

Business License Tax Ballot Measure

CITY COUNCIL
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Budget Overview

- The City's General Fund is forecasting a long-term deficit
- The FY 2023-24 is projected to close the year with a \$2M deficit
- The FY 2024-25 adopted budget has a \$13.3M deficit
 - Deficit a result of rising non-personnel operating costs, rising labor costs, and the loss of one-time Federal and State grant funding for programs
- With no changes, the deficit will grow progressively each year
- The General Fund deficit draws down reserve balances
 - Fiscal Stability Reserves will be gone in FY 2025-26
 - Unassigned GF Reserves by FY 2027-28

Fiscal Stabilization

- Correcting this imbalance requires a broad, long-term approach
- Expenditure reduction measures have included keeping operational budgets flat over the last two years, budget neutral additions
- Currently in hiring freeze
- Have begun expenditure reductions, with more cuts coming in current budget and next year's budget development
- Need to add new ongoing revenue
- Need to invest in long-term economic growth opportunities, but not at the expense of expenditure reductions and revenue enhancements

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***

Current Businesses By Type

Business Group	Type	Rate	Count	Percentage
Group 1	Corporate HQ	\$0.34/\$1,000	59	0.46%
	Manufacturing	\$0.34/\$1,000	139	1.07%
	Retail	\$0.34/\$1,000	1,979	15.26%
	Wholesale	\$0.34/\$1,000	222	1.71%
Group 2	Commercial Property Rental	\$0.84/\$1,000	675	5.21%
	Residential Property Rental (4+ Units)	\$0.84/\$1,000	674	5.20%
	Health Care Centers	\$0.84/\$1,000	48	0.37%
	General Service	\$0.84/\$1,000	4,760	36.71%
Group 3	Contractors	\$1.09/\$1,000	2,894	22.32%
	Land Developers	\$1.09/\$1,000	18	0.14%
	Public Utilities	\$1.09/\$1,000	3	0.02%
	Recreation and Entertainment	\$1.09/\$1,000	37	0.29%
Group 4	Professional	\$1.68/\$1,000	1,227	9.46%
Groups 5,6,7	Other/Misc, and Exempt		230	1.77%
Total			12,965	100%

Initial Proposed Changes

Changes Proposed at July 9 Study Session:

- Remove maximum tax cap
- No change in rates for businesses not currently paying the maximum tax
- Adopt a modern rate structure for those businesses that generate enough gross receipts to pay more than the \$3,000 cap
- Require Short-term Rentals to pay business tax the same as all other lodging operators
- Proposed changes would take effect for the 2026 business tax year

Public Outreach

- City staff has met with different community and business groups to discuss this issue, hear concerns, and explain how the taxes would work and the impacts to businesses
- These groups include
 - SR Metro Chamber, and Chamber Business Advocacy Group
 - Northbay Leadership Council
 - Sonoma County Alliance
 - Engineering Contractors Association – Governmental Affairs Committee
 - Sonoma County Hospitality Association
 - Auto Row Dealers
 - Hyatt Regency and Courtyard by Marriott

Feedback Received

- Proposed changes contrary to ED Strategic Plan, especially relative to attracting and retaining businesses
- Increasing rate structure only for those above certain thresholds was unfair
- Removing the maximum tax cap would result in a significant burden for some businesses
- Removing the maximum tax cap and increasing rates was a double hit
- Concern that requiring long-term residential property rentals of 1 – 3 units to pay Business Tax could have adverse impact on some rental properties.

Options Reviewed

- Reviewed several options based on increasing the maximum tax cap
 - Increase maximum cap to \$15K; (Est. \$1.6M of new revenue)
 - Increase maximum cap to \$20K (\$1.9M of new revenue)
 - Increase maximum cap to \$25K (\$2.1M of new revenue)
 - Increase maximum cap to \$50K (\$3.4M of new revenue)
- Create tiered base tax structure
- Annual adjustment by CPI-U for Bay Area
- Require STR to pay Business License Tax like all lodging operations

Proposed Ballot Measure

- Keep Tax Rates the same
- Increase Maximum Tax Cap
 - Increase the cap from \$3,000 to \$10,000
- Create Tiered Base Tax Structure
 - Gross Receipts <\$100,000; base tax = \$200
 - Gross Receipts \$100,000.01 - \$500,000; base tax = \$500
 - Gross Receipts \$500,00.01 - \$1,000,000; base tax = \$800
 - Gross Receipts >\$1,000,000; base tax = \$1,000
- Require Short-term rental operations to Business Tax
- Annually Adjust maximum tax cap, base tax, and flat fees by CPI-U with maximum increase 4% and minimum increase 2%
- Implementation date of January 2025

Fiscal Impact

- Should this measure pass, it will bring new revenue to General Fund, but much less than what was proposed at the July 9 Study Session
- Estimated new revenue is approximately \$3M
- This will require more expenditure reductions to bring budget into sustainable balance
- Staff will come back in October with Study Session to discuss the expenditure reduction plans

Resolution

- A resolution is necessary to place a tax measure on the ballot for the November 2024 election
- The resolution contains the wording of the tax measure as it will appear on the ballot
- Directs the City Attorney to prepare an impartial analysis and allows for the submittal of rebuttals to the arguments that may be submitted for inclusion in the ballot pamphlet
- Provides the 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

Ballot Language

“City of Santa Rosa Business Tax Measure”

<p>To maintain locally controlled funding for services, such as repairing potholes/maintaining streets; maintaining youth violence prevention, drug/gang intervention programs; keeping city parks clean safe/well maintained; and improving wildfire prevention/preparedness, shall City of Santa Rosa’s general business tax measure be adopted increasing the maximum tax, adjusting rates and taxing short-term rental businesses, as described in the voter pamphlet, providing \$3,000,000 annually, until ended by voters, with all funds staying local?”</p>	Yes	No
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Recommendation

It is recommended by the Finance Department that the City Council (1) introduce an ordinance to amend chapter 6-04 of the Santa Rosa City Code 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 (2) approve a resolution ordering the submission of a ballot measure to seek voter approval of that 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 rebuttal argument.