

Dutt, Sangita

From: slevy@ccsce.com
Sent: Saturday, June 11, 2022 11:38 AM
To: Council, City
Cc: Shikada, Ed; Nose, Kiely
Subject: Business tax proposal

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Dear Mayor Burt and council members,

In 2019 I publicly supported the business tax being discussed at the Finance Committee and consultant findings.

But I am not able now to support the current proposal.

Here are my reasons, suggestions and comments.

1) The staff report picked up in a Daily Post headline says that the top five companies in terms of footage will pay only 20% of the total BR revenue.

I ask staff to tell in whatever detail is appropriate, who will pay the other 80%.

The BT is being promoted as a fair share tax for (basically) large, profitable tech companies.

But it appears that they will actually not pay the bulk of the tax.

IT IS IMPORTANT TO KNOW WHO IS PAYING THE BULK OF THE REVENUE TO BE ABLE TO ASSESS EQUITY AND COMPETITIVENESS CONSIDERATIONS.

This is especially true if council approves the recommendations to provide offsets to those paying transient occupancy or sales taxes. I would exempt them completely but this proposal goes part way.

AND

if big hotels and retail stores are mostly exempt, then it really does focus on who the heck is actually bearing most of the burden from the proposed tax.

2) In the 2019 discussions equity and competitiveness were designated criteria for evaluating a BT. They seem to have disappeared from any evaluation.

Comment

Since most non tech businesses of whatever size (the 80% we do not know much about) have been struggling, in part, from trends that will continue--such as work from home, online shopping, I see serious equity challenges in the current tax.

Add to that, many of the missing 80% employ large numbers of low-wage workers.

Both the 20% and the 80% raise competitiveness issues as well as economic response likelihoods that were going to be addressed in the 2019 round.

For the 20%, leaving is always a possibility though I am not arguing that here. I do think with work from home already and a tax on used square footage, that we should expect some space economizing responses and discount the expected revenues accordingly.

For the 80%, we see closures every week. While some may be exempt under the 5,000 square foot exemption, not all will benefit. With a decline in customers here, not everyone will stay.

Many of our neighboring cities are welcoming new jobs with a competitive attitude. To argue that on one will leave lacks logic.

And these workers are customers for our small businesses.

3) I saw two other staff recommendations in their report--one is a step forward and one raises questions. I like the recommendation not to tax vacant space and see above for how that might grow.

With regard to companies with multiple sites, I can see the logic for aggregating sites for, say, Palantir but see no rationale for doing this for businesses like Coupa and CVS that operate separate locations to serve separate customers mostly.

4) Suggestions

In the 2019 round, we were discussing broad exemptions.

I would exempt retail, restaurants and raise the exemption to closer to the EPA first 25,000 square feet--perhaps 10,000 or 15, 000 square feet..

This serves the equity goal and makes the tax closer to council rhetoric that the tax is focused on large tech employers.

Then I would ask staff to then discuss what we learned from the 2019 round about competitiveness.

5) Related to point 4 is the finding that in many cases the proposed tax is much higher than the tax burden in neighboring cities as was found for the then higher tax proposals in the 2019 round.

Professionally I see no grounds for the Palo Alto has cache argument with perhaps a few exceptions. Our vacancy trends support this.

6) it is probably too late now but I wish the survey had explored alternatives like, for example, would you favor the tax more if x and y were exempted? or would you favor the tax more if the uses were guaranteed under the ballot measure? or would you favor the tax more if all businesses with less than 10,000 square feet were exempt?

Stephen Levy

Director

Center for Continuing Study of the California Economy

Dutt, Sangita

From: Shweta Bhatnagar <shwetab@stanford.edu>
Sent: Tuesday, June 7, 2022 4:40 PM
To: Council, City
Subject: JVSV Institute for Regional Studies - Business Tax Comparison Study
Attachments: Business Tax Comparison Summary_Final.pdf

CAUTION: This email originated from outside of the organization. Be cautious of opening attachments and clicking on links.

