



**Creating a Sustainable
City Budget:
Fiscal sustainability
for the City of Palo Alto**

Spring 2022

www.cityofpaloalto.org/fiscalsustainability

HOW DID THE CITY GET HERE?

Fiscal sustainability discussion has evolved over several years

Pre-Pandemic: Fiscal Sustainability Strategy

- 2019 Fiscal Sustainability Work Plan
- Addressed planning assumptions, infrastructure, service enhancements, revenue generating tax ballot measures

Changes in Financials

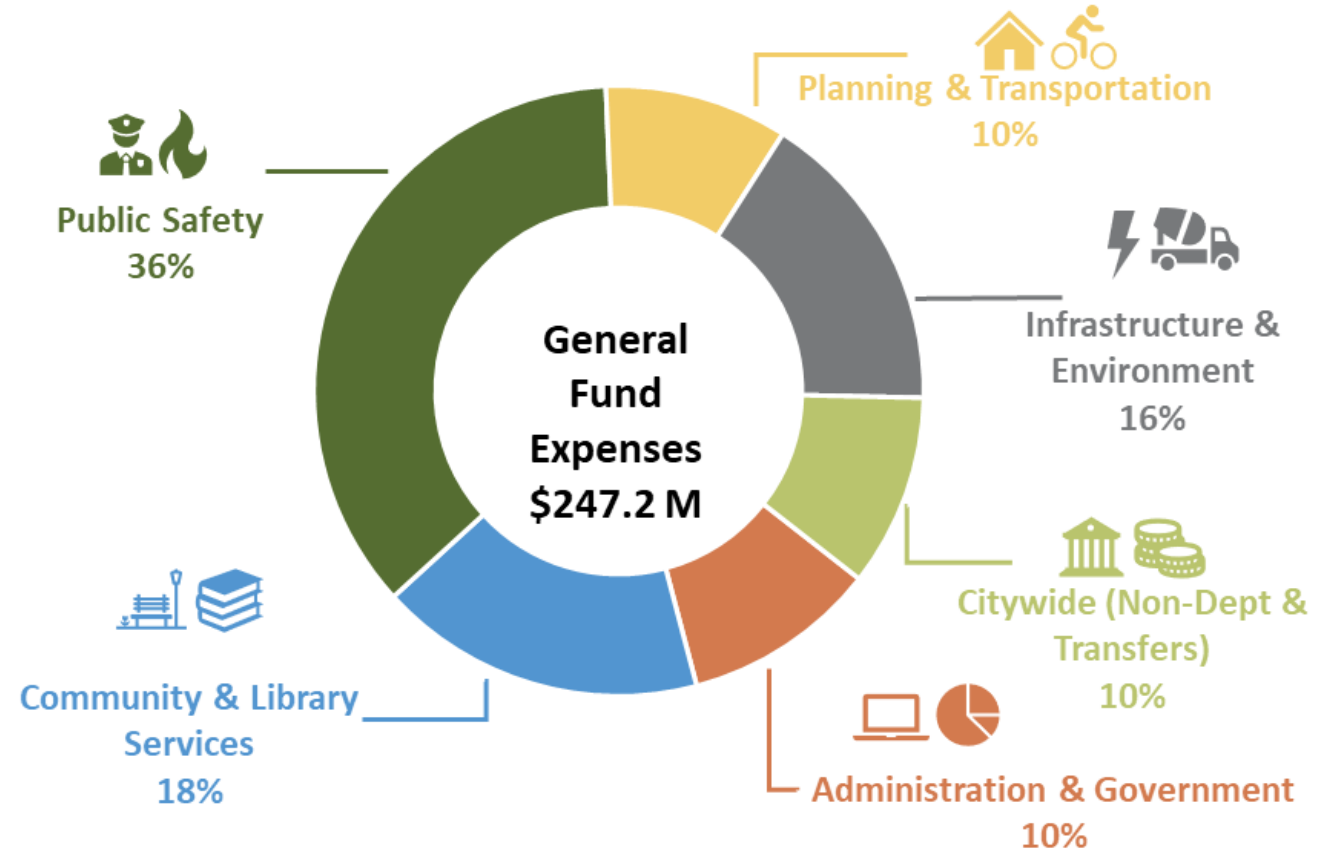
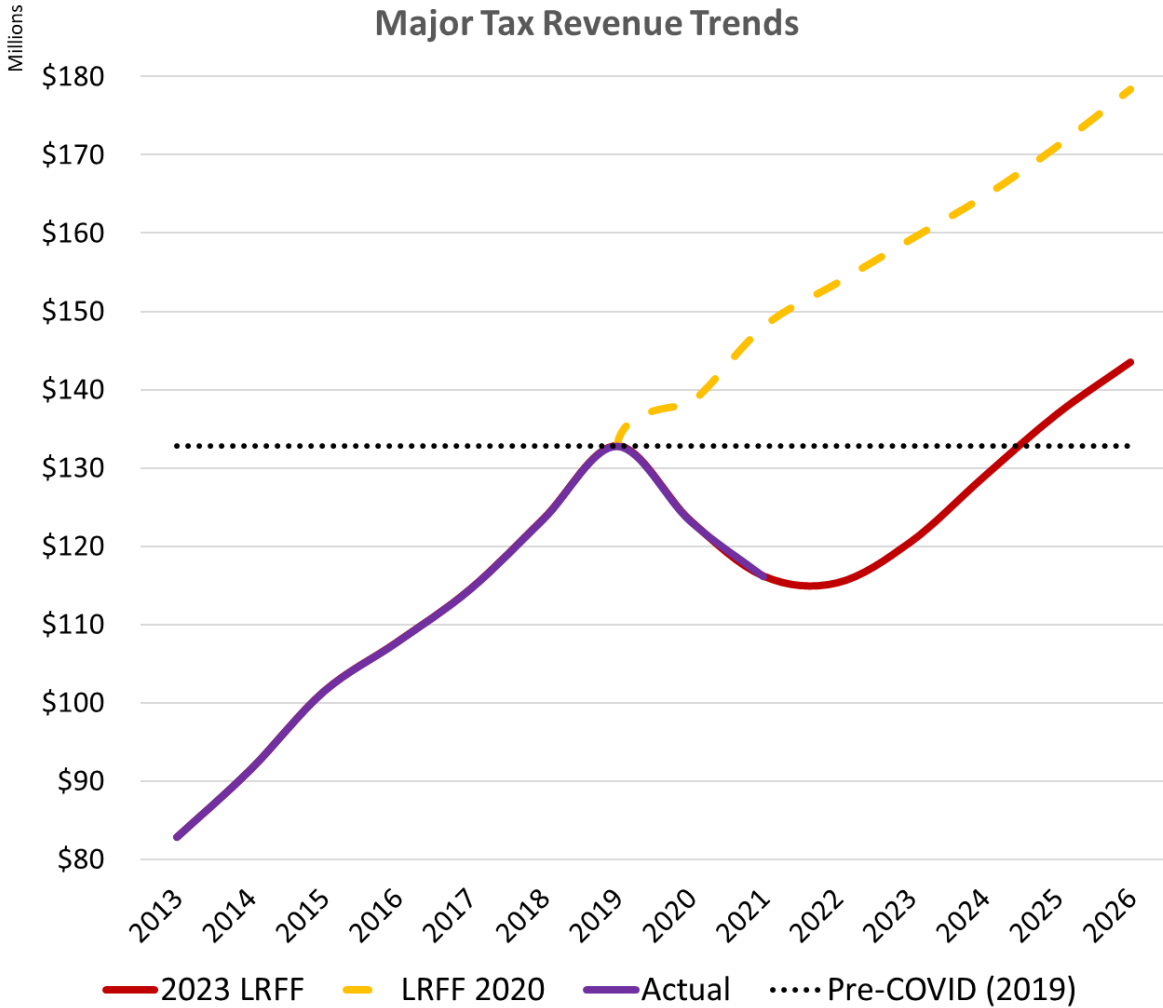
- \$40M budget gap impacted community facing services
- Legal challenges of historic revenues that support services

