



City of Palo Alto

City Council Staff Report

(ID # 11790)

Report Type: Study Session

Meeting Date: 11/30/2020

Summary Title: Study Session on Community and Economic Recovery Strategies

Title: Study Session on Community and Economic Recovery Strategies and Engagement

From: City Manager

Lead Department: Administrative Services

Recommendation

Staff recommends that the City Council receive presentations from invited panelists covering regional economic trends, retail activity and sales tax trends, and work from home economics; discuss the City of Palo Alto's Community and Economic Recovery efforts, preliminary framework for the City's Community and Economic Recovery Strategy and priority City activities, and options for community engagement.

Executive Summary

The COVID-19 pandemic, the efforts to contain its spread, and attempts at mitigating its impact continue to have a significant impact on our lives at every level. Many aspects of the community's response to the COVID-19 pandemic, such as County-Level guidance on which activities are allowable through the State's tiered system, are beyond the City's control. The economic impact of the pandemic has similarly impacted the City's ability to maintain basic services. However, as the City shifts from managing through the pandemic, to reimagining and rebuilding our community response and ultimately to recovery, it will be important to take advantage of opportunities as they arise while remaining flexible as the State and County restrictions continue to evolve from more restrictive to less restrictive levels.

The purpose of the study session is to continue the City Council's discussion on community and economic recovery as a step in what is proposed to be an iterative process. This item specifically works to assist the Council in reviewing major economic forces and trends and begin to obtain feedback on next steps. Strategies for the City Council's consideration include beginning discussions on potential next steps to develop a Community and Economic Recovery Strategy as well as prioritization of potential projects either currently underway or initiated to support this effort. City Council input will guide staff work ahead as these efforts are further developed.

To support the Council's discussion, staff has engaged a panel of economists including Jerry Nickelsburg from UCLA Anderson Forecast, Thomas Adams and Fran Mancina from AvenuInsights (the City's sales tax consultant), and Professor Nicholas Bloom from Stanford University. Each panelist will discuss different elements of the COVID-19 Pandemic and the recessionary economy that has followed. The panelists and their work may help inform and provide context as the Council considers preliminary focus areas to guide next steps.

The report reviews four main preliminary focus areas that could form elements of the City's Community and Economic Recovery strategy. These focus areas that staff is seeking City Council input include: managing through the pandemic, community welfare and wellbeing, focused business support, and City priority initiatives. Each of these focus areas would consist of a set of projects or programs that would be prioritized and managed as elements of the City's recovery strategy. In addition, the report outlines possible options for the Council to consider with regards to community and stakeholder engagement, and related work including timeframes to work within.

Recognizing the broad range of issues involved, it is possible that the Council may wish to divide this discussion over multiple meetings. This could focus the November 30 discussion on the panel of experts discussed below, and continue discussion of potential Community and Economic Recovery focus areas and engagement concepts to December 7. As this begins with a study session and iterative, Council may also choose to provide initial input and continue further discussion into the new year.

In order for the City Council to have information regarding the specific trends the City is facing in its three largest revenues, Property Tax, Sales Tax, and Transient Occupancy Tax, additional information is provided in Attachment A. As a result of the economic characteristics of revenue generation in Palo Alto, the City has been more significantly impacted than neighboring jurisdictions and California as a whole. California, in turn, continues to lag economically compared to the nation.

- Property Taxes revenues have historically seen annual growth of on average 6 percent. Although not on the decline, trends currently indicate a delay in timing and therefore are expected to remain flat through FY 2022 as that year will be a reflection of activity in 2020, where the average and median home prices currently reflect a slight downward trend and the expected CPI will remain below the two percent maximum.
- Sales Tax receipts have seen significant declines as the City's revenue base is dependent on many high-end goods and dining options at regional destinations such as Stanford Shopping Center. The City saw greater decline in four categories than declines seen in the region and statewide. These significant declines were partially offset by business to business sales, the one sector that outpaced other areas with a small 1 percent growth.
- Transient Occupancy Tax (TOT) continues to be the most significantly impacted, though revenues have improved slightly from the activity seen in April and May 2020. Currently receipts are tracking approximately 80 percent below pre-COVID-19 levels. As a region where business and other non-leisure travel is a driving impact, it is expected that until the virus is

under control and both domestic and international travel resumes, the City will continue to experience significantly reduced TOT. There is reason for optimism here with the continued rapid progression in vaccines as well as the expected opening of new hotels in Palo Alto in the coming months.

As the Council considers the elements of this report, the following specific discussion topics would assist staff with ongoing work and guidance on next steps:

- Observations based on the issues and trends identified by the panel discussion, and conclusions regarding Palo Alto's opportunities for action;
- Preliminary Community and Economic Recovery Strategy focus areas and priority projects;
- Potential Council engagement structure and community and stakeholder engagement options; and,
- The timeframe to finalize Community and Economic Recovery strategy projects and focus areas and undertaking the effort involved.

Background

The City's FY 2021 Adopted Budget reflected a reduction in General Fund revenues of \$34.6 million, and directly relate to the nearly \$40 million estimated reduction in revenues anticipated due to financial impacts of the COVID-19 pandemic and economic challenges. The Adopted Budget projected a nearly 40-50 percent reduction in major revenue categories such as Transient Occupancy Taxes and Sales Taxes, bringing the FY 2021 General Fund revenues to \$197 million, from the \$232 million projected in the FY 2020 Adopted Budget. In order to account for this, the City Council spent much of May 2020 and June 2020 working to rebalance the FY 2021 budget, reducing services and cutting costs. This resulted in a balanced budget with expenses of \$197 million, down from \$230.8 million in the prior adopted budget, a nearly 15 percent reduction. This reduction was made possible by a significant reduction in funding for capital investment while freezing 76.5 full-time equivalent (FTE) staffing resources across the City (65 FTE in the General Fund) dropping authorized staffing levels from 1,035 to 958 FTE. In addition, 26.2 FTE in part-time/hourly positions were also frozen, approximately 25 percent of a total of 106.3 FTE. This resulted in reduced service capacities in all areas, ranging from police, fire, and code enforcement to community services and libraries, public works, transportation, and utilities, as well as the administrative services needed to support these functions.

On October 19, 2020, the City Council reviewed and discussed the preliminary Q1 FY 2021 financial status report. This update provided a snapshot in time, with some revenues expected to continue to do significantly worse than originally projected, while others were trending above expected levels. With the information available at the time and uncertainty to continue as a result of the pandemic, no action was taken as staff continued monitoring the months of experiences in this new shelter in place environment. At the time, staff shared a series of upcoming Council actions on the budget, long range financial forecast and further development of a community and economic recovery planned over upcoming months.

