

COUNCIL MEETING

8/10/22

☒ Received Before Meeting

AA1



CITY OF
PALO ALTO

NOVEMBER 2022 BALLOT MEASURES

City Council, Item #AA1

August 10, 2022

www.cityofpaloalto.org/fiscalsustainability

OVERVIEW

Conversations between the ad hoc committee and business coalition continued after Monday's Council meeting.

Staff has a proposal that seeks to balance needs and provide a major step to address economic uncertainties and stabilize the City's fiscal health.

Proposal would ensure new revenue for critical initiatives:

- Public safety
- Housing
- Transportation
- Sustainability efforts
- Restoration of valuable city services beyond next two years



LOCAL ECONOMY ECOSYSTEM



RESIDENTS



BUSINESS/
COMMERCIAL



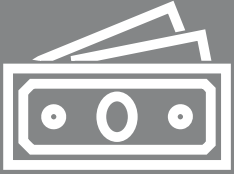
VISITORS/
COMMUTERS

This approach recognizes the interdependencies in our local economy:

- A robust business environment enables broad-ranging services for residents
- Small businesses depend on other businesses as well as residents as customers
- Larger businesses bring visitors that stay in hotels
- All businesses contribute to utilities revenues, roughly 50% of gas utility revenues and 70% of electric, and associated General Fund transfers

STAFF PROPOSED - BUSINESS TAX BALLOT MEASURE

(Attachment A)



Net Revenue
~\$9.6M

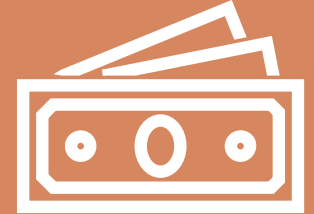
To fund general
government services &
programs

1. A monthly rate of **\$0.075 per sq ft** for all non-exempt businesses above 10,000 sq ft.
2. An annual cap of \$500,000 annually, to be adjusted as noted below.
3. A flat 2.5% increase annually to be applied to both the monthly rate and the tax cap, beginning fiscal year 2026-2027.
4. Commitments for annual reporting of proceeds and expenditures
5. Minor clerical corrections to ordinance

AFFIRMATION OF NATURAL GAS TRANSFER BALLOT MEASURE

(Attachment B)

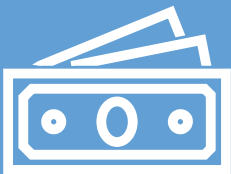
Purpose	<ul style="list-style-type: none">Affirm the City's practice of annually transferring from the natural gas utility (established in City charter decades ago)
Rate	<ul style="list-style-type: none">Transfer up to 18% of the gross revenues<u>No change</u> in natural gas utility rates due to passage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



Gross revenue ~\$7M
(based on current contributions)

COUNCIL DIRECTED - BUSINESS TAX BALLOT MEASURE (August 8th)

(Attachment C)



Net Revenue
~\$16.5M
To fund general
government services &
programs

**Rate &
Timing**

- Monthly rate of \$0.11/sf for all non-exempt businesses
 - A tax cap at \$1.0 million annually, adjusted by CPI
- Increase by bay area inflation (CPI), not to exceed 5% annually
- Continue existing Business Registry Certificate Program for all eligible businesses
- Tax to be imposed Jan 2023, first collection Jan 2024.
 - 50% of above rates for first 24 months; full tax rate Jan 2025.
- 35-year sunset, ending 2058

**Exemptions
& Credits**

- Small businesses (first 10,000 square feet of all businesses)
- Grocery or Supermarket stores
- Seasonal businesses operating less than 90 days
- Residential space
- Tax Credits: 1) hotel tax, 2) certain sales tax paid by a business (2:1, up to 75%), 3) vacant space

TRANSLATING NEW PROPOSAL TO SERVICES

Examples of investments that funding, if passed, would be sufficient to support

Public Safety ~\$5.2M

- Support service delivery such as PERT Teams, new 24hr Ambulance, Investigations

Train Crossing Safety ~\$3.2M

- Matching funds for grade separation, funding at least one grade crossing

Affordable Housing ~\$3.2M

- Support RHNA goals; e.g. equivalent of 2 affordable housing projects akin to the Wilton Court project OR annually assist in build of 3-10 affordable housing units

Other Service Restorations ~\$2M

- Ensure stability of core services supporting arts, PA Junior Museum & Zoo, Children's Theater, library hours, planning staffing, and downtown housing plan

NEW STAFF PROPOSAL - MOTION

Staff recommendations include restructuring a Business Tax and adding the Gas Transfer measure to the ballot support approximately \$16.6 million in revenue on an annual basis.

1. Repeal Resolution 10062, adopted on Monday August 8, 2022, which placed a business tax on the November 8, 2022 at a rate of 11 cents per square foot, capped at \$1 million per business, raising approximately \$16.5 million annually.
2. Adopt the Resolution before Council this evening calling an election for November 8, 2022 for submittal to the qualified electors of the City a measure amending Title 2 of the Municipal Code to add Chapter 2.37 to establish a tax on businesses operating in the City of Palo Alto, which includes a revised business tax at a rate of 7 ½ cents per square foot of occupied space, capped at \$500,000 per business, with annual 2.5% increases in the tax rate and cap, raising approximately \$9.6 million annually (Attachment A).
3. Adopt the Resolution before Council calling an election for November 8, 2022 for the submittal to the qualified electors of the City a measure affirming the City's natural gas utility general fund transfer (Attachment B), raising approximately \$7 million annually (Attachment B).
4. Direct staff to return to Council with a revised Advisory Spending Resolution that includes additional language on fiscal reporting and transparency, to be placed on the Consent agenda in August.

ALTERNATIVE MOTION

If Council does not adopt the staff recommended business tax (Attachment A) and gas utility transfer (Attachment B), staff recommends that Council repeal and readopt the August 8 business tax.

This corrected measure is Attachment C in the materials submitted for Council consideration today to address the erroneously-omitted offset for vacant space and correct minor typographical errors.



CITY OF
**PALO
ALTO**