

CITY ATTORNEY'S IMPARTIAL ANALYSIS OF MEASURE K

The Palo Alto City Council has placed this measure on the ballot. If voters approve it, the measure would amend the Municipal Code to add a tax on businesses operating in Palo Alto.

Background: Unlike most communities in California, Palo Alto does not currently require local businesses to contribute to city services through a local business tax. After lengthy discussions and outreach, the City Council decided to seek voter approval to tax mid-sized and large businesses operating in the City to raise funds for general city services, including public safety, affordable housing, transportation and train crossing safety, and homeless services.

The Measure: The measure would amend the City's Municipal Code to establish a tax on businesses operating in the City of Palo Alto as follows:

- Businesses would pay a tax of seven and one-half cents (\$0.075) per month for each square foot of space occupied by the business in Palo Alto above 10,000 square feet.
- No tax would be imposed on:
 - Small businesses (10,000 square feet or less)
 - Grocery stores
 - Residential uses
 - Vacant and unoccupied space
 - Non-profit organizations, schools, and banks and financial institutions, as required by State law
- Offsets, or tax credits, would be made for businesses that remit transient occupancy tax (hotels) and businesses that have discretion to direct sales and use activity to Palo Alto for purposes of paying sales and use taxes.
- The total tax on a business would be capped at \$500,000 per year.

The tax would begin in January 2023 but payments would not be due until January 2024. For the first two years, the tax would be imposed at half the rate. The tax rate and cap would be increased by 2.5% annually to account for general inflation, beginning July 2026. The tax would terminate January 1, 2058, unless extended by voters.

The proposed tax is estimated to raise approximately \$9.6 million each year for 35 years. The measure is a general tax, which means the City may use the revenues for any governmental purpose. Tax revenues cannot be taken away by the State. The City Council has adopted advisory spending guidelines stating its intention to expend revenues on long-term stable funding for public safety, affordable housing and homeless services, and grade separated train crossings that maintain safety and mobility for vehicles, bicyclists, and pedestrians, and to annually report on tax revenues and expenditures.

This measure requires approval by a simple majority of voters voting on the measure.

A "Yes" vote will amend the Municipal Code to implement the business tax.

A "No" vote means the proposed tax will not be implemented.

Signed: Molly Stump
City Attorney

THE ABOVE STATEMENT IS AN IMPARTIAL ANALYSIS OF THE MEASURE. IF YOU DESIRE A COPY OF THE MEASURE, PLEASE CALL THE CITY CLERK'S OFFICE AT (650) 329-2571 AND A COPY WILL BE MAILED AT NO COST TO YOU, OR YOU MAY ACCESS THE TEXT FROM THE INTERNET AT [https://www.cityofpaloalto.org/files/assets/public/city-clerk/election-info/2022/please_docusign_reso_10064 - business tax.pdf](https://www.cityofpaloalto.org/files/assets/public/city-clerk/election-info/2022/please_docusign_reso_10064_-_business_tax.pdf).