Subsequently, on November 9, 2020 (staff report #[11702](#)), the City Council reviewed community and economic recovery strategies, such as ‘Uplift Local,’ and other business support activities and testing. Council also discussed options designed to help bolster the local economy, such as expanding the definition of retail, temporarily altering parking requirements, and continuing closures of portions of California and University Avenues to vehicles.

Since that time, and in response to the significant impact this pandemic has placed on all communities, including Palo Alto, staff began discussion of a more comprehensive Community and Economic Recovery framework. The November 30 study session is a continuation of the City Council’s discussions on community and economic recovery, with a look at major economic forces and trends.

Discussion

Recognizing that services continue to be modified to assist in mitigating the spread of the virus, the reduced revenues, if prolonged, will continue to impede service levels. Without a recovery of the City’s revenue base, it will be unable to provide the same level of services to the community. In order to assist in revenue generation, a vibrant and active business climate with residents and visitors alike frequenting the restaurants, shops, and activities that assist in those activities is needed. As outlined in October, staff would return to the City Council to begin engagement and feedback on further development of the strategy of themes and focus of staff work ahead. Staff indicated that work on Community and Economic Recovery would include three main elements:

- a. Assemble and facilitate discussion of major economic forces and trends
- b. Develop analytical tools to evaluate fiscal scenarios
- c. Identify potential City actions to support and accelerate (where possible) local community and economic recovery

This study session will address the first element and discuss major economic forces and trends and begin to address the second and third elements. As a component of the City Council’s ongoing work related to Community and Economic Recovery in the wake of the COVID-19 pandemic, the City has empaneled experts in various areas of specialization. They will discuss emerging trends that can lead to potential strategies for the current environment and the future as we anticipate what lasting effects will continue once the virus is under control. This panel will make brief presentations on different topics and will then be available for questions and answers with the City Council for the remainder of the scheduled study session.

In addition, this report begins to lay out strategies for the City Council’s consideration. Most significantly, this report outlines possible next steps of developing a Community and Economic Recovery Strategy and engagement as well as potential prioritization of projects either currently underway or that could be initiated to support this effort. Recognizing the broad range of issues involved, it is possible that the Council may wish to divide this discussion over multiple meetings. This could focus the November 30 discussion on the panel of experts discussed below and continue discussion of potential Community and Economic Recovery focus areas and engagement concepts to December 7. As this begins with a study session and

iterative, Council may also choose to provide initial input and continue further discussion into the new year.

This report includes information to assist in all these discussions and is organized as follows:

- 1) Listing of panelists and their respective topic areas later in this report.
- 2) A framework for Council and community feedback, building on recovery plans developed by others to inform the City of Palo Alto's efforts. This includes both recovery strategy framework as well as engagement.
- 3) **Attachment A:** In order to continue to assist in the second element of analysis, staff has included supplementary information related to the City's major tax revenues in three categories (Sales Tax, Property Tax, and Transient Occupancy Tax).
- 4) **Attachment B:** Examples of Other Recovery Plans: San Francisco, San Jose, and Stanford

Invited Panelists for November 30 Study Session

Jerry Nickelsburg from UCLA Anderson Forecast, Thomas Adams and Fran Mancina from AvenulInsights (the City's sales tax consultant), and Professor Nicholas Bloom from Stanford University will each be available to discuss different elements of the COVID-19 Pandemic and the recessionary economy that has followed.

Jerry Nickelsburg has worked for UCLA Anderson School of Management and the UCLA Anderson Forecast since 2006 and has served as the faculty director of the Forecast since 2017. He earned his Ph.D. in economics from the University of Minnesota, specializing in monetary economics and econometrics. Nickelsburg plays a key role in the economic modeling and forecasting of the national, California and regional economic forecasts. He researches labor economics, industrial organization, statistics and international monetary economics, focusing on the development of new data and the application of economic theory and statistical methods to sector-specific policy issues. His current research encompasses transportation and environmental economics, and the relationships between highly skilled persons and their demand for social insurance. A more detailed biography can be found [here](#).

Representatives from AvenulInsights, the City's Sales Tax consultant, will be available to discuss current trends in Sales Tax Collection. Thomas Adams, Client Success Manager, and Fran Mancina, Vice-President of Government Relations will be available for questions from the City Council following their presentation of not only trends in Palo Alto but also neighboring and comparable jurisdictions as well as the state. The third quarter of 2020 (July through September) Sales Tax data is not yet available, staff and the consultants will be using data through June 2020 and certain trends that are emerging. As Q3 data becomes available, it will be reported to City Council, consistent with the City's standard practice. Additional information about the City's Sales Tax collection trends is included later in this report.

Professor Nicholas (Nick) Bloom is the William Eberle Professor of Economics at Stanford University, a Senior Fellow of SIEPR, and the Co-Director of the Productivity, Innovation and Entrepreneurship program at the National Bureau of Economic Research. His research focuses on management practices and uncertainty. He previously worked at the UK Treasury and

McKinsey & Company. He is a Fellow of the American Academy of Arts and Sciences, and the recipient of the Alfred Sloan Fellowship, the Bernacer Prize, the European Investment Bank Prize, the Frisch Medal, the Kauffman Medal and a National Science Foundation Career Award. He has a BA from Cambridge, an MPhil from Oxford, and a PhD from University College London. His [research on Working from Home \(WFH\)](#)¹ during and following the pandemic is highly relevant to Palo Alto.

Staff anticipates that the study session discussion on November 30 will inform future discussion and deliverables from the City and shape the economic and community recovery work that will take place throughout 2021. This is the next step in a significant effort.

Preliminary Community and Economic Recovery Focus Areas

The City of Palo Alto is not alone in taking a careful look at what recovery can mean. Attachment A shares summaries of other Bay Area institutions that are responding with strategies to recover from the COVID-19 pandemic. In Palo Alto, staff continues to manage through the pandemic, including evolving with the rolling back to more restrictive State and County protocols. However, the City is now reaching the stage where it may be possible to assess how to rebuild for better outcomes and be prepared to adapt as economic trends improve, while we continue to manage through the uncertainty of today.

