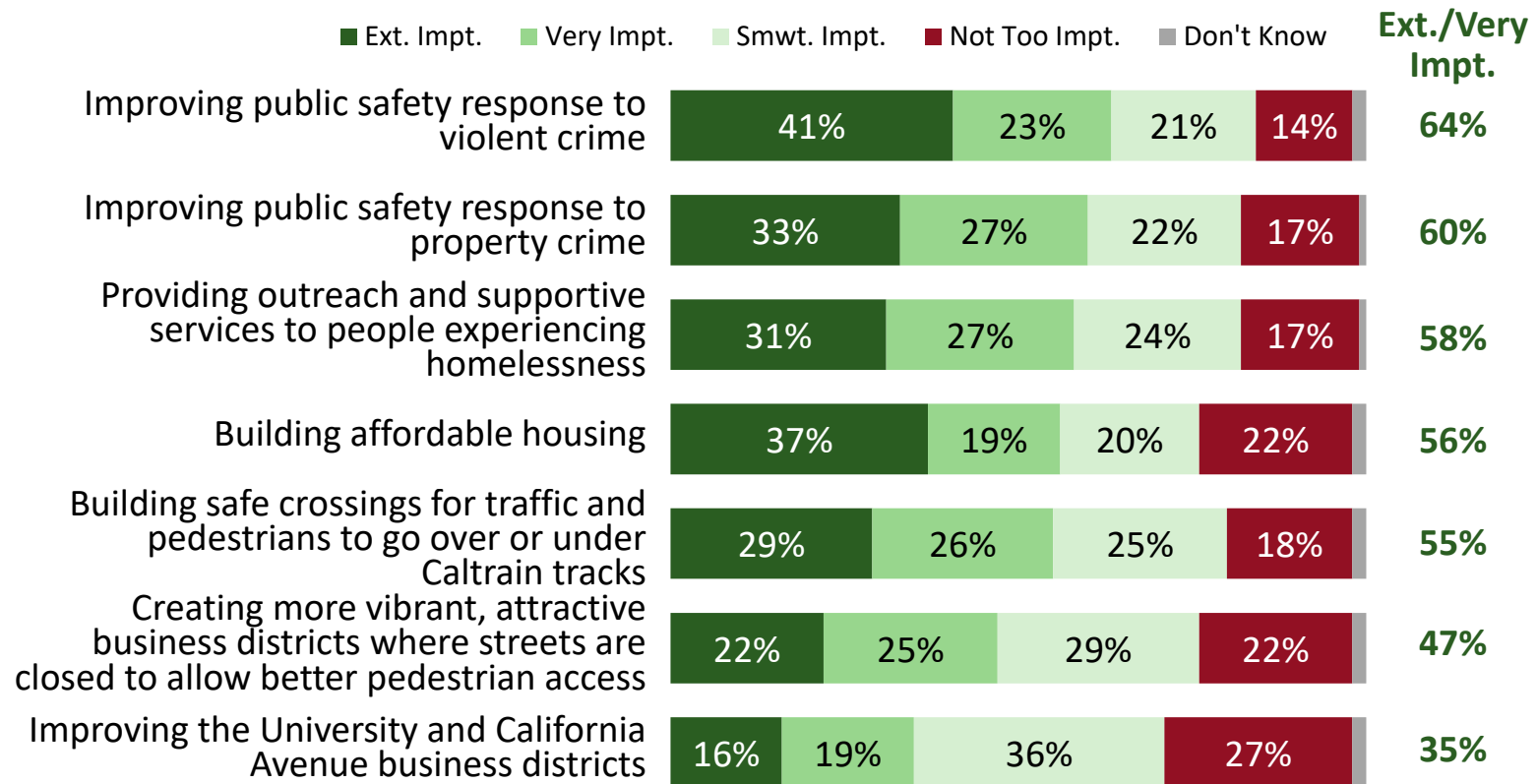


# Three in five support a cap on inflation increases; tax rates are divisive.

*I am going to read you a list of some of the major provisions of this measure.  
Please tell me whether you support or oppose that aspect of the measure.*