Dear Palo Alto City Council Members,

Stanford University has been monitoring the discussions taking place in the city regarding a new business license tax which may be placed on the November 2022 ballot. There has been some discussion in the community and by Council as to how this tax compares to business taxes in neighboring jurisdictions. To help find that information, Stanford contracted the Institute for Regional Studies at Joint Venture Silicon Valley, to conduct a business tax comparative analysis with neighboring jurisdictions to get baseline data. We wanted to share the report with you for your reference as you continue your discussions. The findings in this report were determined by the Institute for Regional Studies, not by Stanford University.

Please feel free to contact me if you have any questions.

With regards,
Shweta

Shweta Bhatnagar
Senior Director, Government Affairs
Office of Government Affairs
Stanford University
650-723-4708 | shwetab@stanford.edu



Stanford University

Business Tax Comparison Matrix

Select Silicon Valley Jurisdictions

Background

Stanford engaged the Silicon Valley Institute for Regional Studies to conduct a business tax analysis; the goal of the study was to compare the proposed tax structure in Palo Alto to those being implemented in specific nearby jurisdictions.

Methodology

Stanford provided parameters for the analysis, including the number of employees and square footage for four proxy companies, each representing a business currently located in Palo Alto that would be affected by a business tax across several size categories.

Employee Count (EC)	3,500	2,000	400	50
Square Footage (SF)	1,500,000	500,000	100,000	25,000

In addition to Palo Alto, five comparison jurisdictions were included in the analysis: one with a square footage-based business tax (Cupertino) and four with business taxes based on employee count (Mountain View, Redwood City, San Jose, and Santa Clara).¹

Using the inputs provided by Stanford, business taxes were estimated for each proxy company in five jurisdictions. Business tax regulations and algorithms were obtained through the individual jurisdictions' websites. An average business tax for each proxy company was calculated across the five jurisdictions. A sensitivity analysis for Palo Alto was conducted based on three proposed tax rates which were provided by Stanford. In addition, a reverse-engineered Palo Alto tax rate for each proxy company was calculated based on the average tax paid across the five jurisdictions.

A comparison of the maximum business tax escalator currently under consideration in Palo Alto (5% annually) to those in all five additional jurisdictions was conducted with projections in Palo Alto through year 12.²

Assumptions for each proxy company included:

- All employees are full-time.

¹ An additional three jurisdictions with business taxes based on gross payroll, gross receipts, or a combination of the two (East Palo Alto, Fremont, and San Francisco) were originally to be included; however, they were ultimately excluded due to the lack of publicly available data necessary for the analysis.

² Palo Alto is considering an annual escalator based on the Consumer Price Index (CPI) with a maximum rate cap of five percent.

- For the Palo Alto estimations, the first 5,000 square feet of total company square footage are exempt (based on Palo Alto City Council directives).
- The companies do not qualify for any other business tax exemptions.

For the Palo Alto comparison, the proposed business tax based on square footage was analyzed using three different rates (\$.05, \$.10, and \$.15 per square foot per month).

Findings

Of the five local jurisdictions included in the business tax comparison, the most common form of business tax is by employee count (four out of five jurisdictions; Cupertino uses an algorithm based on square footage – similar to the tax being considered in Palo Alto). Several jurisdictions have a maximum rate in effect, and Santa Clara has a flat tax (as opposed to an incremental one).

Overall, Santa Clara had the lowest business tax for each of the four proxy companies when compared to other jurisdictions, bringing down the averages noted below. The city is currently in the process of revamping its business tax structure, though, and is considering replacing its \$500 maximum with a tax based on employee count.

Across the five jurisdictions by proxy company, estimated annual business taxes ranged from:

Low	High	Average	Proxy Company
\$500	\$396,700	\$116,200	1,500,000 SF/3,500 employees
\$500	\$209,200	\$69,600	500,000 SF/2,000 employees
\$460	\$26,700	\$11,500	100,000 SF/400 employees
\$100	\$2,400	\$1,200	25,000 SF/50 employees

Three out of four proxy companies (with the exception of the smallest proxy company) would pay the most taxes in Mountain View³.

