

**CITY OF PALO ALTO  
MEASURE L**

Shall the measure affirming the City of Palo Alto's existing and decades-old practice of annually transferring no more than 18% of the gross revenues from the City's natural gas utility (generated by the City's retail natural gas rates) to its general fund to support general city services such as roads; parks; libraries; climate change reduction; police, fire, emergency medical, and 9-1-1 response; providing approximately \$7 million annually in existing revenues until ended by voters, be adopted?

YES  
NO

**CITY ATTORNEY'S IMPARTIAL ANALYSIS OF  
MEASURE L**

The Palo Alto City Council has placed this measure on the ballot. If voters approve it, the measure would amend the Municipal Code to affirm the City's current practice of transferring funds each year from the City's natural gas utility to the General Fund to help pay for general City services.

**Background:** City voters adopted Article VII of the City Charter in 1950 to authorize the transfer of utility revenues to the General Fund after other obligations are paid, such as operating and maintenance expenses, debt payments, capital expenditures and reserve funding. Under this authority, the City Council has for decades approved yearly transfers of natural gas utility revenue to the General Fund. The transfer provides approximately \$7 million each year toward City services maintained by the General Fund, such as roads, parks, libraries, climate change reduction, police, fire, emergency medical and 9-1-1 response. About half of the transfer is paid by the gas utility's commercial customers, and half is paid by residential customers.

The City designs its natural gas rates so the utility will have enough money to cover its expenses as well as the General Fund transfer. In 2015, a lawsuit challenged this longstanding practice. In 2021, the Santa Clara Superior Court ruled that a portion of the natural gas transfer is a tax that requires voter approval to continue. Both sides appealed and are exploring a settlement that would likely cover 2015 to 2022. This measure, if approved, will apply prospectively, from 2023 onward.

**The Measure:** The measure would amend the Municipal Code to authorize the City's current practice of yearly transfers of up to 18% of the revenues of the natural gas utility to the General Fund to support general City services. The cost of the transfer will be incorporated into customers' gas rates, as it is now, and it will be a general tax.

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

A "Yes" vote will amend the Municipal Code to allow the City to continue funding the transfer through natural gas rates to pay for general City services. Approval of this measure will not increase customers' gas bills, because the City's current natural gas rates already include the cost of the transfer.

**CITY ATTORNEY'S IMPARTIAL ANALYSIS OF  
MEASURE L-Continued**

A "No" vote means the proposed Municipal Code amendment would not go into effect. If the measure does not pass, there could be an annual loss of money to the General Fund of approximately \$7 million. If so, the City Council may need to consider eliminating or reducing City services.

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\\_10065\\_-\\_natural\\_gas\\_utility.pdf](https://www.cityofpaloalto.org/files/assets/public/city-clerk/election-info/2022/please_docusign_reso_10065_-_natural_gas_utility.pdf)**

## COMPLETE TEXT OF MEASURE L

Ordinance of the Council of the City of Palo Alto Amending Chapter 2.28 (Fiscal Procedures) of Title 2 of the Palo Alto Municipal Code to Authorize the City Council to Continue to Annually Transfer from the Natural Gas Utility to the General Fund an Amount Equal to 18% of the Gross Revenues of the Natural Gas Utility, Generated by the City's Retail Natural Gas Rates

The People of the City of Palo Alto do ordain as follows:

**SECTION 1.** Chapter 2.28 of the Palo Alto Municipal Code is hereby amended by adding Section 2.28.185 as follows:

### **Chapter 2.28 FISCAL PROCEDURES**

#### **2.28.185 Natural Gas Utility Transfer**

Each fiscal year the City Council may transfer from the natural gas utility to the general fund an amount equal to 18% of the gross revenues of the gas utility received during the fiscal year two fiscal years before the fiscal year of the transfer. At its discretion, the City Council may decide to transfer a lesser amount. The projected cost of the transfer shall be included in the City's retail natural gas rates as part of the cost of providing gas service.

**SECTION 2.** General Tax. Proceeds of the tax imposed by this Ordinance shall be deposited in the general fund of the City and shall be available for any legal purpose.

