

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: SCOTT WAGNER, CHIEF FINANCIAL OFFICER
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RELATIONS OFFICER
SUBJECT: REVENUE ENHANCEMENT

AGENDA ACTION: STUDY SESSION

RECOMMENDATION

The City Manager's Office presents this study session to provide the Council with information on enhancing the City's revenue. The Council will take no action on this item except for possible direction to staff on whether to return with ballot measure language for Council consideration. This item has no impact on current fiscal year budget.

EXECUTIVE SUMMARY

The City of Santa Rosa has faced a persistent structural deficit in the General Fund, driven by expenditures (services, supplies, and salaries and benefits) outpacing revenue growth. Over the past three fiscal years, the City has engaged in a multi-pronged deficit reduction strategy, resulting in over \$25 million in ongoing budget reductions and the elimination of 82 full-time equivalent (FTE) positions. Despite these corrective actions, the General Fund remains in a structural imbalance, requiring an unsustainable use of reserves and long-term planning for future revenue enhancement to maintain core city services.

GOAL

This item relates to Council Goal #1 - Achieve and Maintain Budgeting Excellence and Fiscal Stability.

BACKGROUND/PRIOR COUNCIL REVIEW

On June 18, 2024, the FY 2024-25 budget was initially approved with a General Fund deficit of \$13.3 million. This structural deficit was projected to increase to \$30.3 million by FY 2027-28 without intervention, making the deficit unsustainable in the short term. (Council Item 24-0452)

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On August 6, 2024, the City Council introduced 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 approved a resolution ordering the submission of a ballot measure to seek voter approval of this ordinance at the November 5, 2024 General Municipal Election. (Council Item 24-0573)

On August 6, 2024, the City Council introduced an ordinance to amend Chapter 6-04 of the City Code, entitled "General Business Tax," to increase the large business maximum tax to \$10,000 annually, adjust business tax rates, and tax Short-Term Rental businesses, and approved a resolution ordering the submission of a ballot measure to seek voter approval of that ordinance at the November 5, 2024 General Municipal Election. (Council Item 24-0574)

On November 5, 2024, voters passed ballot Measure EE to increase general business taxes and FF to increase the City's TOT. The increased revenue from these changes resulted in actual collections exceeding the budgeted amount at adoption by \$3.3 million for general business tax and \$400,000 for the TOT.

On January 28, 2025, the City Council took mid-year actions to address the imbalance of the FY 2025-26 budget deficit of \$13.3 million. Actions included reducing 19 full-time equivalent (FTE) positions that had ongoing budgetary savings of \$4.0 million. Council additionally allocated \$9.2 million in one-time funds from previously assigned projects to shore up reserves. (Council Item 25-0061)

Prior to the FY 2025-26 budget development process, staff contracted with a firm, Alvarez & Marsal (A&M), to provide an independent validation of the City Long-Range Financial Forecast for the General Fund, and to evaluate the City's annual budget process to provide insights into opportunities for improvement. A&M's review found that the City's General Fund financial model is a best practice and is more advanced than those used in other jurisdictions they have studied. Overall, the forecast methodology is sound; however, they noted that revenue forecasting should better align with actuals, notably that the City should lower its sales tax estimate to align with actual sales tax revenue.

On February 19, 2025, the City Council adopted strategic priorities for Fiscal Years 2025-2027. The number one priority is, "Achieve and Maintain Fiscal Sustainability and Budgeting Excellence." (25-0117)

On June 17, 2025, the City Council approved \$11.8 million in budget reductions, which included eliminating 35 FTEs in the general fund. A total of 53.0 positions were eliminated, which included the 19 FTEs voted on in January 2025 and the 34 FTEs voted on in June 2025. Following these reductions, the Council adopted the FY 2025–26 budget with a remaining General Fund deficit of \$8.4 million. (Council Item 25-0429)

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On May 5, 2026, the City Council conducted a Study Session for the FY2026-27 budget development and projected a \$17.5 million deficit. (Council Item 26-0376)

On June 2, 2026, the City Council approved restructuring payments for pension unfunded liability to CalPERS that will result in \$28 million in savings over the next 5 years and pays off the City's liability 6 years earlier. (Council Item 26-0446)

On June 16, 2026, the City Council approved \$9.9 million in reductions and savings, including eliminating 29 FTEs. Following these reductions, the Council adopted the FY 2026–27 budget with a remaining General Fund deficit of \$7.8 million. (Council Item 26-0507)

ANALYSIS

Despite significant corrective actions taken over the past 3 fiscal years, the General Fund remains in a severe structural deficit. The City has already implemented cumulative reductions of over \$25 million and eliminated 82.0 Full-Time Equivalent (FTE) positions between FY 2025-26 and FY 2026-27.