³ Mountain View Business License Tax estimates are based on the full tax rate that went into effect on Jan. 1, 2022.

Business Taxes by Proxy Company								
Employee Count (EC)	3,500	Diff from Average	2,000	Diff from Average	400	Diff from Average	50	Diff from Average
Square Footage (SF)	1,500,000		500,000		100,000		25,000	
Cupertino (SF)	\$11,329	-\$104,831	\$6,129	-\$63,479	\$3,284	-\$8,196	\$1,082	-\$163
Mountain View (EC)	\$396,695	\$280,535	\$209,195	\$139,587	\$26,695	\$15,215	\$445	-\$799
Redwood City (EC) Max: \$5,966	\$5,966	-\$110,194	\$5,966	-\$63,642	\$5,966	-\$5,514	\$2,422	\$1,178
San Jose (EC) Max: \$166,311	\$166,311	\$50,151	\$126,248	\$56,640	\$20,993	\$9,513	\$2,174	\$929
Santa Clara (EC) Max: \$500	\$500	-\$115,660	\$500	-\$69,108	\$460	-\$11,020	\$100	-\$1,144
Average business tax paid:	\$116,160		\$69,608		\$11,480		\$1,244	
Palo Alto (SF) Annual Rate:								
\$0.60	\$897,000	\$780,840	\$297,000	\$227,392	\$57,000	\$45,520	\$12,000	\$10,756
\$1.20	\$1,794,000	\$1,677,840	\$594,000	\$524,392	\$114,000	\$102,520	\$24,000	\$22,756
\$1.80	\$2,691,000	\$2,574,840	\$891,000	\$821,392	\$171,000	\$159,520	\$36,000	\$34,756
Estimated annual tax rate to place Palo Alto at the avg. of five comparison jurisdictions	\$0.08		\$0.14		\$0.12		\$0.06	

Notes: All proxy company inputs are provided by Stanford. First 5,000 SF in Palo Alto are exempt from tax. Mountain View Business License Tax estimates are based on the full tax rate that went into effect on Jan. 1, 2022.

Source: Business tax regulations as described on jurisdiction's website. Palo Alto rates provided by Stanford.

The following key findings were based on the Palo Alto business tax scenarios using three different annual tax rates (\$0.60, \$1.20, and \$1.80 per square foot per month):

- Even at the lower rate of \$.60/SF, companies would pay between 77% (or approximately four times) and 90% (or approximately 10 times) more in Palo Alto than the average tax paid across all five comparison jurisdictions.
- Reverse engineering the business tax rate in Palo Alto to equal the average across the five comparison jurisdictions results in a business tax rate of \$0.06/SF/year (for a company with 25,000 SF) to \$0.14/SF/year (for a company with 500,000 SF). These rates are significantly less than the annual rates of \$.60-\$1.80/SF/year currently under consideration in Palo Alto.
- As a comparison, a proxy company with 50 employees/25,000 SF would pay approximately \$2,400 annually in Redwood City, while in Palo Alto the business would pay between \$12,000 to \$36,000 - nearly five to 15 times more in annual taxes based on the range of tax rates under consideration in Palo Alto. These estimates reflect the exemption of the first 5,000 SF from the tax and illustrate the additional tax burden that will be placed on Palo Alto's smaller companies such as start-ups and Main Street businesses.

Dutt, Sangita

From: Clerk, City
Sent: Tuesday, June 7, 2022 12:18 PM
To: Council, City; Shikada, Ed; Nose, Kiely
Subject: FW: Proposed Business Tax
Attachments: bgsPA Bus Tax v.4(les).docx

Good afternoon,

We received the attached letter from the chairs of the Resident Advisory Council and the Resident Finance Committee at the Vi at Palo Alto addressed to Ed, Kiely, and Council Members.

