



FINANCE COMMITTEE SUMMARY MINUTES

Special Meeting
March 28, 2022

The Finance Committee of the City of Palo Alto met on this date in hybrid teleconference at 5:32 P.M.

Present: Kou, DuBois (Chair), Filseth

Absent: None

Oral Communications

- 1) Brooke Partridge requested a quiet zone at the Alma and El Camino train crossing. Train horns are negatively impacting the quality of life of residents throughout Downtown North and Linfield Oaks. A petition for the proposed quiet zone has received 209 signatures, and community members are seeking the support of the Council by June 1, 2023.
- 2) Rebecca Eisenberg shared that the development of housing at Stanford Research Park is currently against the law according to the Environmental Protection Agency (EPA) website. Placing housing on toxic waste locations is unacceptable. She urged the Finance Committee (Committee) to require Hewlett Packard (HP) and Stanford to take appropriate action to ensure a toxic-free environment for the City of Palo Alto.
- 3) Aram James urged the Committee to bring in alternatives to the City's position on police radio encryption. The study sessions have no cross-examination and create a lack of trust in the Palo Alto Police Department.

Agenda Items

1. Revenue Generating 2022 Ballot Measures: Review Feedback from the Ballot Measure Community and Stakeholder Engagement Plan and the Second Round of Polling; Review Draft Ballot Measure Language; and Recommend to Council Further Refinement of Potential Measures Adopting a Business License Tax and Confirming the Gas Utility General Fund Transfer

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Kiely Nose, Assistant City Manager, presented the item to the Finance Committee. Staff continues to implement the workplan associated with pursuit of consideration of potential local ballot measures for the November 2022 general election. Since the January 2022 Committee meeting, staff have implemented the Community and Stakeholder Engagement Plan. Community groups and business group leaders were delivered invitations to participate in focus groups. Work with the legal counsel on ballot language for the Gas Funds Transfer draft ballot question and the measures is underway. The community survey received 174 online responses and 184 mail-in responses. Highly ranked priorities included maintaining basic services, repairing streets and roads, investment in community-owned assets, adding public safety services, and funding affordable housing and homeless services.

Dave Metz delivered the second-round polling results. The survey consisted of 427 participants citywide who are considered likely to cast ballots in the November 2022 election. Interviews were conducted on landline phones, wireless phones, and online, with both email and text message invitations used to drive respondents to the survey. Approximately three in five support a business license tax conceptually. The utility fund measure has support from at least seven in ten voters. Most voters who oppose the business license tax support the utility measure. Voters were provided additional context on the utility fund measure and Staff found no shift in patterns of support. Majorities are comfortable with a rate that would increase rent by ten cents per square foot. 54% would be more likely to vote for a measure that exempted all businesses with a footprint under 5,000 square feet. Voters were split on desired focus for new revenue, with a strong preference for major new investments among Democrats. Improvements to public safety, homelessness, and housing services were seen as most important. Library services, animal sheltering, and transportation were valued with less intensity.

Shawn Spano provided an overview of the stakeholder engagement. Four focus groups with business community stakeholders and one focus group with community stakeholders were conducted. Some businesses represented include Chamber of Commerce, small retail and restaurants, hotels, major employers in the City, Stanford Research Park, Stanford University, and real estate companies. The focus groups were created to educate stakeholders about Palo Alto's Fiscal Sustainability Strategy for 2022 and funding options under consideration. Additional purposes included eliciting feedback both on City service priorities important to the business community and community at-large, and the two ballot measures in City Council consideration for voters in November 2022. Results for the Gas Funds Transfer indicated that individuals either supported or were neutral based on lack of familiarity, while the Business License Tax results suggested either conditional support or no support. Focus group participants were concerned about no cap on the CPI

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and suggested that it be capped or cap the total amount to be paid. Other concerns included no sunset, inappropriate timing, and the need for a funding plan. Second-round focus groups will be conducted to elicit more targeted feedback and results will be presented to the Finance Committee and City Council.