Historical Staffing vs. City Growth

The approved FY 2026-27 budget authorizes 707 General Fund FTEs, highlighting a stark and ongoing reduction in the City's workforce despite increasing service demands.

The current budget reflects a loss of 82 FTEs over just the past three fiscal years. The City is currently operating with 20% fewer employees overall than it did in FY 2007-08. Over that same timeframe, the City's population has grown by 12%.

Voter Approved Tax Increases and Improved Cost Recovery

Measure EE restructured the City's general business tax, which had not been updated since 1990. It shifted the tax from a predominantly flat, category-based model to a tiered system based on gross receipts.

Measure FF increased the City's Transient Occupancy Tax (TOT) rate to bring it in line with neighboring Sonoma County jurisdictions from 9% to 11%. The previous rate had remained unchanged since 1993.

Both measures were passed by voters in November of 2024, and the City has seen revenues of nearly \$4 million annually from the increases.

While the City has previously tried to modernize its Utility Users Tax (UUT), those efforts have not been successful. Furthermore, the revenue generated from a modernization of the UUT alone would not be sufficient to eliminate the City's structural deficit, necessitating consideration of alternative revenue enhancements options.

To ensure accurate cost alignment, the City comprehensively updated its Master Fee Schedule in January 2026. This covered a wide spectrum of user fees, ranging from building and planning permits to Fire Department operational inspections. The City also implemented credit card convenience fees on certain transactions to offset third-party processing costs that were previously absorbed by the General Fund. Recreation fees were updated with increases that have not impacted program demand.

Commitment to Efficiency and Independent Oversight

To ensure maximum accountability and responsible stewardship of taxpayer dollars, the City has proactively pursued independent reviews and aggressive operational efficiencies prior to seeking additional revenue.

The City has streamlined operations by realigning multiple departments to reduce overhead. This includes moving Communications and Intergovernmental Relations directly under the City Manager's Office, and splitting the Recreation and Parks Department moving it into Transportation & Public Works and Housing & Community Services.

An independent consultant rigorously evaluated the City's Financial Forecast modeling and affirmed that it utilizes industry best practices, ensuring that our deficit projections are highly accurate and strictly objective.

Demonstrating strict fiscal responsibility, the City received no audit findings in its Annual Comprehensive Financial Report (ACFR).

Future Reductions to Services

With cumulative reductions of over \$25 million and 82.0 FTEs cut from FY 2025-26 and FY 2026-27, the City can no longer reduce programs and staffing without significant impacts to core services resulting from severe cuts. To address the FY 2027-28 deficit of \$9.8 million, it is projected that an additional reduction of 41.5 FTEs is required, which would result in the elimination of critical services and programs.

Departments have developed cut scenarios to illustrate the reductions that may be required to balance future budgets.

- Police Department: An 11.0 FTE reduction, equivalent to \$3.1 million, would lead to the elimination or consolidation of Police special units. This impacts Gangs, Narcotics, Traffic, Downtown Enforcement, and Special Enforcement teams. These reductions will have significant impacts on police response times to emergency calls for service. Elimination of specialty teams will greatly impact the ability to recruit and retain police officers as well. The loss of some specialty teams and minimum staffing levels in patrol limits officers to just responding to crimes and hampers investigations. This inability to properly investigate crimes

leads to increases in violent crimes and visible blight across the city. Police officer community engagement opportunities will also be severely limited.