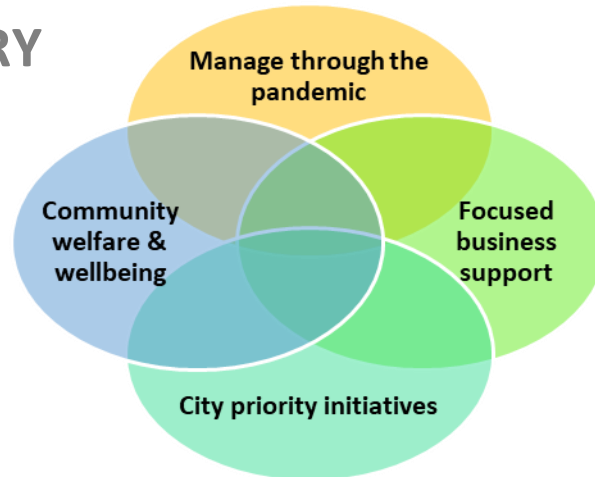
The City remains nimble in the current environment where change and uncertainty continues to dominate. Continued focus will be needed to maintain services modified due to the shelter in place orders and restrictions in place, while continuing to innovate with the reduced resources available in the short term and quickly adapt as economic conditions change. The City will necessarily rely on revenue generation to meet service expectations as we move out of this recessionary period.

In order to provide a clear yet comprehensive description of the major activities required to support community and economic recovery, staff has attempted to identify a set of “focus areas.” This is an important step for two reasons. First, establishing focus areas enables communication and building consensus around where the City’s priorities and activities should be placed. Second, establishing focus areas is also critical to enabling the City to set goals, make progress and demonstrate achievement with limited resources and with established timeframes.

Staff has developed an initial set of priority areas for the purpose of discussion. These priority areas reflect the work done by other Bay Area institutions, while recognizing the unique characteristics and need in Palo Alto as well as the City’s ability to have positive impacts in the midst of the global forces at hand. Based on these considerations, the following four focus areas and potential elements have been identified:

¹ <https://siepr.stanford.edu/research/publications/how-working-home-works-out>

PRELIMINARY



Manage through the Pandemic

First and foremost, the City, its community, and the world must continue to focus on managing through this pandemic, working to slow the spread of the virus and ensure safety of all. Without management of the virus, no recovery will be possible, and part of the framework is to continue to focus on this critical work. Activities to support this management could include existing and new activities, such as but not limited to:

- Continuing high-volume public communications on the COVID-19 pandemic and related community support and public safety response
- Facilitating COVID-19 virus testing and contact tracing; support vaccine distribution efforts
- Providing technical support for workplace environment upgrades (such as air quality management and safety protocols to minimize COVID-19 risks)
- Supporting the repurpose of existing spaces, such as parking spaces, garages and public spaces, for community and commercial activities

These support activities will ensure that businesses and community members alike reduce COVID-19 transmission and feel confident as they resume or expand, and participate in, commercial activities. As the situation continues to evolve, especially with respect to vaccinations and potential therapeutics, the City will do what it can to promote access to and information about them.

Community Welfare and Wellbeing

The community welfare and wellbeing focus area will continue to support and enhance services to the Palo Alto residents and frontline workers. Activities to support this focus area could include existing and new activities such as but not limited to:

- Support and promote childcare programs
- Provide school-aged youth programs
- Promote adult and senior wellness programs
- Promote expansion of bicycling and pedestrian citywide and beyond especially focusing on connections to neighboring communities

Focused Business Support

The focused business support focus area will continue and promote activities that assist in generation of revenues that support the delivery of services to the community. There are both near and long-term potential ideas here as the City work to both assist businesses in managing through the pandemic while also keeping an eye towards support once the virus is under greater control. Inevitably there is much reliance on Federal, state, and regional stimulus efforts. Depending on the continuation of these such as rent abatement, business loans/grants, and the like, the nature and composition of our business community will continue to change as the length and severity of the constrained shelter in place orders extends. Activities to support current business activities and future needs could include existing and new activities such as but not limited to:

- Continue and promote Uplift Local initiative and other retail supportive strategies
- Pursue California Avenue Garage parking program adjustments such as parking in-lieu
- support the City sustainability goals such as expansion of electric vehicle (EV) infrastructure.

Different business sectors may benefit from tailored approaches so that their needs are better met as business activities recover through the near-term.

City Priority Initiatives

The City Priority Initiatives focus area will build upon the current major initiatives and priorities as identified by the City Council and continue to position the City proactively to support the community as vaccines and treatments advance and containment of the virus begins to take shape. Activities to focus staff efforts include supporting the City Council priorities (housing, mobility, sustainability) and the reopening of services in the future include existing and new activities such as but not limited to:

- Expand community engagement on fiber to the home (FTTH) and related sustainability/climate action plan implementation
- Support experiences at the Downtown and California Avenue car free streets including work on a redesign of the University Avenue experience
- Completion of Caltrain grade separation community planning and work of the Expanded Community Advisory Panel (XCAP), moving into detailed design to maintain regional funding
- Housing workplan as outlined in the City Council 2020 priorities
- Development of remote work models for delivery of City services where appropriate

Creative thinking about these and other initiatives, as well as needed policy changes and adaptations to work considering COVID outcomes, will be highlighted to create broader opportunities.

Preliminary Next Steps, City Council Engagement Structure and Community and Stakeholder Engagement Options

A critical next step of defining and developing a Community and Economic Recovery Strategy is to obtain the City Council's feedback on these concepts and work to define a Council engagement structure and further develop engagement strategies for the community and stakeholders. The City of Palo Alto has conducted outreach to the local business community, facilitating frequent check-ins with merchants located in the commercial cores and incorporating that feedback into ongoing practices. The City has also engaged the community in several ongoing ways including specific Council discussions on recovery efforts for public comment, monthly check-in meetings open to all, and online surveys through the pandemic.

The City has several options for continuing, or bolstering, stakeholder engagement through the next phases of recovery. These options are discussed briefly below and listed with the more resource intensive and focus first. Regardless of which methods are pursued, the City will strive to ensure that the engagement is clearly explained and that participants understand how their participation can help shape the City's actions. Additionally, some of the options could be combined to further enhance engagement.

Possible Council Engagement Structures:

Blue Ribbon Committee – A Community and Economic Recovery Blue Ribbon Committee would likely be the most time-intensive engagement on an ongoing basis of any of the options discussed here. The range and potential impact of issues involved, however, may well justify this level of effort particularly should extensive stakeholder engagement be involved. The City Council has appointed blue ribbon committee for engagements of similar complexity, including the relatively recent Infrastructure Blue Ribbon Committee (IBRC). If the City Council chose to pursue this option, Staff would work with the City Council on the composition of the committee and the expected deliverables and timeframe for their work.