**SECTION 3.** Amendment or Repeal. The City Council may repeal Section 2.28.185 of the Palo Alto Municipal Code or amend that Section without a vote of the people except that any amendment to Section 2.28.185 that increases the amount or rate of tax due from any person beyond the amounts and rates authorized by this Ordinance may not take effect unless approved by a vote of the people.

**SECTION 4.** Severability. If any section, subsection, sentence, clause, phrase, or portion of this Ordinance is for any reason held to be invalid or unenforceable by a court of competent jurisdiction, the remaining portions of this Ordinance shall nonetheless remain in full force and effect. The people hereby declare that they would have adopted each section, subsection, sentence, clause, phrase, or portion of this Ordinance, irrespective of the fact that any one or more sections, subsections, sentences, clauses, phrases, or portions of this Ordinance be declared invalid or unenforceable.

**SECTION 5.** Effective Date. This ordinance shall be effective only if approved by a majority of the voters and shall go into effect immediately after the vote is declared by the City Council.

**SECTION 6.** Execution. The Mayor is hereby authorized to attest to the adoption of this Ordinance by the voters of the City by signing where indicated below.

## COMPLETE TEXT OF MEASURE L-Continued

I hereby certify that the foregoing Ordinance was PASSED, APPROVED and ADOPTED by the People of the City of Palo Alto voting on the 8th day of November, 2022.

ATTEST:

\_\_\_\_\_  
City Clerk

\_\_\_\_\_  
Mayor

APPROVED AS TO FORM:

APPROVED:

\_\_\_\_\_  
City Attorney

\_\_\_\_\_  
City Manager

\_\_\_\_\_  
Director of Administrative Services

## ARGUMENT IN FAVOR OF MEASURE L

We need this measure to fund services and programs for the residents of Palo Alto. This will not change your natural gas utility rate. It maintains funding for city services, updates the legal language in the City Charter, and is good environmental policy.

### ***This transfer must be approved to help pay for basic City services***

Palo Alto owns and operates its own utilities for the benefit of our residents. California cities who have their own utilities are allowed to transfer part of their utility revenues to fund city services. Palo Alto voters approved this practice in 1950 as a City Charter provision, and since then the City has used this transfer to help fund services and community priorities, including:

- Police protection
- Fire and emergency medical services
- Parks, libraries, arts, theater and recreation programs
- Street repairs

### ***Aligns with new state law***

Over the years, state laws governing utility rates and uses have evolved, enough that the 1950 language needs to be updated and reaffirmed. A yes vote continues our 70 year practice of transferring funds to maintain essential services. If this measure is not approved, the City will lose a key funding source for basic services and reductions will be required.

### ***Your gas rate will not change as a result of this measure***

This measure will not increase natural gas rates, because the transfer is already built into our existing rates, which are lower than PG&E for most residents. Residents pay about half of the transfer and businesses pay the other half.

### ***Good choice for the environment***

Keeping the gas transfer policies and rates stable will also help us meet our important climate goals as we begin to transition appliances from unhealthy gas to carbon-neutral electricity.

Please join us in voting YES!

Debbie Mytels  
Environmental Educator

Larry Klein  
Former Mayor, City of Palo Alto

Jon Foster  
Former Chair, Palo Alto Utilities Advisory Commission and Board Member, California Clean Energy Fund

Gail A. Price  
Former Councilmember, City of Palo Alto

Peter Drekmeier  
Former Mayor, City of Palo Alto, Policy Director of Tuolumne River Trust

## REBUTTAL TO ARGUMENT IN FAVOR OF MEASURE L

This measure is on the ballot because the city was not following state law, which requires that this kind of transfer be treated the same way as a tax, with respect to voter approval. The city didn't do that, fought against doing that in court, and lost.

That's why you have an opportunity now to **Just Say No**.