- Fire Department: An 8.0 FTE reduction, equivalent to \$2.5 million, could result in fire station closures. This would impact call response times, particularly emergency medical services, and core fire suppression readiness. It would cause a reduction of wildfire prevention and response capabilities as well as special operations capability. Resulting resources would be below Measure O (PSAP) implementation levels from 2007 at a point where call volume has increased approximately 66 percent.
- Recreation: A 2.0 FTE reduction, equivalent to \$364,000, may lead to various program closures. This could include cuts to the Adult Softball league, Tiny Tots program, Park Ambassador program, and youth sports, to name a few.
- Planning & Economic Development: A 4.0 FTE reduction, equivalent to \$817,000, would result in slowed planning and permit delivery that would impact economic development goals, reduced counter hours, slower permit processing times, and a lower level of service to the community overall.
- Transportation & Public Works: An 8.0 FTE reduction, equivalent to \$1.5 million, would decrease street and road repair. Currently, 35% of all streets and 42% of residential streets are in Poor or Very Poor condition. There would be no General Fund support for re-paving and maintenance of street lighting and traffic signals.
- Additional Impacts: Staffing reductions will cause a critical reduction in cybersecurity and longer times for Human Resources to fill public safety positions. It will also cause increased vendor payment processing times, delayed audits, and longer response times to critical issues, including lawsuits.

The City can no longer reduce programs or staffing without inflicting severe cuts to core municipal services that will noticeably and negatively impact our community's quality of life. Furthermore, the impending expiration of Sales Tax Revenue Measure Q will drastically accelerate this financial crisis, likely tripling the level of cuts referenced above.

Revenue Challenge

The City has already taken exhaustive measures to streamline operations, eliminate redundancies, and ensure rigorous financial accountability. The looming deficit remains not due to a lack of efficiency, but rather a fundamental, structural lack of adequate recurring revenue.

One of the primary drivers of the City's structural deficit is a historical and unchangeable limitation on property tax revenue allocation. Santa Rosa retains an exceptionally low percentage of the property tax generated within city limits, only 11.7%. In contrast, other cities within Sonoma County retain over 20% of their locally generated property taxes. This significant discrepancy is a permanent, structural formula locked in place by the passage of Proposition 13 in 1978. State law prohibits Santa Rosa from unilaterally increasing its allocation percentage to match its neighbors. If Santa Rosa retained property tax at the same 20% level as some other Sonoma County cities, it would

generate an additional \$18 million annually for the General Fund. Because the City is permanently restricted by state law from adjusting its property tax retention rate, the City cannot rely on property values alone to fund core services. The City is missing out on \$18 million annually compared to neighboring jurisdictions, making locally controlled revenue measures the only viable mechanism to bridge this historical structural gap.

The General Fund relies heavily on sales tax, making it a critical but increasingly vulnerable revenue source for the City. Sales tax accounts for \$72 million of the City's General Fund, representing 32% of all General Fund revenue.

There has been a permanent, structural shift in consumer behavior toward online purchasing. Under current state statutes, sales tax is allocated to the "point of sale" (typically the out-of-town warehouse or distribution center) rather than the destination where the product is delivered. As a result, Santa Rosa is not capturing a significant share of the revenue associated with online purchases made by residents.

The City has experienced a four-year period of stagnant sales tax growth. This flat revenue stream is no longer keeping pace with the normal inflationary increases in the cost of delivering core municipal services. The City's primary revenue engine is fundamentally misaligned with modern consumer habits. With existing sales tax revenues flatlining and online tax dollars bleeding to out-of-town distribution centers, the City's current revenue structure cannot sustain the rising costs of operations and infrastructure.

Community Feedback

In January 2026, the City conducted an initial resident survey to identify community service priorities. The top priorities were maintaining 911 emergency medical and fire response services; maintaining 911 police response times/police response to violent crimes; preventing streets from deteriorating – fixing streets and repairing potholes; maintaining fire protection services/wildfire prevention and preparedness programs; and keeping public places, including recreation centers, and infrastructure such as sidewalks, medians and landscaping, safe and clean.

On March 24, 2026, the City launched "Let's Talk, Santa Rosa," a bilingual community engagement initiative designed to gather broad and inclusive input on service priorities as part of the budget planning process. Nearly 2,400 survey responses were received by residents, business owners, and people who work in Santa Rosa. Respondents ranked the top priorities initially identified in January. Rankings varied by zip code, and respondents commonly stated that all services were a high priority. Additionally, addressing homelessness arose as a priority, and 15% of respondents included infrastructure maintenance as a priority in the open-ended responses.

In June 2026, the City conducted a follow-up resident survey to determine if community perceptions or needs have changed. There were no significant differences in top service priorities. Respondents strongly value fire and emergency medical services, with a

desire to maintain these services. Respondents also greatly value maintaining police response times, particularly police response to violent crime. Fixing streets, repairing potholes, and keeping public spaces safe and clean were high priorities as well. Respondents rated all the above services as either “extremely important” or “very important.”