Committee of a Whole – The Council may consider having all of the elements of a Community and Economic Recovery Strategy return to the City Council. A similar approach to how the Council developed and approved the FY 2020-2021 Adopted Budget and previously rail grade separations, all related items of the potential strategy could return to the Council at regular meetings or special meetings.

Ad Hoc Committee of the Council – The City Council has had numerous *ad hoc* committees throughout 2020, including business support as well as four *ad hocs* focused on Race and Equity work. The City Council could choose to appoint another *ad hoc* committee to work with staff and guide the ongoing work related to Community and Economic Recovery and report back to the City Council on a regular basis. Should a Blue Ribbon Committee be pursued, the Council may wish to designate an *ad hoc* committee to work with that group.

Other Approaches: The Council could decide to refer some aspects of the strategy development to Council Committee or to a Boards, Commission and Committee for further discussion and community input.

Community Engagement Options:

Specific Stakeholder Roundtable Discussions- Staff could develop a series of roundtable discussions with sector specific stakeholders. This type of engagement could be like how staff began the City's engagement with local businesses in May of 2020, where two Council liaisons participated on behalf of the Council and could be expanded to other sectors.

Virtual Neighborhood Meetings – The City could convene a series of virtual neighborhood meetings to engage residents on Community and Economic recovery. These could either be set up specifically for this purpose or could try to tap into existing meetings that may be taking place. Neighborhood meetings could be an opportunity for the City to discuss potential plans for recovery and seek feedback in real-time from various neighborhoods. These meetings could take place before City Council takes action on Community and Economic Recovery to inform potential options or could take place after action on Community and Economic Recovery to iterate on the implementation of City Council direction.

Online Townhall Meeting – Similar to the idea of a virtual neighborhood meeting, another option could be the convening of an online townhall meeting that would be a much larger audience in a single event. This would likely be a purpose-specific event meant to discuss Community and Economic Recovery and would need to be structured to align with the size of the anticipated audience. Similar to the neighborhood meetings, it could be positioned to either further inform potential Council action, or to iterate on the implementation of policy direction from the City Council.

Staff is seeking City Council feedback on these potential initiatives and priorities and stakeholder engagement structures so that we can incorporate the City Council's feedback and further develop the engagement plan and timeline. As Council engages and considers this topic, feedback on the cadence and forum for these conversations to continue will be important. A number of fiscal reports are scheduled for the City Council's review, in early 2021, that will assist in continuing the conversation on recovery, fiscal sustainability and long-range planning. As noted on October 19, 2020, the following items will be returning to the City Council over the next several months:

Dec 2020/Jan 2021:

- FY 2020 Comprehensive Annual Financial Report & Year-End Budget Adjustments
- FY 2021 1st Quarter Financial Report
- FY 2022-2031 Long Range Financial Report
- Status check-in FY 2021 Adopted Budget City Council Referrals

February 2021:

- FY 2021 Mid-Year Budget Review and Preliminary 2nd Quarter Financial Status

Resource Impact

These efforts will require the allocation of resources to accomplish, however, many are currently underway and it is expected that through a reprioritization of current projects and work, staff will approach this through reallocated staff resources. In certain areas consultant services may be necessary to bolster expertise and support these programs.

Environmental Review

This is not a project under Section 21065 for purposes of the California Environmental Quality Act (CEQA).

Attachments:

- Attachment A: Additional Information Related to Sales Tax, Property Tax, and Transient Occupancy Tax in the City of Palo Alto
- Attachment B: Examples of Other Recovery Plans

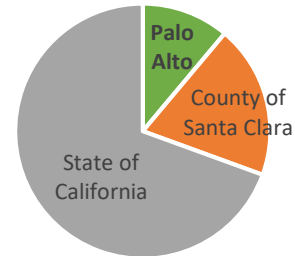
ATTACHMENT A

Additional Information Related to Sales Tax, Property Tax, and Transient Occupancy Tax in the City of Palo Alto

Additional information related to the City’s Sales Tax, Property Tax, and Transient Occupancy Tax is included below for reference.

Sales Tax:

The effective sales tax rate in Palo Alto is 9.0%. Of this, the City of Palo Alto gets 1%, County programs get 1.75%, and the State and other programs get the remaining 6.25%. This means that if you were to buy something for \$100 in Palo Alto, and then the 9% Sales Tax rate were applied, the City of Palo would receive only \$1 of the \$9 in taxes collected.



The City of Palo Alto is somewhat unique in its Sales Tax mix. The main five business activity categories in Palo Alto are General Retail, Food Products, Transportation, Construction, and Business to Business. However, that General Retail category is heavily driven by what could be considered “luxury” stores, such as Hermes, Louis Vuitton, Shreve & Co., Tiffany & Company, and other upscale stores such as Apple, Nordstrom, and Nieman Marcus. Many of these institutions can be found at the Stanford shopping mall. Food Products includes restaurants, which previously contributed at a fairly robust amount to the City’s sales tax revenues. Ironically, in most recessions retail and restaurants are the categories most resilient to downturns. Their vulnerability in the current economic climate reflects the constraints of regulations and consumer behavior as we strive to contain the spread of the virus.

Below is a table that shows for the City of Palo Alto the allocation of sales tax collection by business activity, one for second quarter 2019 (Q2 2019) activities (April – June 2019) and one for second quarter 2020 (Q2 2020) activities (April – June 2020) as well as annual (reflects a benchmark year). Palo Alto’s declines in four of the categories from Q2 2019 to Q2 2020 and the declines seen have generally been greater than both the greater bay area and statewide across California. Business to Business was the exception and very slightly increased from Q2 2019 to Q2 2020. Percentage changes from Q2 2019 to Q2 2020 for General Retail, Food Products, Transportation, Business to Business and Construction, as well as declines from the County Pool, are seen in Table 1 below for Palo Alto, the San Francisco Bay Area, and the state of California.

