

Proposed Revenue Measures

CITY COUNCIL STUDY SESSION
JULY 9, 2024

ALAN ALTON
CHIEF FINANCIAL OFFICER

Agenda

- Background
- Transient Occupancy Tax (TOT)
- Business License Tax (BLT)
- Opinion Survey Results
- Next Steps

BACKGROUND

- City's General Fund has a significant structural deficit and is facing deep budget cuts that will directly impact essential services local residents rely upon
- The City is developing plans to address its budget imbalance including enhancing revenue and cutting expenditures
- Transient Occupancy Tax (TOT) – Increase by 2%
- Business License Tax (BLT) – remove maximum tax cap and update rates

Transient Occupancy Tax (TOT)

Ordinance Overview

- Last Updated in 1993
- Total TOT & BIA: 14%
 - 9% TOT
 - 100% to General Fund
 - SRTBIA 3%
 - 30% to Econ Development (Non-General Fund)
 - 70% to SR Tourism (Chamber of Commerce)
 - SCTBIA 2%
 - 100% to Sonoma Co. Tourism

Proposed Changes

- Increase TOT by 2%, from 9% to 11%
- Total charges to lodger incr. to 16%
- \$2M est. revenue to General Fund

Current TOT Rates – Sonoma County

City	TOT	BIA - Local	BIA - County	Total
Healdsburg	14%		2%	16%
Sonoma	13%	2%		15%
Rohnert Park	12%		2%	14%
Santa Rosa	9%	3%	2%	14%
Sebastopol	12%		2%	14%
Sonoma County	12%		2%	14%
Windsor	12%		2%	14%
Cloverdale	10%		2%	12%
Petaluma	10%		2%	12%

Business License Tax (BLT)

- Chapter 6-04 in Santa Rosa City Code
 - Enacted in 1990, with no major reviews or changes since
- Establishes that any business operating in the City of Santa Rosa pays a business tax
- Tax is based on gross receipts
- Establishes a minimum tax of \$25, and maximum tax of \$3,000
 - Gross receipts between \$0 and \$25,000 pay \$25
- Different rates per business category with lower rate for those contributing to the City's tax base through other taxes
- General Fund revenue generating approximately \$4.7M annually
- ***This would not include the business tax structure for the cannabis industry which fall under Chapter 6-10 in the Santa Rosa Code***

Ordinance Review

- Last summer, the City asked its Business Tax administration firm, HdL, to review its Business Tax ordinance to measure the effectiveness of the City's current structure and offer recommendations based on their expertise in the industry
- Found the City current structure underperforms compared to other cities of similar size
 - Main driver is the \$3,000 maximum tax
 - Removing the cap would enable equity relative to the effective tax rates
 - Raise rates to reflect those used by other cities
 - Simplify rate structure where possible

Methodology for Changes

- Allow for a more equitable effective tax structure – this inequity is caused by the \$3,000 maximum tax cap
- Businesses paying less than the \$3,000 maximum cap will see no increase in tax payments – ensuring small businesses not affected
- New rates in line with other cities with similar rate structure
- Lowest rate for General Retail category where businesses contribute to the City's tax base in other ways and tend to have low profit margins
- Wanted to treat all businesses the same by including Short-Term Rental operators. Currently, BLT does not apply to residential rentals of less than 4 units

Proposed Changes to Section 6-04

- Remove maximum tax
- Create a hybrid tax structure
- Protect small/medium-sized businesses by retaining same tax structure for businesses currently paying below the cap
 - Businesses paying \$3,000 or less in Business Tax will not see an increase
- Adopt a modern rate structure for those businesses that generate more than \$1 million in gross receipts annually
- Keep similar business categories
- Expand tax for property rentals to include businesses renting fewer than four residential units
- Proposed changes would take effect for the 2026 business tax year

Changes in Rates

Group	Type	Current Rates	Proposed Rates
General Commerce/Retail	Retail, Wholesale, Restaurant, Manufacturing, Corporate HQs, Auto Sales	\$25 + \$0.39 / \$1,000 Gross (Max: \$3,000)	\$25 + \$1.50 / \$1,000 Gross
Services	Lawn care, Beauty Salon, Property Rental, Convalescent Care	\$25 + \$0.84 / \$1,000 Gross (Max: \$3,000)	\$25 + \$2.50 / \$1,000 Gross
Contractors	Contractors, Rec/Entertainment, Land Developers, Utilities	\$25 + \$1.09 / \$1,000 Gross (Max: \$3,000)	\$25 + \$2.50 / \$1,000 Gross
Rental – Commercial / Residential	Commercial Leasing, Parcel leasing, Short-Term Rentals (three units or less)	\$25 + \$0.84 / \$1,000 Gross (Max: \$3,000)	\$25 + \$3.50 / \$1,000 Gross
Professional	Doctor's Offices, Accountants, Attorneys, Consultants	\$25 + \$1.69 / \$1,000 Gross (Max: \$3,000)	\$25 + \$3.50 / \$1,000 Gross

