



City of Palo Alto

City Council Staff Report

(ID # 10261)

Report Type: Action Items

Meeting Date: 4/22/2019

Council Priority: Fiscal Sustainability

Summary Title: Approve Workplan for a Potential Revenue Generated Ballot Measure

Title: Approval of a Workplan for Potential Revenue Generating Proposals, Including Consideration of a Ballot Measure, in Support of the 2019 Fiscal Sustainability Council Priority

From: City Manager

Lead Department: Administrative Services

Recommendation

Staff recommends that the City Council review, provide feedback, and approve the draft workplan for addressing elements M and N of the 2019 Fiscal Sustainability workplan: Element M) Analysis of revenue generating options, and Element N) Develop a plan for a business tax proposal, including reform of the business registry through implementation of a business license program.

Background

On February 2, 2019, the City Council met for their annual retreat and adopted four (4) priorities for calendar year 2019 including “Fiscal Sustainability.” On March 19, 2019, staff brought to the Finance Committee a draft workplan for 2019 to address this priority for review, feedback, discussion, and ultimately a recommendation to the City Council. In this workplan, staff attempted to encapsulate what the term “fiscal sustainability” means and articulate the overarching goal of the workplan - to continue to make proactive progress towards fiscal sustainability for the City of Palo Alto in order to maintain the quality of life that the City of Palo Alto supports through its services. The workplan was unanimously approved by the Finance Committee and recommended for City Council approval as part of the Consent Calendar on the April 22, 2019 agenda.

The Finance Committee materials reviewed on March 19, 2019 can be found in the links below:
City Manager Report #10179:

<http://cityofpaloalto.org/civicax/filebank/documents/69883>

Action Minutes:

<https://cityofpaloalto.org/civicax/filebank/blobdload.aspx?t=69909.34&BlobID=70164>

Minutes:

<https://cityofpaloalto.org/civicax/filebank/blobdload.aspx?t=69909.36&BlobID=70165>

Presentation (beginning on PDF page 58):

<https://www.cityofpaloalto.org/civicax/filebank/blobdload.aspx?t=45540.74&BlobID=70019>

Discussion

As part of the approval of the 2019 Fiscal Sustainability workplan, staff articulated that it planned to follow-up on individual elements of the plan for review and approval with more robust project scoping for those specific elements. As a follow-up to that discussion, staff prepared a workplan for a potential Revenue Ballot Measure as outlined below.

In the context of evaluating funding sources to address the need for railroad grade separations throughout the city, there has been significant community interest in some form of tax on business activities within Palo Alto. Such a tax could take a variety of forms, such as a tax on a per-employee, square footage, or revenue basis. Recognizing the Council's interest in understanding the magnitude of revenue that could be generated by such a tax, the workplan that follows is designed to evaluate such a tax within a timeframe that would support the ongoing evaluation and narrowing of grade separation alternatives. At the same time, understanding that such a tax could be either a general tax or dedicated to specific purposes, the recommended workplan is coordinated but independent of the grade separation planning effort.

DRAFT WORKPLAN FOR A POTENTIAL REVENUE BALLOT MEASURE:

2019 Fiscal Sustainability Workplan Elements: M) Analysis of revenue generating options AND N) Develop a plan for a business tax proposal, including reform of the business registry through implementation of a business license program.

Staff recommends that the Finance Committee serve as the working body to assist in the review of revenue generating options including a potential revenue ballot measure for the November 2020 election; review staff and consultant work, and stakeholder feedback. The Finance Committee will make its recommendations for consideration and action by the full seven-member City Council.

Finance Committee: would serve as the public body to review periodic progress reports, allow for structured public discussion, and provide feedback and recommendations on the review and development of a potential ballot measure or other revenue generating strategy. Staff will manage and synthesize work done in-house and by consultants, as well as stakeholder feedback, in progress reports to the committee. Ultimately, the Finance Committee would recommend a preferred revenue generating proposal(s) for City Council action.

City Council: would serve as the governing body for policy direction at key decision points. This includes, for example, direction to conduct polling, approval of alternatives to be evaluated,

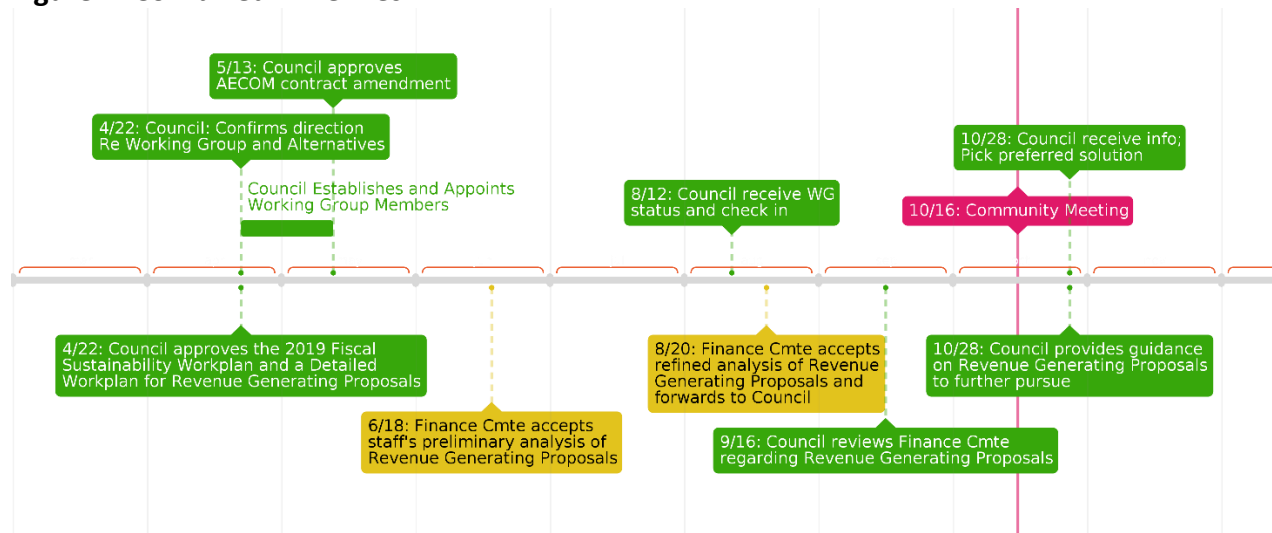
and decisions on specifically what and when to place a ballot measure on an upcoming election.