Post-Pandemic Recovery

- Long Range Financial Forecast not sustainable
- Service needs of a growing and evolving community
- Business redesign / alternative service models

CITY REVENUES TRENDS AND SERVICES

Major Tax Revenue Trends



CREATING A SUSTAINABLE CITY BUDGET: TWO GOALS

1) Maintain our constrained level of services

- Even at this level, current forecasts reflect deficits until FY 2030

2) Investing in our future

- Stable funding for the high level of service our community expects
 - Fire staffing that support daily activities in town and support for mutual aid
 - Police staffing and support for patrol and special teams
- New investments:
 - Affordable housing
 - Support for the unhoused
 - Parks and recreation
 - Transportation



TWO BALLOT MEASURES UNDER CONSIDERATION TO BRIDGE FROM CURRENT BUDGET TO FUTURE SUSTAINABILITY

City continuing to evaluate two general tax measures for the November ballot:

- 1) Affirmation of current natural gas utility transfer
- 2) Establishment of a new Business Tax

AFFIRMATION OF NATURAL GAS TRANSFER BALLOT MEASURES UNDER CONSIDERATION

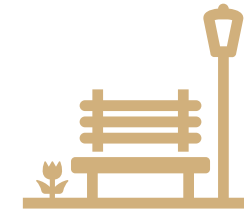
APRIL 25TH CITY COUNCIL MEETING

Purpose	<ul style="list-style-type: none"> Affirm the City's past practice of annually transferring from the natural gas utility (established in City charter in the 1950's)
Disposition of Revenue	<ul style="list-style-type: none"> Allocated to the General Fund for general government purposes
Calculation	<ul style="list-style-type: none"> Measured by gross revenue of the natural gas utility Projected cost of the transfer included in the City's retail natural gas utility rates as a cost of providing gas services
Rate	<ul style="list-style-type: none"> Transfer up to 18% of the gross revenues of the natural gas utility No change in natural gas utility rates, confirmation of the City's past and current practice
Council Authority	<ul style="list-style-type: none"> Council may decide to transfer a lesser amount from voter approved levels

Additional net revenue ~\$4M (based on current contributions)

FUTURE SPENDING PLAN – NATURAL GAS TRANSFER AFFIRMATION

- Funds have been used in the past of services such as:
 - Police officers
 - Fire services
 - Support for the City’s community centers
 - Library hours
 - Children’s theater productions
 - Support for the City’s current and long-range planning efforts



Currently, \$4 million in reserves is available to pay for extra services in these areas. If the natural gas transfer is not affirmed and/or other funds not identified, these services will be cut once the reserves are gone.