## Among potential uses of money, voters prioritize improving response to crime.





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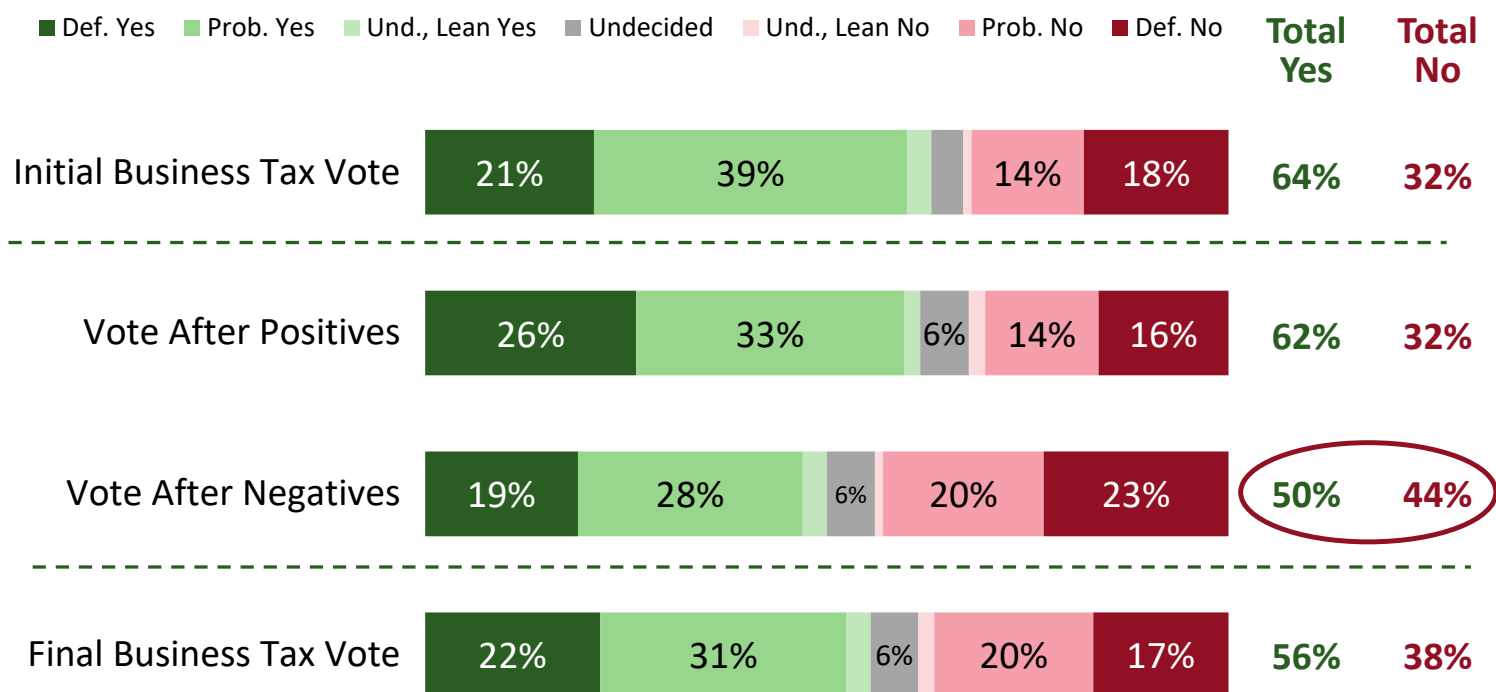