Additionally, respondents were asked about the City’s financial situation. 80% of respondents rate maintaining the City’s financial stability as “extremely important” or “very important.” Over half (53%) of respondents believe there is “some need” or “a great need” for additional revenue. 35% of respondents believe there is “a little need” or “no real need” for additional revenue, and 12% are undecided.

Overall, these three surveys indicate that the community values maintaining core services, including fire and emergency medical services, police services, and street maintenance, and addressing homelessness. The community also values maintaining the City’s financial stability.

Current Sales Tax Structure and Regional Context

While the total sales tax rate in Santa Rosa is currently 10.00%, the City retains only 1.75% of that revenue, with the vast majority distributed to the State and Sonoma County.

The City’s 1.75% share is composed of standard sales tax allocations and locally approved measures, including:

- 0.50% General Services Tax (Measure Q): Supports core General Fund operations.
- 0.25% Public Safety Special Tax: Dedicated strictly to Police, Fire, and Violence Prevention services.

Despite being the largest city in the county, Santa Rosa currently operates with a lower overall sales tax rate than several neighboring jurisdictions:

- Sebastopol: 10.50%
- Cotati: 10.25%
- Petaluma: 10.25%
- Sonoma: 10.25%
- Santa Rosa: 10.00%

Measure Q, the 0.50% General Services Tax, is a foundational pillar of the City’s financial stability, bringing in \$23.5 million annually to the General Fund. However, this measure is set to expire in March 2031. To illustrate its vital importance to the City’s solvency, if Measure Q were not currently in place, the approved FY 2026-27 deficit would have plummeted to \$32.3 million.

Proposed Solution: Re-Authorization at a Higher Rate

To achieve long-term financial stability and prevent the severe service impacts outlined previously, the City could pursue a ballot measure to re-authorize Measure Q at a 1.0% tax rate. If approved by the voters, this adjustment would generate an estimated \$47 million dollars annually, resulting in \$23.5 million in additional annual revenue for the General Fund.

This expanded revenue capacity would serve two critical purposes:

- **Maintain Core Services:** It would immediately stave off projected service cuts (estimated at \$13.8 million), ensuring the community continues to receive the emergency response, parks, recreation, and community investment it expects and needs.
- **Fund Deferred Maintenance:** It would allow the City to invest General Fund allocations to address highly visible community needs, most notably, closing the \$6 million to \$7 million annual funding gap for street and road repairs. Placing a revenue measure on the ballot would provide voters in our community an opportunity to decide whether to enhance local revenues to maintain core city services. If approved, the re-authorization of Measure Q at a 1.0% rate would bring Santa Rosa's sales tax rate in line with neighboring cities while providing the exact structural revenue needed to stop severe cuts and address failing infrastructure.

Potential Ballot Measure Viability

As part of the June 2026 follow-up survey, residents were asked how likely they are to support a sales tax re-authorization measure, as described above. 55% of respondents indicated they “definitely” or “probably” would support a measure, and 7% indicated they lean towards yes. Conversely, 27% of respondents indicated they “definitely” or “probably” would not support a measure, and 4% indicated they lean towards no. About 7% were undecided. These results have an approximate 4.9% margin of error.

If the Council would like to consider this option, it appears to be generally supported by a majority of the community and could be a viable course of action.

FISCAL IMPACT

This study session does not have a fiscal impact on the General Fund. Any direction for future actions that may have an impact on the General Fund will be analyzed at that time.

ENVIRONMENTAL IMPACT

Pursuant to CEQA Guidelines Section 15378, the recommended action is not a “project”

subject to the California Environmental Quality Act (CEQA) because it does not have a potential for resulting in either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment. In the alternative, the recommended action is exempt from CEQA pursuant to CEQA Guidelines section 15061(b)(3) because it can be seen with certainty that there is no possibility that the recommended action may have a significant effect on the environment.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

Not applicable.

NOTIFICATION

Staff conducted robust bilingual notification of the “Let’s Talk, Santa Rosa” survey via digital channels, hard copies, and community presentations.

PRESENTER(S)

Scott Wagner, Chief Financial Officer
Misti D. Wood, Communications & Intergovernmental Relations Officer