Fiscal Sustainability & New Revenue to Support Community Needs Long-Term

FACT SHEET

A core City value has been to maintain a high quality of City services in a fiscally sustainable way, with many ongoing community conversations dedicated to the topic. This fact sheet provides recent updates on the City’s transitional budget and two ballot measure proposals under review by the City Council.

Long-Term Restoration of Services is Dependent on New Revenue

The current budget recommendations include a two-year strategy using one-time funds to reinstate services such as police and fire, and parks, recreation and library services which have been reduced over the last several years because of the pandemic and economic shifts. Continuing restoration of services beyond the two-year period is dependent on the approval of additional revenue.

In relation to this near-term strategy budget, the two ballot measure proposals under review, seek to ensure sustainable services and to address the needs of the community long-term. New revenues through these potential ballot measures will begin to address unfunded needs such as affordable housing and unhoused services, and train crossing/rail grade separation. These ballot measure proposals are an incremental step to enhance priority services and lay the foundation to address the City’s long-term structural budget issues. As this has been an iterative process with the City Council, the steps taken to date respond to feedback received in many ways. The recommendations balance the needs for revenue to provide services while also recognizing the importance of business to the community.

Two Revenue Measures Considered to Support Community Needs

The FY 2023 transitional budget does not reflect major changes for funding of programs and services such as affordable housing and grade separating train crossings. It recommends reinvestments for urgent, critical needs for health and safety ($2.6 million, including $1 million for Project Homekey) and also recommends approximately $4 million in reinvestment in services previously reduced with the use of one-time funds for a two-year period. However, to sustain these reinvestments beyond the limited term, ongoing revenues will be needed.

Two revenue measures are under consideration: an affirmation of Natural Gas Transfer and establishing a new Business Tax. The community has expressed strong interest in voter-approved, locally controlled revenue options to maintain City services and support residents and businesses alike.
Measure 1: Affirmation of Natural Gas Transfer
The potential revenue ballot measure to affirm the current transfer of natural gas proceeds would provide the ongoing funding needed to sustain reinvestments in services. This proposal would affirm the decades long practice of City gas ratepayers funded contributions to general City services to support a variety of City programs and services, including police services, fire and emergency medical services, local parks, community centers and libraries. Most municipal utilities in California make similar transfers to support these services. Affirmation by the voters through this potential ballot measure is necessary to reinvest in community services and would support ongoing revenue of $4M annually.

Measure 2: Establishing a New Business Tax
The second proposal is a Business Tax which if passed by voters, will generate approximately $19 million in general tax proceeds that will be allocated towards:

- Transportation and safe train crossings
- Housing affordability and services for the unhoused
- Public safety

Small businesses, grocery stories, seasonal businesses, and residential properties are exempt from the business tax. In addition, businesses that remit hotel tax and certain sales tax or have vacant space can apply for a business tax credit.

Frequently Asked Questions

Q: How does Palo Alto’s proposed business tax compare to other business taxes in the region?
A: The recommendations balance the needs for revenue to provide services while also recognizing the importance of business to the community. Most other cities in California tax businesses to fund the municipal services those businesses rely on. A variety of methods are used, including gross receipts, payroll, or square footage. Palo Alto currently does not have a business tax in place. Palo Alto’s proposed business tax rate is not as high as some cities in the region and is lower than others.
Q: **How does the proposed business tax consider small businesses, grocery stores, and retail?**
A: Businesses under 5,000 square feet would be exempt, as would groceries and seasonal businesses.

Q: **How does the proposed business tax recognize businesses that pay other taxes, such as hotels?**
A: The business tax proposal includes business tax offsets for the payment of certain other taxes like the transient occupancy tax and certain types of sales tax.

Q: **How would the revenues from a business tax be spent?**
A: The Council has a strong track record of spending revenues such as voter approved hotel tax by addressing community priorities through a resolution of intent. The business tax resolution of intent is a similar approach and currently supports investment in community needs such as train crossing safety (including Caltrain grade separations), affordable housing, and enhanced City services, including public safety

Q: **Why now? Why not wait until after the economy recovers from impacts of the pandemic?**
A: The City Council paused this initiative in 2020 as the pandemic hit. If passed in November 2022, the earliest time the tax would be collected is January 2024 – roughly 16 months from now. Current City revenues do not support long-term community needs and delays could mean reduction of services such as less public safety services, impacts to library services, and limited resources to support affordable housing, homeless services and investment in rail crossings.

Q: **Would the City’s Business Registry Certificate Program continue?**
A: All businesses with a fixed location in the City must register with the Business Registry Certificate (BRC) Program. Data from the BRC is used to better understand community demographics. The City plans to continue this program.