# Impact of Messaging on the Business Tax



# Negative messaging drives support for the measure down to 50%.

*Positives and Negatives Rotated  
Mid-Point Vote Margins of Error +/-6.9%*



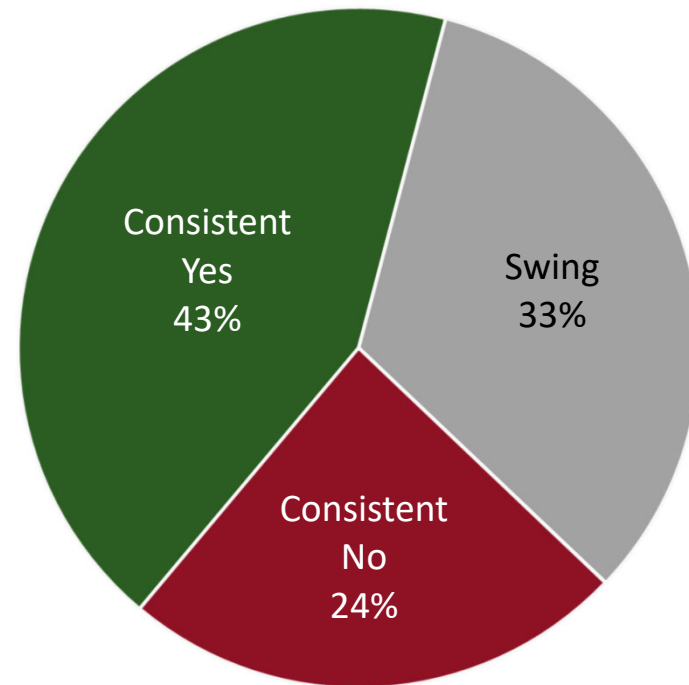
# Segmenting the Electorate by Consistency of Support for a Business Tax

❖ **Consistent Yes:** Voters who consistently indicated they would vote “yes” on the measure

❖ **Consistent No:** Voters who consistently indicated they would vote “no” on the measure

❖ **Swing:** Voters who do not fall into any of the other categories – remaining consistently undecided or switching positions

The following slide shows demographic groups that *disproportionately* fall into one category or the other.



# Demographic Profile of the Segments

*Business License Tax Measure*

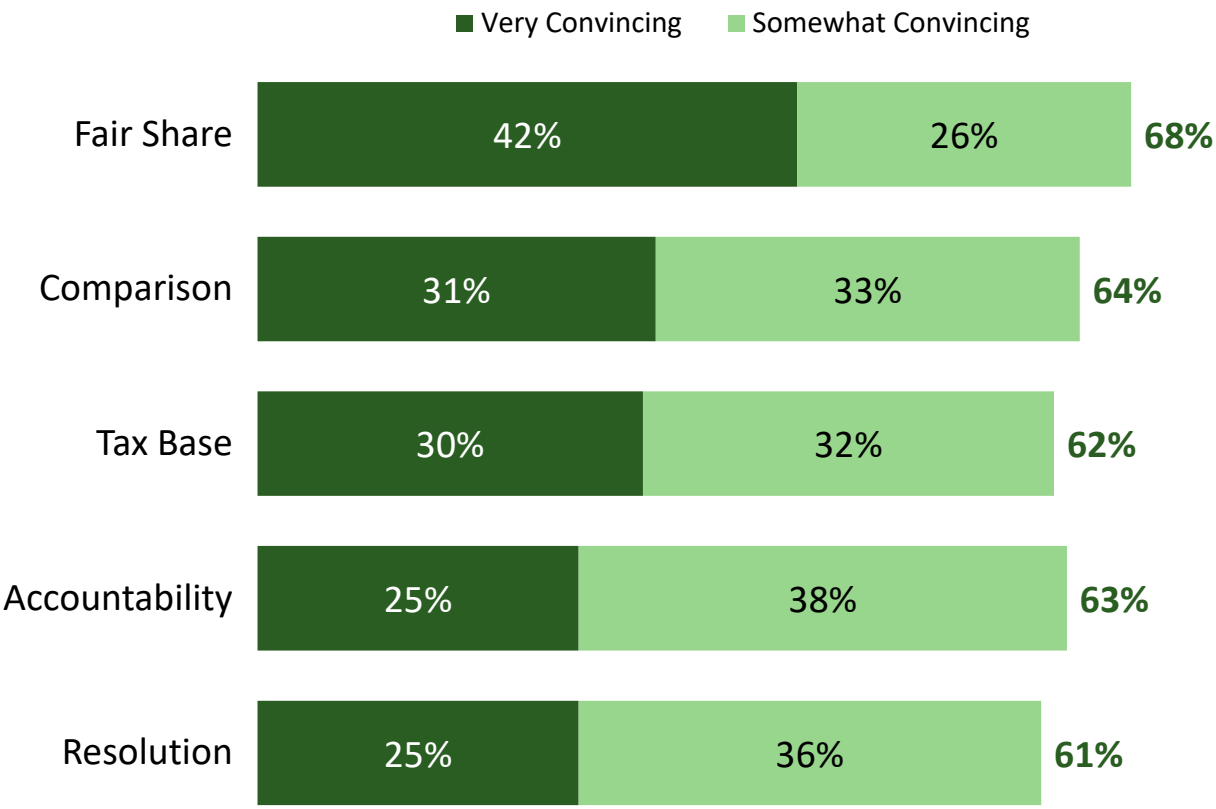
Consistent Yes	Swing	Consistent No
<b>43% of the Electorate</b>	<b>33% of the Electorate</b>	<b>24% of the Electorate</b>
Ages 18-29	Own Palo Alto Business	Republican Men
Democratic Women Ages 18-49	Independent Women	Republicans Ages 50+
Democrats Ages 18-49	Women Ages 50+	Republicans
Women Ages 18-49	Democratic Women Ages 50+	Men Ages 50+
Democratic Men Ages 18-49	Independents Ages 18-49	Independents Ages 50+
Non-College Educated Women	Ages 30-39	Independent Men
Renters	Ages 40-49	ZIP Code 94301
Ages 18-49	Women	Ages 75+
Some College or Less	Democrats Ages 50+	College-Educated Men
Democratic Women	Ages 65+	Ages 65+
Ages 30-39	Independents	Homeowners
Non-College Educated Men	Asians/Pacific Islanders	Ages 50+
Democrats	Ages 75+	Men
Men Ages 18-49	Ages 65-74	Ages 50-64
Whites		Ages 65-74