Timeline

The chart below includes a detailed timeline of the proposed revenue generating analysis and potential Revenue Ballot Measure workplan. It overlays, for ease of reference, a draft of the Rail Grade Separation Workplan staff is seeking City Council review and approval for in a separate Council agenda item.

The timeline is intended to allow appropriate time to make policy decisions for a potential November 2020 ballot measure and supports other major initiatives underway such as the Cubberley Master Planning process and the Council goal to decide on a preferred solution for grade separation in October 2019. Staff recommends that the Finance Committee and City Council discuss revenue generating activities on a parallel track separate from these major initiatives. This will allow the City Council to focus on generating revenues in a comprehensive way that factors in all City needs which go beyond a single investment or project need. More details about the timeline are included below the chart.

Figure 1: Combined Timelines



Proposed Timeline Details:

This table outlines the key decision points for City Council and Finance Committee and notes anticipated staff work to be completed for context.

Schedule	Task
April	Agreement on iterative approach to the development of revenue estimates and options, workplan, and roles.
May	<i>Development and execution of RFP for consultant services</i> - Included in this scope staff will seek expertise in revenue generating ballot measures including financial analysis.
June	<i>Finance Committee: accept initial analysis of revenue generating proposal</i>

	<p><i>estimates</i> – with estimates to be completed internally by staff and intended to assist in informing various working groups in project financial planning and focus further refined analysis.</p> <p><i>City Council award of consultant contract(s)</i> – as necessary to complete this workplan.</p>
August	<p><i>Finance Committee: accepts refined analysis of revenue generating proposals estimates; discuss and provide guidance on initial polling</i> – With the assistance of consultant expertise, a more in-depth review of revenue generating proposals will be presented to the Finance Committee providing more accurate financial estimates to assist in financial planning.</p>
September	<p><i>City Council: confirmation on potential revenue generating proposals including revised revenue estimates</i> – Work completed with the Finance Committee to be reviewed by the full Council in order to receive input and direction on more refined steps.</p>
October	<p><i>City Council decides on revenue generating proposal(s) to pursue</i> - informed by the Finance Committee, financial analysis, polling, and a more refined understand of potential projects and associated costs.</p>
November 2019-April 2020	<p><i>Staff work</i> - Continue stakeholder outreach, draft required legal documents, complete polling as appropriate. City Council and Finance Committee will be provided updates as necessary for status check-ins, feedback, and policy decisions.</p>
June 2020	<p><i>City Council approves November 2020 ballot measure and specific measure language</i> - Should the City Council choose to pursue a ballot measure(s), final approval including the ballot measure language will need to be submitted to the Santa Clara County Registrar of Voters in early August 2020.</p>

The workplan anticipates an iterative approach for the Finance Committee and City Council providing information at a steady pace and allows for continued review and refining of proposals. As such, both polling and stakeholder outreach are not outlined in the monthly timeline above. Staff recognizes the need for both polling and stakeholder outreach throughout the process. The frequency and appropriate stakeholders are highly dependent on the types of proposals pursued. Should the City pursue a Business Tax measure, outreach and polling would most likely occur during the following periods:

- July and August of 2019 initial stakeholder outreach seeking initial feedback on a potential business tax measure,
- September of 2019 initial polling would be conducted on proposed revenue generating measures. Poll questions would be drafted by a consultant and staff with input from the Finance Committee and/or Council before it was executed. (Ideally this timing would be coordinated with other polling activities in the City for scalability and to ensure survey fatigue is managed.)
- November 2019 to April 2020 further consultation regarding the design and structure of a specific tax measure once a determination on revenue generating proposal(s) to pursue is made.

This multi stepped and informal stakeholder engagement process for a business tax measure would be recommended as both outreach about instituting a business tax would be necessary for education and awareness but also for consultation regarding the design and structure. Candid direct feedback through an iterative process will assist in the development of a viable

measure that is administratively feasible.

It should be noted that this workplan has thus far been developed in concept and if the City Council approves, will require a detailed review and refinement by the City Attorney's Office to ensure all legal requirements associated with a ballot measure and taxing requirements are addressed and met.

Resource Impact

Staff recommends that both a significant focus of existing staff time be dedicated to this initiative along with consultant assistance for the analysis, outreach, and polling of these efforts. No funding for consultant assistance is currently budgeted, therefore, it is anticipated that as contracts are necessary, staff will bring forward both funding requests and the contracts for approval. Given the tight timeline of this workplan, exemptions to solicitation processes may be sought as part of those contract awards.

The City has most recently completed work associated with revenue ballot measures in 2018 for Measure E (increase in Transient Occupancy Tax rate) as well as 2016 for a potential business tax measure. Staff will work to leverage this prior work to the extent possible including consultant knowhow to ease the onboard and accomplish the proposed timing.

Policy Implications

This recommendation aligns with existing City policy and City Council direction as part of the 2019 Fiscal Sustainability Workplan.

Environmental Review

This report is not a project for the purposes of the California Environmental Quality Act (CEQA). Environmental review is not required.