Table 1. Percentage Changes by Category from 2019Q2 to 2020Q2 and Annual

Business Activity	Palo Alto		S.F. Bay Area		California	
	Quarter	Annual	Quarter	Annual	Quarter	Annual
TOTAL	-37.8%	-13.8%	-30.1%	-12.5%	-26.5%	-10.6%
General Retail	-61.2%	-18.0%	-46.9%	-17.4%	-32.5%	-12.3%
Food Products	-49.3%	-18.1%	-38.3%	-15.2%	-32.9%	-12.4%
Transportation	-46.8%	-29.6%	-39.0%	-19.4%	-28.9%	-13.2%
Construction	-50.7%	-48.5%	-19.5%	-7.8%	-10.3%	-5.4%
Business To Business	1.0%	11.8%	-13.3%	-8.5%	-21.5%	-8.2%
COUNTY POOL	-25.9%	-10.5%	22.6%	14.8%	31.4%	17.7%

ATTACHMENT A

Additional Information Related to Sales Tax, Property Tax, and Transient Occupancy Tax in the City of Palo Alto

Another relatively unique aspect of the City of Palo Alto's sales tax is that the majority of the City's sales tax (~59%) comes from just the top 25 Sales Tax Producers, and ~75% comes from the top 100 Sales Tax Producers. The top 25 Sales Tax Producers range across a variety of categories, and are listed below in alphabetical order:

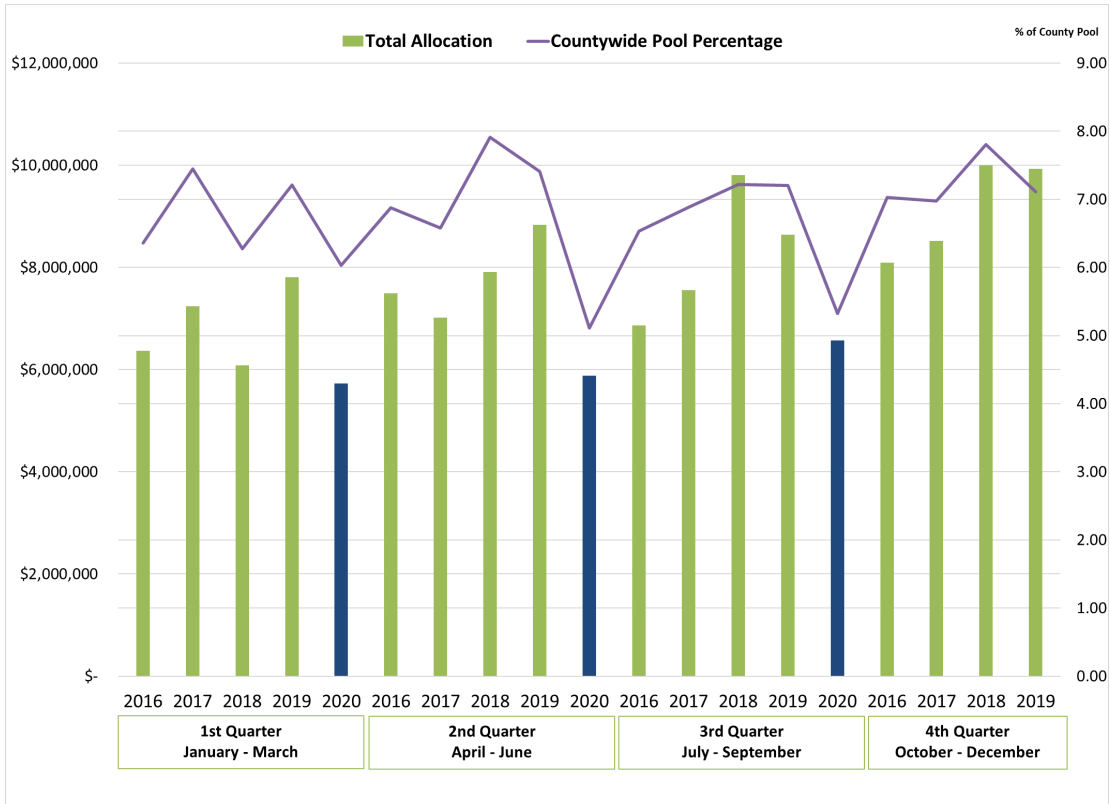
- Anderson Honda
- Apple Stores
- Audi Palo Alto
- Bon Appetit Management Company
- Hermes
- Houzz Shop
- HP Enterprise Services
- Integrated Archive Systems
- Louis Vuitton
- Lucile Packard Children's Hospital
- Macy's Department Store
- Magnussen's Toyota of Palo Alto
- Neiman Marcus Department Store
- Nordstrom Department Store
- Richemont
- Shell Service Stations
- Shreve & Co.
- Space Systems Loral
- Stanford Outpatient Clinic Pharmacy
- Tesla
- Tesla Lease Trust
- Tiffany & Company
- Urban Outfitters
- Varian Medical Systems
- Volvo Cars Palo Alto

As seen in the list above, General Retail makes up about half of the top 25 with twelve (12), while Transportation has six (6), Business to Business has five (5), and Food Products has one (1), while Health and Government also has one (1).

Most receipts from use tax and some transactions where the "place of sale" are difficult to track are placed in a county or state allocation pool and distributed back to local jurisdictions on a pro rata basis. Under the pool concept, the tax is first coded to the county of use and then distributed to each jurisdiction in that county on a pro rata share of taxable sales each quarter. For example, an agency generating 15% of the county's total taxable sales receives 15% of the pool. The County pool has increasingly been an area of significance as brick and mortar sales / growth continue to be outpaced by online transactions which are generally allocated to the state or county pool. In Palo Alto, the County pool constitutes just shy of 20 percent of sales tax revenues collected. Below is a table articulating what percentage of the County pool Palo Alto receives based on the pro rata share articulated above. Notably in the second quarter and third quarter of 2020, Palo Alto's share of the County pool has declined from historically 6 percent – 7 percent down to approximately 5 percent. Therefore, any shift to increased online or pooled activities has been partially or could be fully offset by a reduction in Palo Alto's share.

ATTACHMENT A

Additional Information Related to Sales Tax, Property Tax, and Transient Occupancy Tax in the City of Palo Alto



Finally, it should be worth noting that the second quarter of 2020 likely represents the trough of the pandemic recession and it is hoped that it is not representative of a new paradigm. The City has on November 20, 2020 received the cash receipts for the third quarter of 2020 (Q3 2020) which reflect receipts of \$6.5 million, a 24 percent reduction, quarter over quarter from Q3 2019. This reflect some positive activity compare to Q2 2020 which reflected a nearly 38 percent decline. However, as recently as Monday, November 16th, Santa Clara County rolled back into the more restrictive purple tier. Efforts to contain COVID-19 are paramount to public health, and will have corresponding impacts on revenue streams likes sales tax as certain economic activities remain limited and constrained by regulations. Although data from the third quarter of 2020 is not yet available as of the issuance of this report, staff does anticipate that Avenulnsights may be able to discuss it on a very preliminary basis on November 30.