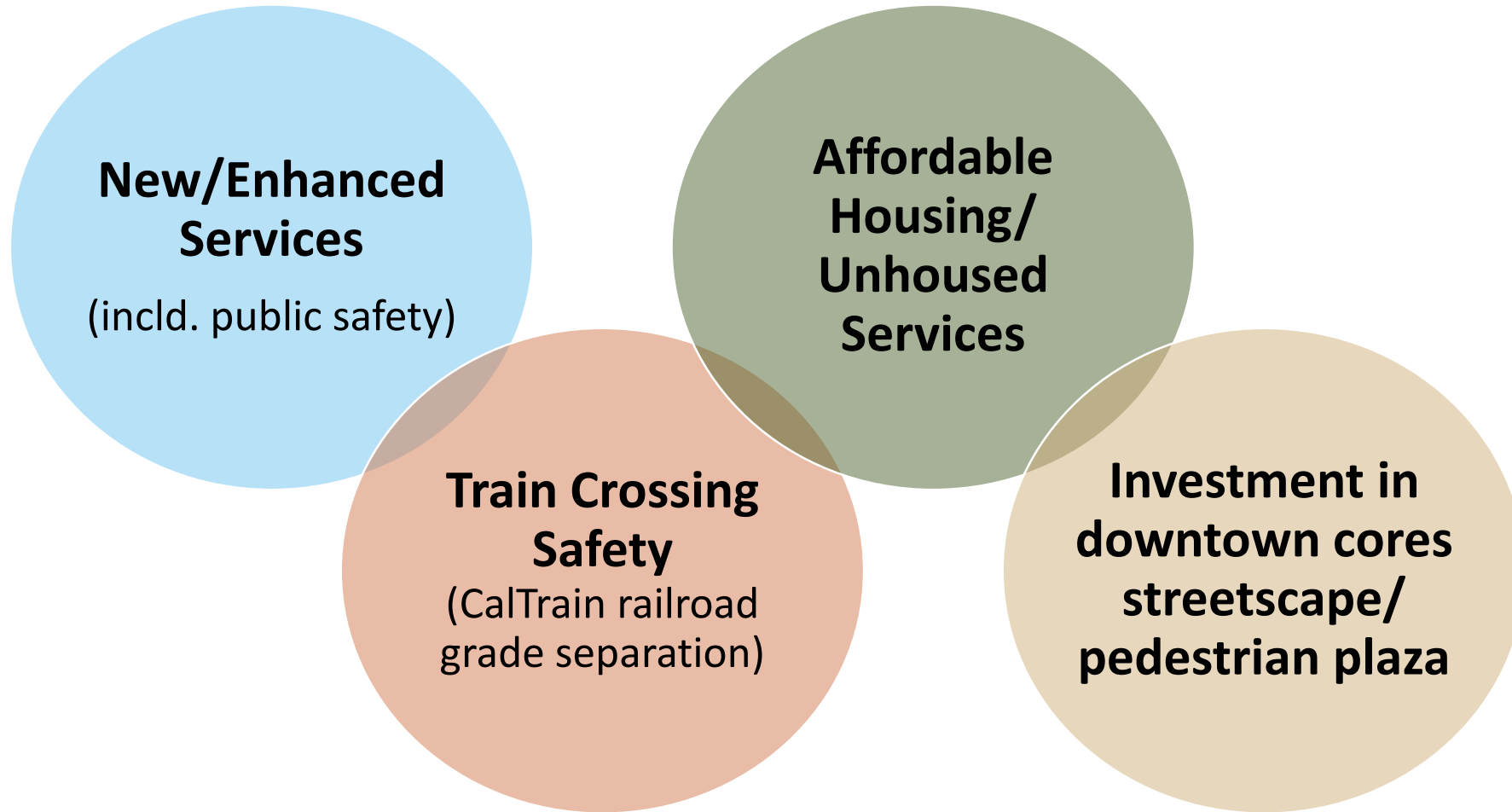
BUSINESS TAX BALLOT MEASURES UNDER CONSIDERATION

APRIL 25TH CITY COUNCIL MEETING

Purpose	Allocated to the General Fund for general government purposes, without a sunset
Exemptions	The following would be exempt from payment of the tax <ul style="list-style-type: none">• First 5,000 square feet of all businesses• Grocery or Supermarket stores• Seasonal businesses operating less than 90 days
Calculation	Measured by square feet
Rate	<ul style="list-style-type: none">• \$0.10/sq ft/mo or \$0.12/sq. ft. per month• 2-year phase in• 5% CPI cap, excess carrying over to future years• Penalties and interest to be assessed for non-compliance• Continue current Business Registry Certificate Program for all eligible businesses
Council Authority	<ul style="list-style-type: none">• Designate authority for the City Council to adjust rates or other provisions in any manner that does not increase the tax.



FUTURE SPENDING PLAN – BUSINESS TAX



These scenarios are not binding. By law, the proceeds of this potential measure will be placed in the City's general fund, where they can be spent on any general government purposes. That decision will be made each year by the sitting Council.

