

CITY OF SANTA ROSA  
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL  
FROM: ALAN ALTON, CHIEF FINANCIAL OFFICER, FINANCE  
DEPARTMENT  
SUBJECT: TRANSIENT OCCUPANCY TAX BALLOT MEASURE

AGENDA ACTION: RESOLUTION AND ORDINANCE

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RECOMMENDATION

It is recommended by the Finance Department that the Council (1) introduce an ordinance to amend Chapter 3-28 of the Santa Rosa City Code to increase the Transient Occupancy Tax (TOT), paid by guests at hotels, motels, and other lodging establishments by two percent (2%), and (2) approve a resolution ordering the submission of a ballot measure to seek voter approval of this ordinance at the November 5, 2024, General Municipal Election, directing related actions, and designating an individual to submit, on behalf of the City Council, an argument in favor of the measure and a rebuttal argument.

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EXECUTIVE SUMMARY

The City of Santa Rosa's current Transient Occupancy Tax (TOT) rate of 9% is the lowest in Sonoma County and was last amended in 1993. The TOT is a General Fund tax that is important for funding City services to the community. As part of a broad effort to balance the General Fund budget, staff proposes to increase the current TOT rate by 2%, which would bring the City's TOT rate to 11%. The increase to the TOT rate is estimated to increase General Fund revenue by approximately \$1.2 million annually.

BACKGROUND

Santa Rosa City Code 3-28.020 imposes a tax on anyone who lodges within the City for 30 days or less. The current TOT rate is 9% of the room rate charged by a lodging operator. The tax is collected by the operator, along with the payment for renting the room, and remitted to the City. The 9% TOT was last updated in 1993. This is a general tax, that currently generates an estimated \$6 million to the General Fund budget annually.

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In addition, there are two Business Improvement Areas (BIA) that levy an assessment on lodging businesses. The purpose of the BIA is to provide funding to promote tourism and destination marketing.

- **Sonoma County Tourism BIA (SCTBIA).** In 2004, the City, along with other Sonoma County cities entered into a BIA contract with Sonoma County Tourism. The assessment associated with the Sonoma County Tourism BIA (SCTBIA) is 2%, and only applies to lodging businesses with revenue greater than \$350,000.
- **Santa Rosa Tourism BIA (SRTBIA).** On September 3, 2010, the City Council approved the Santa Rosa Tourism BIA (SRTBIA), pursuant to the Parking and Business Improvement Area Law of 1989, Section 36500 – 36551. which levied a 3% assessment on Santa Rosa lodging businesses, including Hotels, Motels, and Short-Term Rentals.

While the BIAs are assessed to the lodging businesses, they may be passed through to renters. Lodging businesses remit TOT and BIA revenue to the City. The TOT revenue goes to the General Fund. The SRTBIA revenue is shared, with 30% going to a City Economic Development special fund, and 70% to the Santa Rosa Metro Chamber. The SCTBIA revenue goes to Sonoma County Tourism. For both BIAs, the General Fund does receive 2% of the gross revenues for administration of the BIAs. This item does not propose changes to the BIAs.

### PRIOR CITY COUNCIL REVIEW

The City Council conducted a study session on these proposed revenue measures on July 9, 2024.

### ANALYSIS

The City's General Fund has a budget deficit that is projected to continue unless changes are made to bring the budget into sustainable balance. This deficit is the result of several factors including rising non-personnel related operating costs, increased labor costs, the loss of federal and state one-time funds, and the addition of ongoing services.

The Fiscal Year (FY) 2023-24 General Fund is projected to end the year with a \$2 million deficit, and the FY 2024-25 General Fund budget was adopted with \$13.3 million deficit. Each annual deficit requires reserves to be used to fill the gap in funding. At this rate, the General Fund Fiscal Stability Reserves will be gone by FY 2025-26, and available General Fund unassigned reserves will be exhausted by FY 2027-28.

The City's broad strategy of fiscal sustainability is to address the General Fund imbalance with a combination of revenue generation and expenditure reductions. The City has already begun making reductions in General Fund expenditure budgets. Budgets have been held flat for non-personnel related costs for the past two years despite increases in operating costs, and departments have been instructed to make

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additions to the budget on a cost-neutral basis. In the current fiscal year, the City instituted a hiring freeze, and will begin reducing expenditures through mid-year budget adjustments, and propose further reductions as part of the FY 2025-26 budget development.