Property Tax:

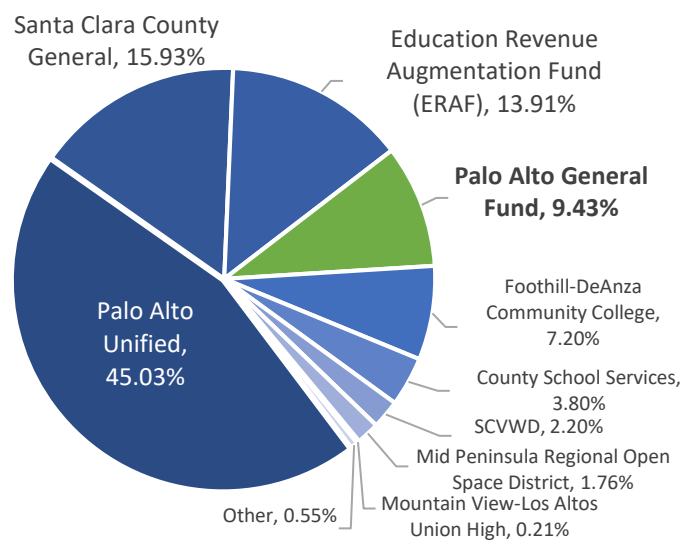
Property Taxes are the largest revenue generator for the City of Palo Alto with estimated receipts of \$52.0 million in FY 2021 Adopted Budget. All taxable real and personal property is subject to a basic rate of one

ATTACHMENT A

Additional Information Related to Sales Tax, Property Tax, and Transient Occupancy Tax in the City of Palo Alto

(1) percent of assessed value collected by local jurisdictions and school districts for general purposes. The largest portion of this is generated by secured taxes and the remainder by unsecured and airplane taxes. Property tax assessments typically lag from economic impacts due to the assessment cycle and taxable year. For example, FY 2021 revenues are reflective of activities in calendar year 2019 and FY 2022 revenues will be reflective of activities in this calendar year 2020. This is why the FY 2021 Adopted Budget assumes growth of 6.9 percent.

Of the one percent property tax that is assessed on the property owner, the City of Palo Alto only received 9.4 percent, or 9.4 cents for every dollar a property owner pays to the County. The majority of the tax dollar, or 56.6 percent goes to the school district, community colleges, and county school services. These allocations do vary by City, for example within Santa Clara County Cities, the City of Milpitas receives 16.23 percent or 16.23 cents on each dollar, the City of Mountain View receives 15.76 percent, and San Jose receives 13.25 percent. Some jurisdictions received less than Palo Alto such as Saratoga receives 6.08 percent, and Cupertino receives 6.6 percent.



There were two main propositions related to property tax on the November 2020 ballot in California. Prop 15, also called 'Split-Roll', which would have changed how Commercial property taxes are assessed was narrowly defeated. Proposition 19 narrowly passed, with 51.1% replaces five exemptions related to property transfers and reassessments with new rules that allow a transfer of a tax base from an old home to a new home, and, if the owner buys a more expensive home, the difference in market value between the old and new home would be added to the tax base as well. There has been considerable difficulty forecasting the financial impacts from the passage of Proposition 19, and it will be important to monitor both the quantity and value of transactions in the wake of its passage.

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Additional Information Related to Sales Tax, Property Tax, and Transient Occupancy Tax in the City of Palo Alto

The current FY 2021 assessed value growth of 7.7 percent or \$3.06 billion in additional assessed value. Of this growth, \$1.7 billion, or 56 percent of the growth in values was in residential uses. This table identified

Category	2019/20 Net Taxable Value		2020/21 Net Taxable Value		\$ Change	% Change
Residential	19,050	\$27,092,592,506	19,088	\$28,801,078,785 (67.9%)	\$1,708,486,279	6.3%
Commercial	949	\$7,847,855,114	947	\$8,606,379,995 (20.3%)	\$758,524,881	9.7%
Industrial	162	\$1,796,874,915	163	\$2,307,992,664 (5.4%)	\$511,117,749	28.4%
Unsecured	[2,329]	\$2,007,249,031	[2,256]	\$2,242,525,115 (5.3%)	\$235,276,084	11.7%
Vacant	204	\$406,619,882	188	\$251,066,942 (0.6%)	-\$155,552,940	-38.3%
Recreational	25	\$93,055,030	25	\$94,964,895 (0.2%)	\$1,909,865	2.1%
Institutional	116	\$44,936,693	129	\$39,184,915 (0.1%)	-\$5,751,778	-12.8%
Miscellaneous	16	\$19,140,275	16	\$19,653,767 (0.0%)	\$513,492	2.7%
Cross Reference	[331]	\$14,955,808	[332]	\$15,580,798 (0.0%)	\$624,990	4.2%
Dry Farm	10	\$8,711,509	10	\$8,887,775 (0.0%)	\$176,266	2.0%
SBE Nonunitary	[1]	\$7,004,400	[1]	\$7,004,400 (0.0%)	\$0	0.0%
Govt. Owned	15	\$6,473,299	15	\$6,943,906 (0.0%)	\$470,607	7.3%
Irrigated	4	\$560,632	4	\$571,861 (0.0%)	\$11,229	2.0%
Exempt	312	\$0	312	\$0 (0.0%)	\$0	0.0%
TOTALS	20,863	\$39,346,029,094	20,897	\$42,401,835,818 (100.0%)	\$3,055,806,724	7.8%

