

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: ALAN ALTON, CHIEF FINANCIAL OFFICER, FINANCE
DEPARTMENT
SUBJECT: PROPOSED REVENUE MEASURES

AGENDA ACTION: NO ACTION REQUIRED

RECOMMENDATION

It is recommended by the Finance Department that the City Council hold a Study Session to provide City Council the opportunity to receive information and ask questions relative to placing two (2) revenue measures on the November 2024 ballot. This item is presented for the Council's information and no action is required.

EXECUTIVE SUMMARY

As part of a broader strategy to address the imbalance in the General Fund budget, staff identified revenue enhancement opportunities that would have minimal impact to residents of Santa Rosa. Santa Rosa's Transient Occupancy Tax (TOT) and Business License Tax (BLT) have not been updated since 1993 and 1990, respectively. Increasing these tax rates would; have minimal impact to Santa Rosa residents, increase General Fund revenue significantly, and ensure the continuation of vital services to the community. In this study session, staff will provide background information on the existing TOT and BLT ordinance and provide details of the proposed changes.

BACKGROUND

Santa Rosa charges a TOT (Chapter 3-28 of the City Code) to anyone who lodges in 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, generating an estimated \$7 million for the General Fund annually.

In addition, two Business Improvement Areas (BIAs) are charged to renters/lodgers: a 3% Santa Rosa Tourism BIA (SRTBIA) fee and a 2% Sonoma County Tourism BIA (SCTBIA) fee. The purpose of these fees is to provide revenue to defray the costs of services, activities, and programs that promote and encourage tourism in Santa Rosa,

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and in the case of the SCTBIA, Sonoma County in general. There are no proposed changes to either BIA. The revenue from the SRTBIA is split between a special Economic Development fund (30%) and the Santa Rosa Metro Chamber (70%). All of the SCTBIA revenue goes to Sonoma County Tourism. The two BIAs do not generate revenue for the General Fund.

Santa Rosa also charges a BLT under Chapter 6-04 of the City Code to any business operating within city limits subject to narrow exceptions. This tax was enacted in 1990, and taxes businesses based on gross receipts, with different tax rates for different business categories. There is a minimum tax of \$25 for businesses with annual gross receipts of less than \$25,000. The amount of tax a business will pay is capped at \$3,000. These rates have not been changed/updated since the tax was enacted, and until now has not gone through a thorough review. BLT is also a general tax, generating approximately \$4.7 million to the General Fund annually. In 2018 following legalization of the cannabis industry in California, the City enacted an entirely separate business tax structure for businesses in the cannabis industry which is set forth in Section 6-10 of the City Code.

Changes to either the TOT or BLT ordinances would require voter approval at a general election, and because they are general taxes, passage would require a simple majority. The City conducted an opinion survey in late November 2023 among likely 2024 voters and both potential tax measures polled favorably by over 65% of those polled.

PRIOR CITY COUNCIL REVIEW

None.

ANALYSIS

It is estimated that the changes to the City's TOT ordinance and BLT ordinance in Chapter 6-04 of the City Code would increase General Fund revenue by an estimated \$14 million per year, with most of the additional revenue coming from the changes to the City's BLT ordinance.

Transient Occupancy Tax

As seen in the figure below, Santa Rosa's TOT rate is the lowest in the County; however, when including the two BIA rates, the total tax charged to Santa Rosa lodgers is in the mid-point.

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Current Transient Occupancy Tax and BIA rates in Sonoma County				
	TOT Rate	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%
Windsor	12%		2%	14%
Unincorporated Sonoma County	12%		2%	14%
Cloverdale	10%		2%	12%
Petaluma	10%		2%	12%

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 tax charged to Santa Rosa lodgers will be 16%. The proposed 2% increase is estimated to increase General Fund revenue by \$2 million.

Business Tax

Staff had HdL, the City's Business Tax administrator, to review the City's BLT ordinance in Chapter 6-04 of the City Code and measure its effectiveness compared to BLT ordinances adopted by other jurisdictions in the state. HdL found that Santa Rosa's BLT ordinance underperforms when compared to other jurisdictions, and the main driver of that is the inclusion of a \$3,000 maximum tax in Santa Rosa's BLT ordinance. The maximum tax creates an inequity among businesses by imposing on small and medium businesses a higher effective tax burden than large businesses.

Staff worked with HdL to create a hybrid tax structure that would retain the existing tax rates under Chapter 6-04 for small businesses but have large businesses pay their fair share. The proposed tax structure has the following elements:

- Removes the \$3,000 maximum tax cap
- Retains the existing rate structure for businesses currently paying less than the maximum tax (generally businesses with gross receipts less than \$1 million)
- Updates the rate structure for businesses with gross receipts greater than \$1 million
- Expands the BLT requirement for residential rentals to include operators with one to three residential units, which would include Short Term Rentals (STR)

The proposal would not modify the separate business tax structure imposed on the cannabis industry under Chapter 6-10.

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The estimated tax generated by the BLT in Chapter 6-04 through this proposed model is \$16.8 million, which is approximately \$12 million more than the current annual revenue amount.

FISCAL IMPACT

There is no action taken at a study session, so this item does not create a fiscal impact for the General Fund.

ENVIRONMENTAL IMPACT

The Council finds that the proposed action is exempt from the provisions of the California Environmental Quality Act (CEQA) under section 15061(b)(3) and 15378 in that there is no possibility that the implementation of this action may have significant effects on the environment, and that no environmental review is required.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

Not applicable.

NOTIFICATION

Not applicable.

ATTACHMENTS

None.

PRESENTER

Alan Alton, Chief Financial Officer