# Support Messages Tested

(Ranked by Very Convincing)

42%	<b>(FAIR SHARE)</b> Palo Alto currently registers businesses of all sizes for \$50. That means a mom-and-pop coffee shop pays the same as a tech company with thousands of employees. This measure is a sensible way to ensure large businesses pay their fair share for the services the City provides and that their employees enjoy, like affordable housing and police and fire protection.
31%	<b>(COMPARISON)</b> Palo Alto does not have a business tax, unlike most communities in California. Several nearby communities have significant taxes on business, such as East Palo Alto's tax of \$2.50 per square foot annually on commercial office space over 25,000 square feet and San Francisco's business tax of \$2.85 to \$5.60 per \$1,000 of gross receipts annually. This tax would align Palo Alto's tax system with those of other cities in the area.
30%	<b>(TAX BASE)</b> This measure is not a tax on homeowners or shoppers, but on the city's largest businesses. Sales taxes continue to decline in Palo Alto, and by diversifying the City's tax base with a thoughtfully designed business tax, we will be better able to weather future financial crises without having to raise taxes on everyday residents.
25%	<b>(ACCOUNTABILITY)</b> This measure will be subject to strict accountability provisions like annual financial audits; full public disclosure of all spending; and a requirement that all funds be spent locally in Palo Alto. This will ensure funds are used efficiently, effectively, and as promised.
25%	<b>(RESOLUTION)</b> Though this measure will be a general tax that can fund any city need, the City Council has committed to approving a plan before the election so that voters know exactly how it will spend the money: on public safety, affordable housing, homelessness, and improving the safety of rail crossings.