In addition to reducing ongoing expenditures in the General Fund, staff is proposing adding ongoing revenue to help balance the budget.

At 9%, Santa Rosa’s TOT rate is the lowest in the County; however, when including the 3% SRTBIA and the 2% SCTBIA amounts, the total amount of taxes or assessments collected from lodgers is 14% of the room rate. The proposed change to raise the TOT rate from 9% to 11% will still leave Santa Rosa’s TOT rate one of the lowest in the County, but the overall amount collected from renters will be 16%, see chart below.

Increasing the TOT will ensure that visitors to Santa Rosa contribute to maintaining the roads, infrastructure, public safety, and other resources they utilize while staying in Santa Rosa. The TOT is paid by visitors to the City’s lodging businesses, and the funding generated will contribute to the City creating a more enjoyable experience for visitors, encouraging longer stays and return visits.

PROPOSED Transient Occupancy Tax and BIA rates in Sonoma County				
	TOT Rate	BIA Local	BIA County	Total
Healdsburg	14%	2%		16%
<b>Santa Rosa</b>	<b>11%</b>	<b>3%</b>	<b>2%</b>	<b>16%</b>
Sonoma	13%	2%		15%
Rohnert Park	12%		2%	14%
Sebastopol	12%		2%	14%
Windsor	12%		2%	14%
Unincorporated Sonoma County	12%		2%	14%
Petaluma	10%	2%	2%	14%
Cloverdale	10%		2%	12%

The proposed 2% increase in the TOT is estimated to increase General Fund revenue by approximately \$1.2 million. There are no changes proposed to the BIA amounts.

The City commissioned an opinion survey which took place between November 27 and December 3, 2023. Data was collected from 90,060 likely voters and had a margin of error of plus or minus 3.15%. Support for the 2% TOT increase was 63.0%.

Ballot Measure, Ordinance, and Resolution

As stated above, the proposed Ballot Measure would increase the current TOT rate from 9% to 11%. The measure would not automatically expire, but instead would end at

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any time the voters decide to end the measure. This is consistent with the current TOT ordinance.

Under the ordinance, the revenues of the tax will be allocated to the City's General Fund. This revenue will allow the City of Santa Rosa to maintain the essential City service levels to which citizens are accustomed to including 911 emergency, paramedic, and fire response, gang-crime prevention and investigation, street paving and pothole repair; parks and recreation; youth and senior programs and other city services.

The ordinance, if adopted by Council and approved by the voters, would amend Chapter 3-28 of the Santa Rosa City Code to establish the new TOT rate effective January 1, 2025. The new tax revenues would be subject to the City's existing fiscal accountability measures such as the charter-required independent audit and review of City revenues and expenditures as part of the public budget process.

In addition to the ordinance, a resolution is necessary to place the tax measure on the ballot for the November 2024 election. The resolution calls for a special election for the tax measure and requests its consolidation with the other elections being held on the same date. The resolution contains the wording of the tax measure as it will appear on the ballot. The wording is recommended by the City Manager. The resolution also directs the City Attorney to prepare an impartial analysis of the measure as required by the Elections Code.

The Resolution also allows for the submittal of "rebuttals" to the arguments that may be submitted for inclusion in the ballot pamphlet. The Council, in the exercise of its discretion, may permit or not permit "rebuttals."

Finally, the Resolution also provides an opportunity for the Council to designate an individual or individuals to submit an argument in favor of the measure and a rebuttal argument on behalf of the Council. The Council may, in its discretion, make such a designation.

### FISCAL IMPACT

Funds have been included in the Fiscal Year (FY) 2024-25 budget to pay for costs associated with the November election, plus two additional ballot measures. There is no additional impact to the General Fund.

### ENVIRONMENTAL IMPACT

The rate increase adopted by the ordinance is exempt from the provisions of the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Section 15061(b)(3) and 15378 in that there is no possibility that such an increase may have a significant effect on the environment.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

The Long-Term Financial Policy and Audit Subcommittee reviewed the proposed revenue measure presentation on June 13, 2024, and recommended the presentation be given to the full Council for discussion.

NOTIFICATION

Not applicable.

ATTACHMENTS

- Resolution
  - Exhibit A - Ordinance (Clean)
  - Exhibit B - Ordinance (Redline)

PRESENTER

Alan Alton, Chief Financial Officer