Numbers in blue are parcel/assessment counts

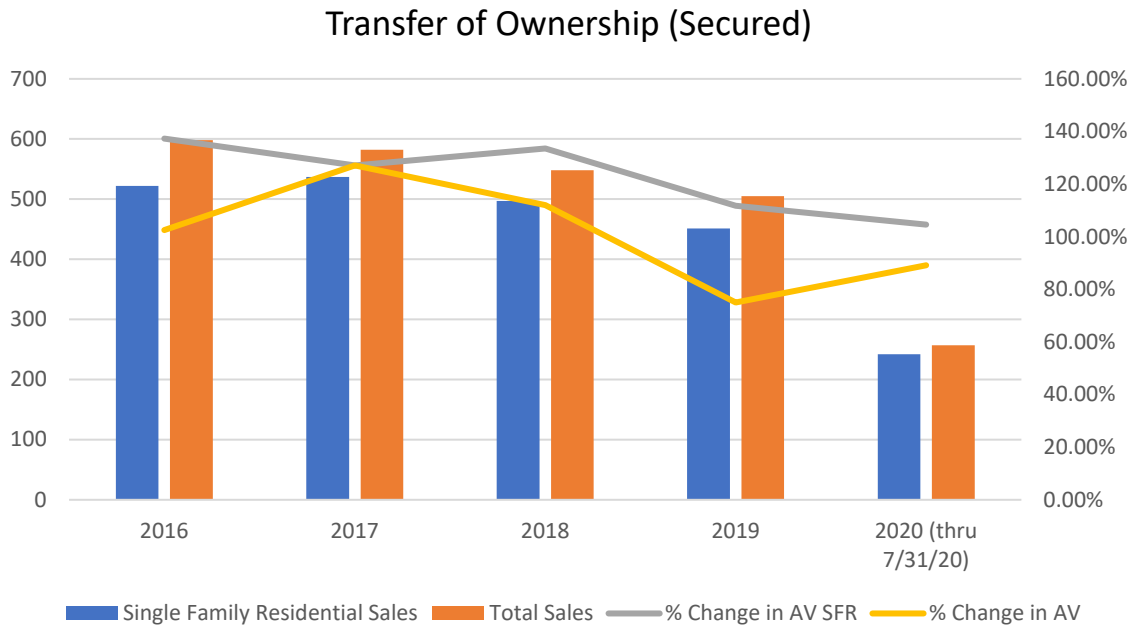
the growth in taxable value from FY 2020 to FY 2021. This is above the Santa Clara County City average and median of 6.9 percent for this period. Drivers for growth in assessed values continue to include the change in value due to a 2.0% CPI growth application. The transfer of ownership of property, reassessing

those properties to the current market value, and new construction in nonresidential and residential categories. Important to note is also the quantity of parcels, approximately 20,000 of which 19,000 are residential (95 percent). However, the percent of the total assessed value of residential is 67.9 percent of the total for the City. Top ten taxpayers based on net values for lien year 2021 include but are not limited to Stanford university, Google LLC., VM Ware, Space Systems Loral Land LLC., and various realty companies such as Hohbach.

Transfer of ownership continues to be a significant driver of growth and the below table articulates some of those drivers and trends. At a macro level, it can be seen that the number of sales has been on the decline even pre pandemic, and the growth in value, or the difference between the assessed value before the sale and the assessed value after the sale has also continued to decline. Through July 2020, the City of Palo Alto was one of three cities in Santa Clara County who's median sales price decreased (from \$2.8 million to \$2.7 million).

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Another important element of the City’s Property Tax is the potential for Proposition 8 reduction requests on the commercial parcels, whereby a landlord can request that their assessed value be revised downward to align with current market trends. This reassessment would only be temporary, but it is both more likely that the assessments would be revised downward on vacant properties and the likelihood of a downward revision increases the longer a particular property remains vacant. As the City council considers land-use decisions, secondary impacts such as property tax implications, should be a part of the consideration. Palo Alto currently has approximately 1.4 percent of all parcels adjusted for Proposition 8, however, during the prior great recession, say over 12 percent of all parcels adjusted for Proposition 8.

In thinking through the types of properties that may be impacted by potential Proposition 8 adjustments in the future, some considerations of

Transient Occupancy Tax:

Travel, as an economic sector, has been adversely impacted throughout the COVID-19 pandemic. The City of Palo Alto is uniquely situated in the market for hotels; few conventions are held in Palo Alto and it is not generally considered a ‘leisure’ destination. In the past, these have been more than offset by steady business travel and travel associated with Stanford University. Although conventions have largely shifted to virtual formats, destinations that are “driveable” for leisure, such as Santa Cruz and Napa, have seen modest recoveries as travel restrictions lifted somewhat. With the regression to the purple tier in those counties, it is not anticipated that those recoveries will persist since they are linked directly to the ability, and willingness, to travel.

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The pressure on hotels will persist in the immediate term, driven by efforts to contain COVID-19. According to CBRE, demand for hotel rooms nationally was down by 36.8% year-over-year from Q3 2019 to Q3 2020, and national hotel occupancy declined a corresponding 37.9% year-over-year. San Francisco saw a significant 84.1% loss in Revenue Per Available Room (RevPAR), the third greatest decline in the continental U.S. behind only Boston (85%) and New York (87.9%). San Jose saw a loss slightly greater than 70% from Q3 2019 to Q3 2020.

BOTTOM 10 REVPAR CHANGE MARKETS, Q3 & SEPTEMBER Y-O-Y CHANGE



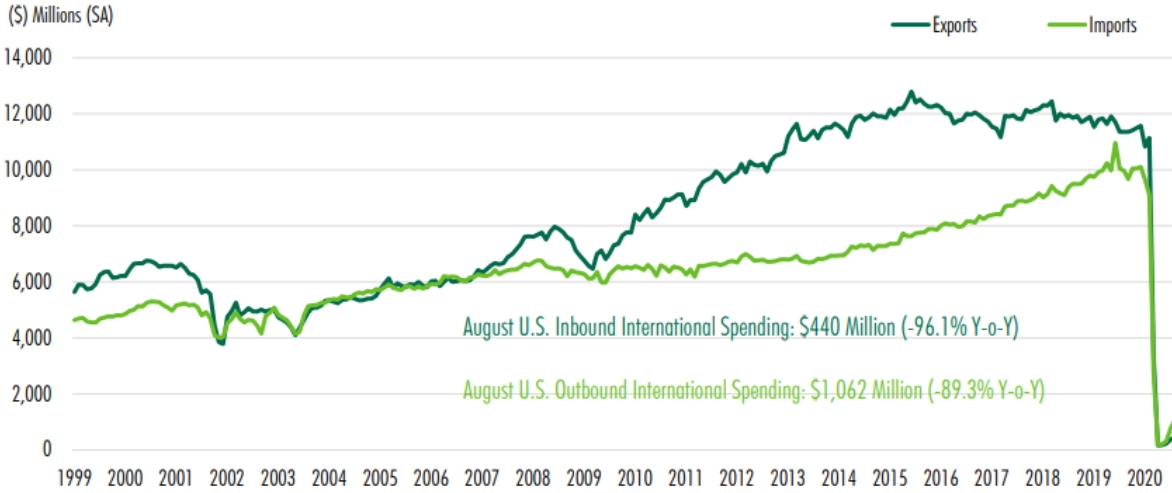
Source: CBRE Hotels Research, Kalibri Labs, Q3 2020.

