



6/4/2018

Placed Before Meeting

Received at Meeting

City of Palo Alto  
**MEMORANDUM**

**TO:** City Council

**DATE:** June 4, 2018

**SUBJECT: CMR ID# 9322: Review of Refined Public Opinion Survey Results Regarding Potential 2018 Ballot Measure to Address the Funding Gap for the 2014 Infrastructure Plan and Unplanned Potential Community Assets Projects, and Potential Direction to City Staff for a 2018 Ballot Measure**

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The following is a summary of a meeting with members of the Hotel Industry and a representative of the Downtown Business Association regarding the potential 2018 Ballot Measure to increase the Hotel Tax. This was sent via email on June 3<sup>rd</sup> and is now at places so the public can see the information provided.

Potential 2018 Ballot Measure to Address the Funding Gap for the 2014 Infrastructure Plan.

Staff indicated in CMR ID#9322 that it would meet with the general managers of Palo Alto hotels on Thursday, May 31, 2018. General managers from Palo Alto hotels including the including the Garden Court, Cardinal, Zen, Sheraton, Dinahs, as well as from the Downtown Business Association attended the meeting and provided staff with feedback and a request that a written summary be provided to City Council. Staff from the City Manager's Office, Public Works and Administrative Service Departments attended the meeting and captured the following:

The general managers expressed frustration that City staff had not met with them earlier, and while they feel that voters would most likely approve an increase in the hotel tax, they communicated they would have liked other options to be considered such as increasing enforcement in collection of hotel taxes from short-term rentals, having a tax that sunsets, a flat tax increase, keeping the hotel tax at current level and adding a tourism fee or tax.

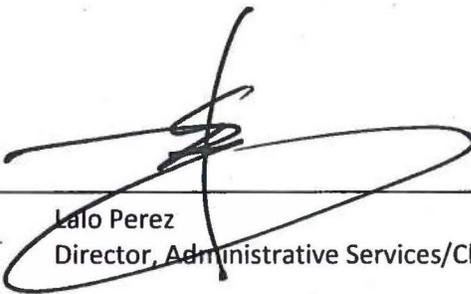
The group also expressed concerns that companies were also not consulted such as Stanford, Palantir, VM Ware and Facebook since expenses are rising and business bookings in particular have other nearby options in Mountain View and Menlo Park. It was important for the general managers to point out to City Council that occupancy is starting to trend down, which forces them to adjust room rates down in a time when minimum wages and parking permits are going up as well.

**Additional notes:**

- Owners of hotel properties are mentioning that it may be too difficult to maintain the businesses and it could be more appealing to turn the properties into office space
- Concerns that the City will not generate the revenue it's anticipating, because the level of occupancy will not be maintained and it will hurt both the City's tax base as well as the local hotel industry
- General consensus that this will be a game changer when hotel tax goes from 14 to 16%, highest in state.
- Belief there are million to be collected in the enforcement/collection of hotel tax from short-term rentals
- Occupancy rates at all hotels are flat, and are seeing softening in terms of corporate bookings, particularly those hotels closest to nearby cities
- Expressed frustration at last minute nature of meeting, hotels not considered
- Expressed willingness to work with City on solutions (i.e. flat tax with sunset on rooms, marketing rebate to hotels if TOT increased, possibility of 1% so city is not highest in state, decrease in parking permit rates for employees)
- The number of rooms available has increased, but they are struggling to remain competitive with room rates
- Believe that Council doesn't understand contribution of hotels to local economy, and how difficult it is to do business in city (parking, etc.)
- The Council focus has been on individual travel when it should be on total corporate cost.
- Hotel owners are now attending general manager meetings, which was not the case previously, but the cost of doing business is going up and the potential increase in hotel taxes has them very concerned.
- They started to notice impacts to the Monday-Thursday bookings which normally are very strong.
- Some corporate businesses are removing staff from town and it is decreasing room demand.
- Having the City with the highest hotel tax in the State is not right – leave it to San Francisco, Anaheim or Los Angeles.

Staff will discuss the challenges of enforcing the collection of hotel tax on short-term rentals at the Council meeting. In addition the revenue stream needed to debt finance bonds that will have a minimum term of 20 years and credit rating agencies will need to be assured the revenues pledged will be there for the term of the debt issuance.

DEPARTMENT HEAD:



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Lalo Perez  
Director, Administrative Services/Chief Financial Officer

CITY MANAGER:



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James Keene  
City Manager