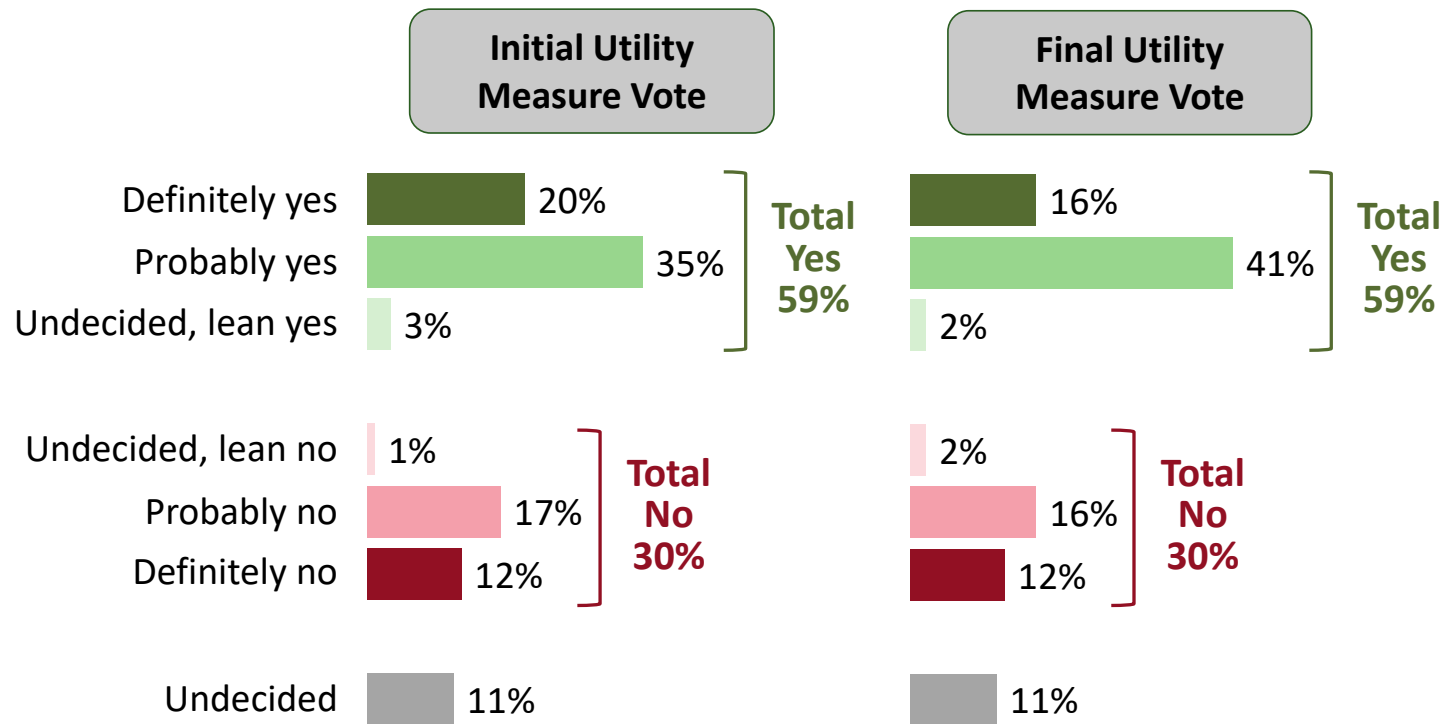
# Describing how the measure would make business taxes fairer is broadly compelling.



## Negative Message Provided

The cost of living is out of control and inflation is on the rise – now is not the time to be raising taxes. Local rents and taxes are already among the highest in the nation, and we can't afford another business tax this size. In addition, this tax has no expiration date on it – it's a forever tax that includes an automatic cost escalator, meaning that the tax will increase every year, giving the City a blank check for hundreds of millions of dollars.

## After pros and cons on the business tax measure, support for the utility measure is holds steady – broad, but soft.





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# Conclusions



# Conclusions

- Skepticism of the electorate continues to grow, as it is in many cities around the region, with a plurality of voters saying the City is on the wrong track for the first time.
- With hypothetical measure language, a business tax measure has support from just under two-thirds (64% to 32%); after pros and cons, 56% support it.
- At the same time, the measure shows signs of soft support:
  - Only one in five say they would “definitely” vote for the measure, both before and after messaging.
  - After exposure to negative messaging, the measure leads by only a narrow 50% to 44% margin.
- Voters are comfortable with a measure that caps inflation adjustments at 5%. There is no consistent preference between a 10-cent and 12-cent per square foot rate.
- Voters are most enthusiastic about allocating new funding toward public safety, affordable housing, and outreach to the unhoused
- A measure ratifying utility fund transfers appears viable; it has support from three in five voters before and after messaging.