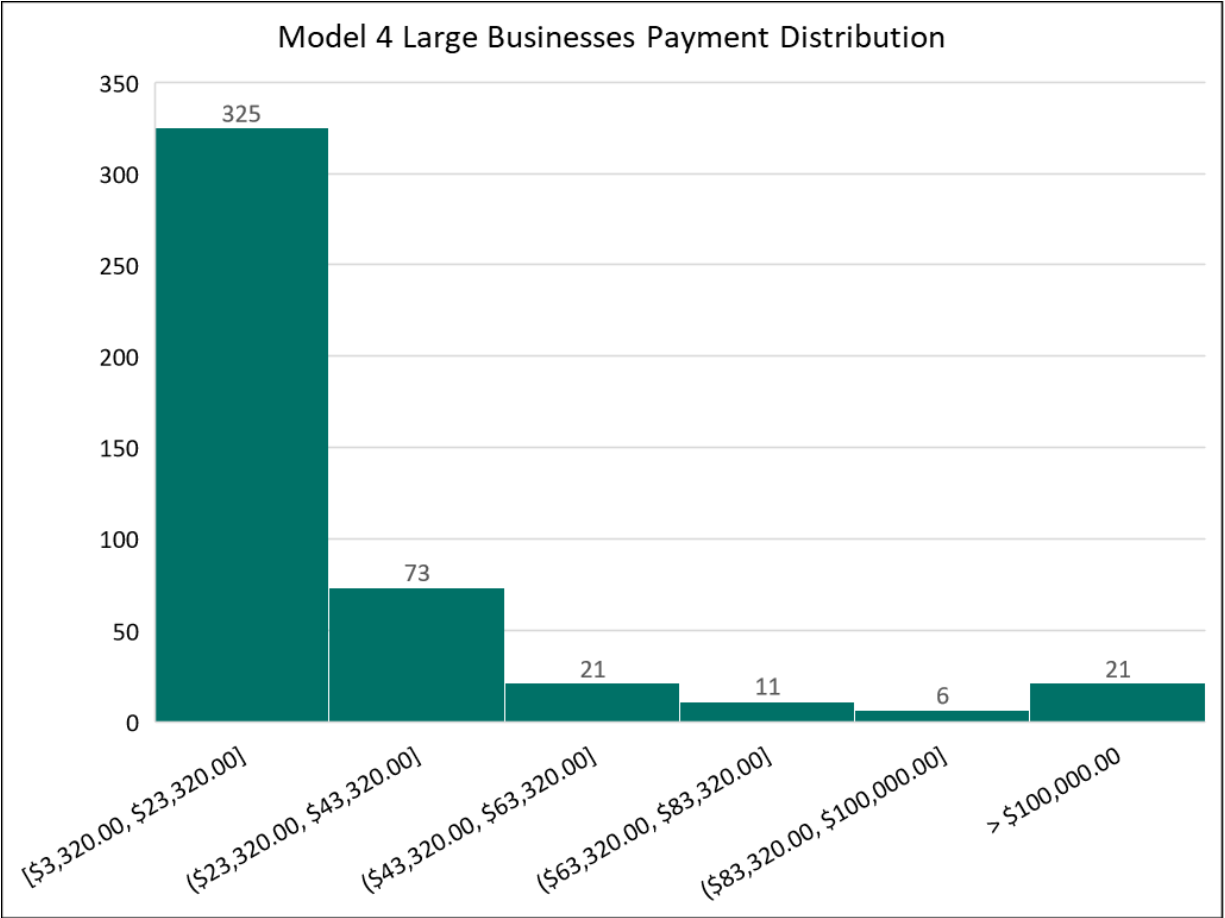
Changes in Payments - Examples

Business Type	Group	Gross Receipts	Current	New
Department Store	Retail	\$10,200,000	\$3,000	\$15,300
Auto Dealership	Retail	\$32,000,000	\$3,000	\$48,000
Full-Service Restaurant	Retail	\$3,300,000	\$1,400	\$1,400
Automotive Repair	Services	\$53,700,000	\$3,000	\$134,000
Beauty Salon	Services	\$155,000	\$181	\$181
Apartment Complex	Rental	\$3,600,000	\$3,000	\$12,500
Electrical Contractor	Contractors	\$122,500,000	\$3,000	\$306,000
Medical Office	Professional	\$167,600,000	\$3,000	\$586,500
CPA Office	Professional	\$1,200,000	\$2,545	\$2,545

Comparison to other Cities

Group	Santa Rosa (Proposed)	Tracy	Sausalito	Pico Rivera
General Commerce/Retail	\$25 + \$1.50/\$1,000 Gross over \$25K	\$1 / \$1,000 Gross over \$500K	\$1 / \$1,000 Gross (Min: \$125)	\$25 + \$1 / \$1,000 Gross over \$25K
Services	\$25 + \$2.50/\$1,000 Gross over \$25K	\$3 / \$1,000 Gross over \$500K	\$3 / \$1,000 Gross (Min: \$125)	\$25 + \$1 / \$1,000 Gross over \$25K
Contractors	\$25 + \$2.50/\$1,000 Gross over \$25K	\$2 / \$1,000 Gross over \$500K	\$2 / \$1,000 Gross (Min: \$125)	\$25 + \$2 / \$1,000 Gross over \$25K
Rentals – Commercial/Res.	\$25 + \$3.50/\$1,000 Gross over \$25K	\$3 / \$1,000 Gross over \$500K	\$2 / \$1,000 Gross (Min: \$125)	\$25 + \$3 / \$1,000 Gross over \$25K
Professional	\$25 + \$3.50/\$1,000 Gross over \$25K	\$2 / \$1,000 Gross over \$500K	\$3 / \$1,000 Gross (Min: \$125)	\$25 + \$3 / \$1,000 Gross over \$25K

Payment Distribution



Opinion Survey Results

- Opinion survey completed in late November 2024
- 90,060 likely voters surveyed, with a margin of error of +/- 3.15%
- Support for changes to the Business Tax ordinance was 66.8%
- Support for increasing the City's TOT by 2% was 63.0%

Next Steps

- Council Item Recommending Approval of Tax Measures and Submission to Registrar of Voters July 23, 2023
- Ballot measures due to Registrar of Voters August 9, 2024
- Continue to meet with business groups

Questions?