Ms. Nose reviewed the components of a ballot measure and highlighted key elements of the draft ordinance. Council directed Staff to remodel Option 3 of the Business License Analysis to exempt grocery stores and hotels. The proposed exemption indicated an estimated exemption of 38 properties, and an estimated 8% reduced gross revenue. Second round polling reflected majority support for a tax rate up to 1.5% of rent, and exemption for businesses less than 5,000 square feet.

Council Member Tom DuBois asked if any members of the public would like to comment on the item.

- 1) Gregory Schmid asked why the specifics of a business tax in Palo Alto are important at the present time. Residents pay approximately three times that of local businesses. Local costs are paid primarily through property taxes, sales taxes, and fees. Affordable housing costs come through inclusionary zoning, which raises the price of market rate housing units and increases the rate of income inequality. An open public discussion on fair share of a local business tax and producing a balanced community is needed, not just a focus on business concerns.
- 2) Rebecca Eisenberg opposed polling expenditures based on a tax that has not been tested by the courts. The proposed tax imposes on tenants and differs from that of East Palo Alto. It is appropriate that the City utilize a constitutionally based tax.
- 3) Aram James requested details concerning outside polling expenditures. The taxation of large businesses rather than small businesses is more appropriate. Rather than additional taxes for public safety, the City should allocate funds toward reparations.
- 4) Shweta Bhatnagar encouraged the Council to both ensure the use of the funds has an understood nexus to the business community and be reasonable in the amount charged. The business community already provides substantial contributions to the fiscal health of Palo Alto, and a new tax addition would increase the tax burden on local businesses. The City should perform an economic analysis to understand potential impacts.

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- 5) Phone caller (Terry Holzemer) supported the City tax. Increased traffic congestion, lack of parking in commercial zones, and additional obstacles are a direct result of the businesses. Taxpayers should not pay more for City services than the business community.
- 6) Dan Kostenbauder believed that Council including a business tax measure was appropriate. He suggested that Council consider a proposal in accordance with neighboring cities rather than making Palo Alto the least welcoming city to businesses in Silicon Valley.
- 7) Charlie Weidanz did not believe this was the right time for a business license tax in the City. The business community cannot afford a business tax to the extent proposed.
- 8) Edesa Bitbadal opposed the proposed tax increase. A nexus of taxes paid to community services is desirable, but there is concern regarding whether the funds will be used as intended.

Council Member Filseth asked if the gas transfer was \$7 million per year.

Ms. Nose clarified that the total transfer is approximately \$7 million per year, and the portion in reserve is a net of \$4 million.

Council Member Filseth inquired about the cost implications of forgoing the gas transfer.

Molly Stump, City Attorney, explained that the appropriate staff regarding the gas transfer and money were not present to give a precise answer.

Ms. Nose specified that there is a \$7 million annual transfer on average and a portion of that is at risk and challenged. Staff would recommend the Council have voters affirm one simplistic structure that would mirror the current practice and not impact rates.

Council Member Filseth asked whether the polling evidence indicates that the gas transfer and business tax measures would both be approved.

Mr. Metz advised that data from both polls suggested that both measures could pass if placed on the ballot simultaneously.

Vice Mayor Kou asked for clarification regarding whether the measure was constitutional or unconstitutional.

Ben Fay explained that the measure is constitutional. The constitutional requirement for a business license tax is that it must be measured in a way that reflects the amount of business occurring in the jurisdiction.

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Vice Mayor Kou asked if taxes paid by landlords and tenants have any relationship to constitutionality.

Mr. Fay answered no.

Vice Mayor Kou requested clarification about the cap units of measurement.

Ms. Nose explained that some cities place a maximum tax amount as part of the tax structure. The structure indicates a tax assessment up to a specified dollar amount, meaning the business would not pay beyond the amount generated by the tax.

Vice Mayor Kou asked Mr. Metz about elaborating more on what is involved in the climate action plan.