## **For more information, contact:**



**OPINION  
RESEARCH  
& STRATEGY**

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## DRAFT BALLOT MEASURES

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- A) Affirmation of Natural Gas Transfer
- B) New Business Tax

# AFFIRMATION OF NATURAL GAS TRANSFER BALLOT MEASURE

<b>Purpose</b>	<ul style="list-style-type: none"><li>• Affirm the City's practice of annually transferring from the natural gas utility (established in City charter decades ago)</li></ul>
<b>Rate</b>	<ul style="list-style-type: none"><li>• Transfer up to 18% of the gross revenues</li><li>• <u>No change</u> in natural gas utility rates</li></ul>
<b>Calculation</b>	<ul style="list-style-type: none"><li>• Measured by gross revenue of the utility</li><li>• Transfer included as a cost of providing gas services in utility rates for City's retail natural gas</li></ul>
<b>Council Authority</b>	<ul style="list-style-type: none"><li>• Council may decide to transfer a lesser amount from voter approved levels</li></ul>



**Net revenue ~\$4M**  
(based on current contributions)

# SERVICES FUNDED BY NATURAL GAS TRANSFER

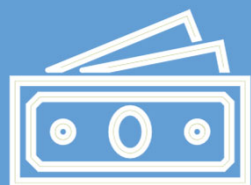
**\$4 million in reserves is available to pay for services in these areas. (2yr budget strategy)**  
If the natural gas transfer is not affirmed, these services will likely be cut.

Examples of services likely to be cut if not affirmed by voters:

- Police units: health, safety, and outreach to unhoused population; psychiatric emergency response team (PERT); and investigations
- 9-1-1- dispatch staffing
- Fire/emergency medical response staffing and hazmat services
- Community services: public art, fine arts camps, twilight concert series, Junior Museum and Zoo, Children's Theater productions, open space preserve staffing
- Library hours



# BUSINESS TAX BALLOT MEASURE



**Gross Revenue**  
~\$19M-\$25M

(depends on final characteristics)

<b>Purpose</b>	Fund general government services and programs
<b>Rate</b>	<ul style="list-style-type: none"> <li>• \$0.10/sq ft per month OR \$0.12/sq ft per month</li> <li>• Increase by bay area inflation (CPI), not to exceed 5% annually</li> <li>• Continue existing Business Registry Certificate Program for all eligible businesses</li> </ul>
<b>Exemptions &amp; Credits</b>	<ul style="list-style-type: none"> <li>• Small businesses (first 5,000 square feet of all businesses)</li> <li>• Grocery or Supermarket stores</li> <li>• Seasonal businesses operating less than 90 days</li> <li>• Potential Credits: 1) other hotel tax, certain sales tax already paid by a business, 2) vacant space</li> </ul>

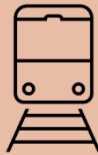
# RESOLUTION OF INTENT SPENDING PRIORITIES – BUSINESS TAX

Foundational step to ensure funding for residents, business, and visitor needs in the future.



## **New/Enhanced Services**

(incl. Public safety)



## **Train Crossing Safety**

(Transportation, CalTrain  
railroad grade separation)



## **Affordable Housing/ Unhoused Services**



## **Invest in downtown cores streetscape/ pedestrian plaza**

Resolution of Intent identifies spending priorities.

Decisions on allocation of funds to be made annually by the sitting Council. By law, the proceeds of this potential measure will be placed in the City's general fund and may be spent on any general government purposes. These scenarios are not binding.



# ADDITIONAL BUSINESS TAX REFINEMENT

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Key Policy Questions &  
Resolution of Intended Spending Priorities

[www.cityofpaloalto.org/fiscalsustainability](http://www.cityofpaloalto.org/fiscalsustainability)



## ADDITIONAL RESEARCH & ANALYSIS

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### Sales & Use Tax Offset Impact

- \$1.3M-\$3M across all businesses
- Monthly \$0.10/sf:
  - \$22M -> \$20.7M-\$19M
- Monthly \$0.12/sf:
  - \$26M -> \$24.7M-\$23M

### TOT Remittal Offset Impact

- \$1.4M-\$1.8M through FY 2028
- Revenue estimates (\$22M/\$26M) assume hotel exemption

## RELATIVE SQUARE FOOTAGE BY SECTOR

Square footage by business category as a percentage of total

- One-third of businesses in Palo Alto will not be assessed business tax under the 5,000 sq ft exemption.

