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To: [Council, City](#)
Cc: [Nose, Kiely](#); [Guagliardo, Steven](#)
Subject: LRFF item before council
Date: Tuesday, January 31, 2023 4:35:35 PM
Attachments: [AnnualReport2022-2023.pdf](#)

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Dear Mayor Kou and council members,

I discuss 3 topics:

- 1) The connection between the City's Economic Development Strategy and the budget, particularly long-term revenue trends. This is my focus in this email.
- 2) The short and long-term economic outlook and
- 3) The LRFF

and I include the latest Assessor report on assessed value increases. I call your attention to pages 9,11,13,18,20 and 40.

Short and Long Term Economic Outlook

I will write a follow up email later this week after seeing what the Fed does on Wednesday and the U.S. jobs report on Friday.

The short-term outlook should be clearer by May but probably not before then. The impact of recent layoffs on job totals will show up in

February, March, April and May EDD reports. Year over year inflation trends will decline as the 2022 comparable months were very high BUT the

real focus should be on the near term monthly gains--will they remain low as in the past 6 months.

We will have a new UCLA forecast in March.

The LRFF

As usual the staff did a comprehensive and transparent job with the forecast illustrating the assumptions but also the long list

of what is not included.

I think we will know more about both short and long term trends in May and there is no need to guess about these trends now.

The Connection Between the Economic Development Strategy and Our Budget, particularly Revenue Trends

I have met with and emailed with staff and our Streetscene consultant.

Here are some of the points I raised.

- 1) Both for the ED strategy and for revenue forecasts, it is important to understand the drivers of key revenues including sales tax, TOT and property tax.

Staff reports clearly show the trends and top line numbers illustrating their importance to

overall revenues.

But that is different from understanding the principal drivers of these revenues and how they can impact ED strategy choices.

My memory is that during the last Comp Plan, Hillary had a fiscal consultant report showing the main drivers (businesses, residents, Stanford and related visitors) of sales and TOT.

2) We have a lot of (at least DTN where I live, work and walk every day) vacant spaces mostly retail and office.

I believe that the choices made regarding these spaces will have long-term impacts on the budget so they are connected.

I hope council with advice from staff and the consultant and in collaboration with property owners can develop policies that will fill these spaces, particularly those that have been vacant a long time.

Even if the spaces are not filled with sales tax producers, they will be filled with potential customers for existing businesses.

I think there will be continuing no longer needed office space with WFH even if the economy continues to grow. What are the feasible repurposing strategies for these spaces.

The stated goal of the ED effort in the Nov council presentation is

"Develop a market-informed economic development strategy that will ensure Palo Alto's post-COVID competitiveness by identifying impactful public sector interventions, policies and investments for which there is both need and consensus for action."

As an economist I focus on the phrases "market-informed", "competitiveness" and "need".

While council can provide incentives and disincentives, ultimately property owners and businesses will decide what are their feasible and best options.

3) The ED strategy diagnostic and policy recommendation work will inform council and residents on ED choices that will impact revenue growth.

Some of these are

a) what are feasible options for increasing the customers bases and attractiveness (related issues) for DTN and Cal Ave?

b) How does open/closed for these streets impact question a?

c) How does parking availability and how close influence these choices?

I asked the staff and consultants when they thought the perspectives of restaurants/cafes/bar businesses were aligned with or differ with those of retail, service businesses and property owners on these questions.

I look forward to the next set of information provided by staff and Streetscene on ED issues and to future council and, hopefully, Finance Committee integration of our ED strategy choices into long-term revenue forecasts and related city options.

I have lived and worked in Palo Alto for 50+ years.

Stephen Levy