HOW WE HAVE SOLICITED AND RECEIVED FEEDBACK



- Fiscal Sustainability website
 - <https://www.cityofpaloalto.org/fiscalsustainability>
- Feedback questionnaire by mail and online
- Citywide mailers, utility bill inserts, e-mail newsletters, etc.
- Community and business focus groups, community listening session
- Two community surveys (polls)

COMMUNITY SURVEY ONLINE & MAIL-IN

358 responses (174 online and 184 mail in)

Highly ranked priorities:

- Maintaining basic services
- Repairing streets/roads
- Investment in community-owned assets
- Adding public safety services such as police, fire, and emergency medical
- Funding affordable housing and homeless services

Thank you to the community for this input!



COMMUNITY SURVEY (POLL) RESULTS



OPINION
RESEARCH
& STRATEGY

- The mood of the city continues to be mixed, as it is in many cities around region. A slim majority rates City government’s performance as “excellent” or “good” (51%).
- A measure ratifying utility fund transfers polls at 71%; support remains high when the respondents heard a more detailed explanation.
- Three in five back the business license tax concept we tested, which has consistent majority support at a certain level.
- Community members surveyed were comfortable with a measure that would increase average monthly rent for businesses by up to 10 cents per square foot. They are more likely to support a measure that exempts small-square footage businesses, and are less likely to support one that exempts hotels.
- Community members surveyed were are divided on whether they would prefer new revenue be dedicated to major new investments or to improving existing services – however, those who support the BLT are more likely to favor new investments.
- Community members surveyed were are most enthusiastic about allocating funding toward public safety, affordable housing, and outreach to the unhoused.

REMAINING MILESTONES

May:

- Finance Committee FY 2023 budget hearings
- 3rd & final round of polling
- Focus groups & community information presentations

August:

- Final submittal of documents to Registrar of Voters for election

November:

- Election November 8, 2022

June:

- Council adoption of FY 2023 budget & fees
- Council direction on draft ordinance (informed by poll)
- Council decision on ballot measures for voter consideration (may be August)

September/October:

- City may provide informational material to the public, such as background, context, and facts about ballot measures and their impacts

QUESTIONS & FEEDBACK

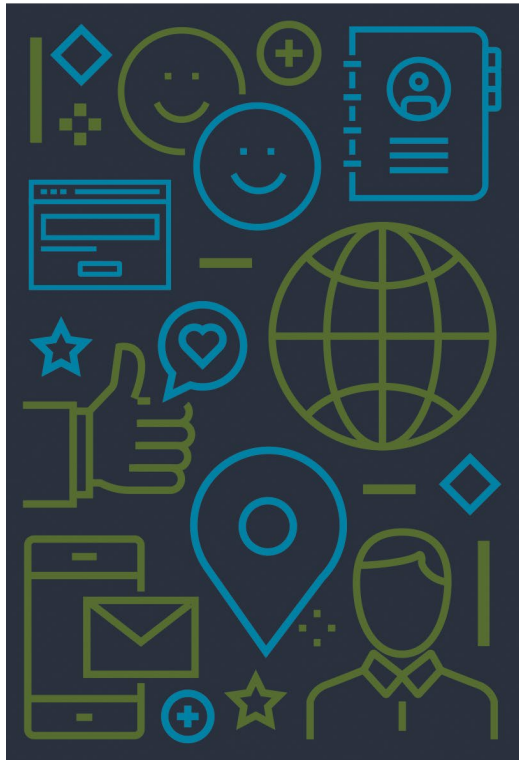
- What questions do you have about . . .
 - ✓ The City's Fiscal Sustainability Strategy?
 - ✓ City services?
 - ✓ The two potential ballot measures or budget?

Visit <https://www.cityofpaloalto.org/fiscalsustainability> to answer our community survey and provide additional feedback after this meeting





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