### Office, Flex & Industrial

- Tax payer majority is within the 20K-100K sq ft range
- Two businesses in the 500K+ tier

### Retail/Restaurants

- Majority exempt (<5,000 sf)
- 35% are regional shopping center businesses

Use by Size	Total Office, Flex, & Industrial	Total Retail (Excludes Groceries)	Total Sq Ft (millions)
0-5,000 (exempt)	55%	44%	1.27
5,001-10,000	66%	33%	1.89
10,001-20,000	76%	21%	2.87
20,001-50,000	83%	11%	5.84
50,001-100,000	86%	8%	7.08
100,001-200,000	74%	13%	4.21
200,001-500,000	65%	35%	2.99
500,001+	100%	0%	1.21
<b>Total</b>	<b>78%</b>	<b>17%</b>	<b>27.36</b>

## KEY POLICY QUESTIONS & STAFF RECOMMENDATIONS



<b>A) Effective date of tax assessment</b>	<ul style="list-style-type: none"> <li>• Retrospective; quarterly, delinquent within 30 days</li> <li>• January 2023, lump sum due early 2024</li> </ul>
<b>B) Treatment of vacant property</b>	<ul style="list-style-type: none"> <li>• Not be assessed as part of tax; would report vacant square footage and apply for an offset/credit</li> </ul>
<b>C) Calculation of sq ft for multiple locations/facilities</b>	<ul style="list-style-type: none"> <li>• Aggregate total of all locations/facilities</li> <li>• Offsets/credits would be aggregate</li> <li>• First 5,000 sq ft would be applied to aggregate</li> </ul>
<b>D) Residential property</b>	<ul style="list-style-type: none"> <li>• Exclude living areas solely for individuals or families (apartments and bedrooms)</li> <li>• Include common areas, areas where commercial services are provided</li> </ul>
<b>E) Property mgmt. businesses</b>	<ul style="list-style-type: none"> <li>• Areas occupied by property management functions</li> </ul>
<b>F) Offset/credit allocations</b>	<ul style="list-style-type: none"> <li>• Sales &amp; Use Tax: 2:1 ratio, up to ____% of tax liability</li> <li>• TOT: 1:1 ratio</li> </ul>



## NEXT STEPS & COUNCIL ACTION

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### Timeline

[www.cityofpaloalto.org/fiscalsustainability](http://www.cityofpaloalto.org/fiscalsustainability)

# REMAINING MILESTONES

## May:

- Finance Committee FY 2023 budget hearings
- 3<sup>rd</sup> & final round of polling
- Focus groups & community information presentations

## August:

- August 12 is last day to submit ballot measures to Registrar of Voters

## November:

- Election November 8, 2022

## June:

- Council adoption of FY 2023 budget & fees
- Council direction on draft ordinance (informed by poll)
- Council decision on ballot measures for voter consideration

## September/October:

- City may provide informational material that is impartial, fact-based, and avoids advocacy



## DRAFT COUNCIL MOTION

The City Council directs staff to:

- A. Return to the City Council on June 20 with completed documents for placement of a ballot measure on the November 2022 election for affirmation of the natural gas utility transfer as outlined in Attachment D and summarized in Table 2.
- B. Return to the City Council with completed documents for placement of a ballot measure on the November 2022 election for a new business tax with the following refinements:
  - i. Effective date and timing of tax assessment: retrospective basis beginning January 1, 2023, lump sum due early 2024; quarterly beginning January 1, 2025, delinquent within 30 days
  - ii. Vacant property not be assessed as part of tax; business to report vacant square footage and apply for an offset
  - iii. Businesses with multiple locations and/or facilities: square footage and offsets/credits to be assessed in the aggregate
  - iv. Residential property/use: exclude living area square footage solely for individuals or families; include common areas where commercial services are provided
  - v. Property management businesses: areas occupied by property management functions
  - vi. Offset for sales and use tax using a 2:1 ratio up to \_\_\_\_% of business tax liability
  - vii. Offset for transient occupancy tax remittance using a 1:1 ratio for business tax liability
- C. Return to City Council with a final Resolution to inform the public of Council's intentions regarding use of Business Tax proceeds if passed by voters with the following refinements:
  - i. ...



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