Thank you,

Sangita Dutt
 Administrative Assistant
 Office of the City Clerk
 250 Hamilton Avenue
 Palo Alto, CA 94301
 P: 650.329.2363
sangita.dutt@cityofpaloalto.org
www.cityofpaloalto.org

-----Original Message-----

From: Les Denend <ldenend@earthlink.net>
 Sent: Tuesday, June 7, 2022 12:13 PM
 To: Clerk, City <city.clerk@cityofpaloalto.org>
 Subject: Proposed Business Tax

[You don't often get email from ldenend@earthlink.net. Learn why this is important at <https://aka.ms/LearnAboutSenderIdentification>]

CAUTION: This email originated from outside of the organization. Be cautious of opening attachments and clicking on links.

I request you insure members of the City Council received the attached letter from the chairs of the Resident Advisory Council and the Resident Finance Committee at the Vi at Palo Alto. Thank you.

The Vi at Palo Alto
620 Sand Hill Road, Apt. 204F
Palo Alto, CA 94304

June 7, 2022

Ms. Kiely Nose
Chief Financial Officer – City of Palo Alto
250 Hamilton Avenue
Palo Alto, CA 94301

Mr. Ed Shikada
City Manager - City of Palo Alto
250 Hamilton Avenue
Palo Alto, CA 94301

Re: Proposed Palo Alto Business Tax –Clarification Needed to Exclude Residential and Senior Housing

Dear Ms. Nose and Mr. Shikada:

We chair the **Resident Advisory Council and the Resident Finance Committee*** at the Vi Senior Living Community in Palo Alto. We live there and are writing on behalf of the approximately 600 Vi at Palo Alto residents to object to Palo Alto's recently proposed business license tax on business square footage. We have reviewed the City's draft proposal and have the following comments and concerns.

This is a business tax on business square footage. It should be clear that it will not include apartments or senior housing. The proposal needs to include provisions that explicitly state that this square footage tax will not extend to any space used or intended to be used for individual residences, including senior housing. Excluded senior housing should include independent living spaces as well as living spaces in which assisted living or skilled nursing care is provided. It should also be clear that excluded senior housing includes meeting rooms, dining halls, recreational facilities, health care facilities and all the other areas that make up a senior housing community.

In summary, it is critical that any proposal for a tax on business square footage include explicit language that it will not be extended to senior housing and apartments. On a broader level we question whether this additional tax burden on Palo Alto businesses really makes any sense at all for our community, especially now.

Sincerely,

Leslie G Denend, Chair – Residential Advisory Council
Betty Schink, CPA, Chair – Resident Finance Committee

*The Resident Advisory Council is a state mandated council elected by residents and created to advise the provider on a wide range of issues affecting the quality of life of residents. The Resident Finance Committee is its principal committee.

cc: Palo Alto City Council
Patrick Burt
Lydia Kou
Allison Cormack
Tom DuBois
Eric Filseth
Greer Stone
Greg Tanaka

Dutt, Sangita

From: Les Denend <Ldenend@earthlink.net>
Sent: Tuesday, June 7, 2022 12:04 PM
To: Council, City
Subject: Proposed Business Tax
Attachments: bgsPA Bus Tax v.4(les).docx

[Some people who received this message don't often get email from ldenend@earthlink.net. Learn why this is important at <https://aka.ms/LearnAboutSenderIdentification>]

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Please ensure the attached letter from the Chairs of the Resident Advisory Council and the Resident Finance Committee at the Vi at Palo Alto is received by Ms. Kiely Nose, Chief Financial Officer. Thank you.

*

The Vi at Palo Alto
620 Sand Hill Road, Apt. 204F
Palo Alto, CA 94304

June 7, 2022

Ms. Kiely Nose
Chief Financial Officer – City of Palo Alto
250 Hamilton Avenue
Palo Alto, CA 94301

Mr. Ed Shikada
City Manager - City of Palo Alto
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