Mr. Metz explained that staff was focused on describing the purpose without delving into details.

Vice Mayor Kou asked for clarification regarding the measure not increasing utility rates and not whether the rates will increase because of costs.

Mr. Metz stated that was correct.

Vice Mayor Kou asked about the importance of determining political affiliation and demographics.

Mr. Metz explained the purpose was to ensure the sample of voters interviewed was representative of the broader population of Palo Alto voters. Additionally, locations with meaningful differences and opinion between various subgroups of local voters are highlighted in the analysis.

Council Member DuBois inquired regarding the exemption of hotels and what should be explored in a third survey.

Mr. Metz believed that voters have an instinctive negative reaction to an exemption for hotels. The desire to exempt small businesses is clear. Housing services stand out as being the highest priority. He recommended that Council provide clear direction on structure and content measures regarding the consideration of a third survey.

Council Member Tom DuBois inquired about the City's standing with gas rates compared to Pacific Gas and Electric (PG&E).

Ms. Nose advised that Palo Alto is below PG&E.

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Council Member Filseth believed that the Committee should always be open about general City priorities.

Council Member DuBois asked about total cost for a police officer or fireman with total compensation plus equipment.

Ms. Nose indicated that regarding compensation only, the total cost for a higher level sworn position would be approximately \$250,000 to \$300,000 and entry level would be lower.

Council Member Filseth stated that the focus group results were helpful.

Vice Mayor Kou articulated the importance of ensuring that public spaces are maintained. Palo Alto's Economics Development Manager could assist the business community in attracting additional businesses.

Council Member DuBois inquired about separating the gas transfer uses to focus more on the Community Center and focusing the business tax on housing and transportation.

Council Member Filseth believed that would be difficult and require complex communication.

Vice Mayor Kou understood the importance in differentiating how the gas utility transfer would be utilized and the purpose of the business tax.

Council Member DuBois inquired regarding the hotels identified matching with TOT.

Ms. Nose advised that TOT would be used as a metric for the identification of hotels. All structures 5,000 square feet or less would be exempt.

Council Member DuBois asked about whether there would be a challenge if there was a charge for all square footage for businesses with more than 5,000 square feet.

Ms. Nose explained that the policy call was made by Council. She suggested the Committee make a recommendation to Council if revisiting the policy call is desired.

Council Member DuBois believed it would be reasonable to have an annual cap increase limit. He expressed concern about the negative impact on hotels and suggested including in the question a comment about how the City already has one of the highest TOTs.

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Ms. Nose explained that Staff's intent through the next survey is to test the ballot language. Some designation on primary characteristics of the tax measure will need to be formed.

Council Member DuBois asked if the pro statement would be tested.

Ms. Nose indicated that pro and con arguments would be tested, but prolonged variable testing in the ballot question will impact the testing of the pro and con arguments of the ballot question itself.

MOTION: Council Member DuBois moved, seconded by Vice Mayor Kou for the Finance Committee to recommend that the City Council consider:

- A. Gas ballot language to include 18% and current uses
- B. Business tax ballot language to include
 - i. Exempt hotels
 - ii. Exempt groceries, require amount of use for food sales
 - iii. Exempt seasonal businesses less than 90 days
 - iv. Require BRC and exempt first 5000 sq ft
 - v. Proposed escalating rate over 3 years starting in 2024 at \$0.12 a sq ft per month, at \$0.15, \$0.20 then CPI capped at 6% per annum with excess CPI carrying over to future years
- C. Recommend the City Council direct staff to proceed with a third round of polling based on Finance committee and Council's feedback

MOTION PASSED: 3-0

Future Meetings and Agendas

Kiely Nose, Assistant City Manager, confirmed that the next scheduled meeting is April 19, 2022, regarding the bulk of the utility rates. Additionally, there will be a meeting to discuss fee schedules on May 3, 2022.

Adjournment: The meeting was adjourned at 8:41 P.M.