Partly because of Palo Alto's uniquely upscale retail mix, described above in the Sales Tax section of this report, Palo Alto previously attracted international business travelers. The drops seen in the City of Palo Alto's Transient Occupancy Tax revenues align with the 80% decline in business and visitor travel to the area. The following figure shows the decline in inbound international spending and shows the negative impact on hotel demand in U.S. gateway cities.

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MONTHLY U.S. INBOUND & OUTBOUND INTERNATIONAL TRAVEL SPENDING



Source: CBRE Hotels Research, Bureau of Economic Analysis, National Travel and Tourism Office (NTTO), Q3 2020.

- Foreign traveler purchases of U.S. goods were down by 89.3% year-over-year in August, less than the 98% decline in May.
- The steep decline in inbound international travel has had a negative impact on hotel demand in U.S. gateway cities.

Although the precipitous drop seen above is unlikely to immediately rebound, preliminary indicators suggest that as a vaccine facilitates a recovery and reopening, hospitality could be recovering over a relatively short time frame. CBRE anticipates recovering through FY 2022, FY 2023, and FY 2024 before returning to the trend line.

ATTACHMENT B

Examples of Other Recovery Plans: San Francisco, San Jose, and Stanford Medicine

At its meeting on October 19, the City Council received excerpts from the recovery strategies developed for San Francisco and San Jose/Silicon Valley. These reports are summarized below, in order to provide a context of work already completed by major nearby communities. In addition, Stanford Medicine recently released recommendations for communities to emerge from the pandemic, and this resource is also summarized below.

The City of San Francisco created a COVID-19 Economic Recovery Task Force, the City of San Jose convened a Silicon Valley Recovery Roundtable, and Stanford created their Recover, Restore, and Re-Open (R3) Framework. Outcomes from each of these groups and plans are detailed below followed by a discussion of how the City of Palo Alto's ongoing approach could be shaped.

San Francisco's Economic Recovery Task Force organized their ongoing work into eight categories, which are detailed below. Their full report can be found online¹:

1. [Local Economic Stimulus](#): explore policies and investments that encourage economic development and activity in San Francisco, such as funding public infrastructure projects, streamlining permitting processes, advocacy for state and federal resources, and more
2. [Job Connections](#): facilitate and improve connections to jobs and explore programs that hire local workers
3. [Promote Safe Reopening](#): provide clear and accessible information to businesses and workers on reopening requirements and provide tools and strategies to keep workers, customers, and residents safe
4. [Preserve Operations and Lessen Regulatory Burdens](#): create flexibility for businesses to operate and consider reducing or eliminating regulatory burdens
5. [Pursue Economic Justice](#): narrow the wealth gap and bridge the digital divide for low-income residents and communities of color
6. [Invest in Housing](#): incentivize the construction of affordable housing, an immediate and longterm need
7. [Meet the Basic Needs of the Vulnerable](#): ensure San Franciscans have access to food, shelter, mental health, and other services
8. [Imagine and Build Stronger Neighborhoods](#): activate and draw upon San Francisco's unique neighborhood and cultural assets.

San Jose's Silicon Valley Round Table distilled their recommendations into six priorities, which are shown below. Their full report can be found online²:

1. [Strengthen financial stability for individuals and businesses](#): Provide immediate financial assistance to address urgent needs exacerbated by COVID-19, and create equitable access to banking services, particularly for people of color, undocumented individuals, small businesses, and startups.
2. [Drive job creation and support displaced workers to promote economic recovery](#): Foster an inclusive economic recovery by facilitating job creation, particularly for low-income displaced workers and people of color. Support the recovery of small businesses and startups, who are the primary force behind job creation in our region.
3. [Galvanize housing preservation, protection, and production](#): Break through on the housing crisis in the short-term to stabilize vulnerable populations through preservation and protection. Longer-term, produce more

¹ https://www.onesanfrancisco.org/sites/default/files/inline-files/EconomicRecoveryTaskForceReport_10.08.20.pdf

² <https://media.bizj.us/view/img/11844413/svrr-report-final-pdf.pdf>

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Examples of Other Recovery Plans: San Francisco, San Jose, and Stanford Medicine

housing, with a particular focus on low-income, very low-income, and extremely low-income individuals and households, including the homeless.

4. [Reimagine neighborhood districts](#): Rethink how important commercial, work, and community spaces are built, structured, and connected. Reinvest in our small businesses to spur growth and revive the vibrancy of places that are anchors of our community.
5. [Create next-generation transportation](#): Demonstrate leadership in mobility by building integrated solutions and investing in location-based housing to improve transportation equity and regional access to jobs. Prioritize transformational and strategic investments that include new and legacy platforms, complete streets efforts that facilitate safe carbonless travel, and innovative transportation technology and behavior change programs.
6. [Expand digital inclusion for individuals and businesses](#): Bridge the digital divide and build resilience for future resurgences by equipping individuals and small businesses with stronger digital tools and better connectivity.

Parallel to efforts by San Francisco and San Jose, Stanford Medicine has also assembled a framework organized around the idea of Recovering, Restoring, and Re-Opening (R3). This framework was intended to inform how different communities and groups could approach recovering from the impacts of COVID-19. More information about the framework can be found online³. Stanford's framework provides three main components: Containing and Controlling COVID-19, Safeguarding and Supporting Your Community, and Adapting and Thriving in the "New Normal".

- [Containing and Controlling COVID-19](#) includes elements like expanded testing strategies, building an integrated public health surveillance system, assessing plans to conduct contact tracing at scale, and ensuring adherence to public health safety measures.
- [Safeguarding and Supporting Your Community](#) includes protecting vulnerable populations and promoting health equity, preparing health systems and hospitals for future surges, establishing protocols to tighten controls rapidly in response to new outbreaks, and promoting alignment and coordination with other government authorities and employers.
- [Adapting and Thriving in the New Normal](#) includes initiating strategic and operational planning for the "now", "near" and "far", addressing mental health and well-being across the life span, developing frameworks to reimagine physically distanced lifestyles, and digitally transforming the ambulatory environment.

³ <https://med.stanford.edu/covidrecovery/about.html>