"Your gas rates will not increase"? That's a *funny way* of saying "your rates could have been lower, for years and years". *Get the joke?*

If gas is an "unhealthy" source of energy, what sense does it make to continue a system where the city relies on gas revenue to pay for "basic services"? Doesn't that create a conflict of interest for city officials? How can Palo Alto hope to be a "green" city if its police and libraries depend on sales of fossil fuels?

This is just one example of how the city shifts money around. A new police station paid for by the hotel tax? (Didn't work out very well when the pandemic hit. What happens to the libraries when natural gas gets phased out?)

That Palo Alto has been doing this for 70 years is no excuse. Women couldn't vote—until that changed. Disallowing same-sex marriage was considered obvious—until it wasn't.

Gas revenue should be spent on the expenses of providing gas service. Anything else is sloppy accounting.

You have the power to fix this.

Vote **NO** on Measure L.

<https://sccplp.org/just-vote-no>

Joe Dehn  
Chair: Libertarian Party of Santa Clara County

Alan Kaiser  
Palo Alto Resident

## ARGUMENT AGAINST MEASURE L

***This proposal would endorse the practice of mixing funds collected for two different purposes, allowing them to be used for other purposes. Even though this is a long-standing practice in the case of gas service in Palo Alto, that doesn't make it a good idea.***

Both basic fairness and economic efficiency depend on connecting the value provided by goods and services with the costs of providing them. The free market naturally sets prices according to supply and demand, and creates incentives for business managers to find more efficient ways to do things. Monopolies, on the other hand, create opportunities for diversion of funds and other sorts of corruption, and can more generally lead to inefficiencies in the long run, especially as technology evolves to make different methods more appropriate.

*Understanding the following principles can help avoid these problems:*

- **Separation of Business and State**

As with Separation of Church and State, a society is better off when not everything is dictated from one central authority.

- **Governments are the Main Source of Monopolies**

Whether through direct ownership and management (i.e., socialism) or through heavy regulation, more parts of our economy are now effectively monopolies than ever were in the days of the "robber barons".

- **Transparent Accounting Helps Us Both as Consumers and Citizens**

At the very least money paid by customers for a clearly-defined specific service should be used for that service. Diversion of funds can lead both to higher prices than necessary and failure to be prepared for future investments, e.g., in safety and expansion upgrades.

The gas utility is a monopoly. This kind of transfer of funds is the equivalent of a tax. Send a message to the city council that this is not the way things should be set up.

***Vote No on Measure L.***

Joe Dehn  
Chair: Libertarian Party of Santa Clara County

Alan Kaiser  
Palo Alto Resident

## REBUTTAL TO ARGUMENT AGAINST MEASURE L

### ***Our utilities***

More than a century ago, the city of Palo Alto invested in building our own municipal utility. Because of this, we now pay less for gas and electricity than our neighbors in cities who get their power from PG&E. Utilities actually make economic sense as monopolies because they require very large capital investments, and you wouldn't want multiple sets of utility poles, wires, substations, transformers, and gas pipes all over the City—that would be prohibitively expensive and constantly under construction.

### ***Return on our investment***

The City built our utilities, so the equity transfer is essentially a return on our capital investment that we reinvest in our community. No matter whether a utility is owned by private shareholders or a municipal government, a return on capital investment is both reasonable and regulated by the state. For a private utility like PG&E, that return goes to shareholders. For a public utility like Palo Alto's, the return goes to our general fund and for decades has supported services we care about. If this measure is not approved, the City will lose a key funding source for those services and reductions will be required.

### ***Transparent accounting***

Transparency is built into our city's budget process. The City annually publishes operating and capital budget documents with extensive details. You can find current and past city budgets and historical expenditures, including the utility transfers, at <https://www.cityofpaloalto.org/Departments/Administrative-Services/City-Budget>.

Voting YES on L continues to reinvest in our community.

Dennis Burns  
Former Police Chief, City of Palo Alto

Jade Chao  
Parent Volunteer

Victor Ojakian  
Former Mayor, City of Palo Alto; Mental Health and Suicide Prevention Activist

Becky Sanders  
President, Palo Alto Neighborhoods

Bob Wenzlau  
CEO, Terradex; Community Leader