



Revenue Enhancement

City Council Study Session

July 14, 2026

Finance Department
City Manager's Office

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Introduction

This presentation will cover:

- Budget challenges and solutions
- Existing revenue
- Community feedback
- City successes
- Proposed revenue enhancement

General Fund Structural Deficit

- The General Fund remains in a structural deficit despite major interventions over 3 fiscal years.
- The General Fund is the City's largest fund and houses core services including Police, Fire, Public Works, Planning and Economic Development, City Manager's Office, City Attorney's Office, Finance, Parks, Recreation, and Human Resources.
- The current use of reserves is unsustainable.

General Fund vs. Other Funds



Enterprise Funds

THE SOURCE

Ratepayer fees and charges for specific utility services (e.g., Water, Transit).

THE RESTRICTION

Prop 218 dictates fees cannot exceed actual costs. Diverting these to the General Fund is an illegal tax.



CIP Funds

THE SOURCE

Highly regulated revenues such as developer impact fees and dedicated government grants.

THE RESTRICTION

Legally bound by state acts and fee agreements to be spent exclusively on designated capital infrastructure.



General Fund

THE SOURCE

General municipal taxes, primarily Property Tax, Sales Tax, and Utility Users Tax.

THE RESTRICTION (NONE)

The only discretionary bucket. It covers core municipal services (Police, Fire) and faces the most budget pressure.

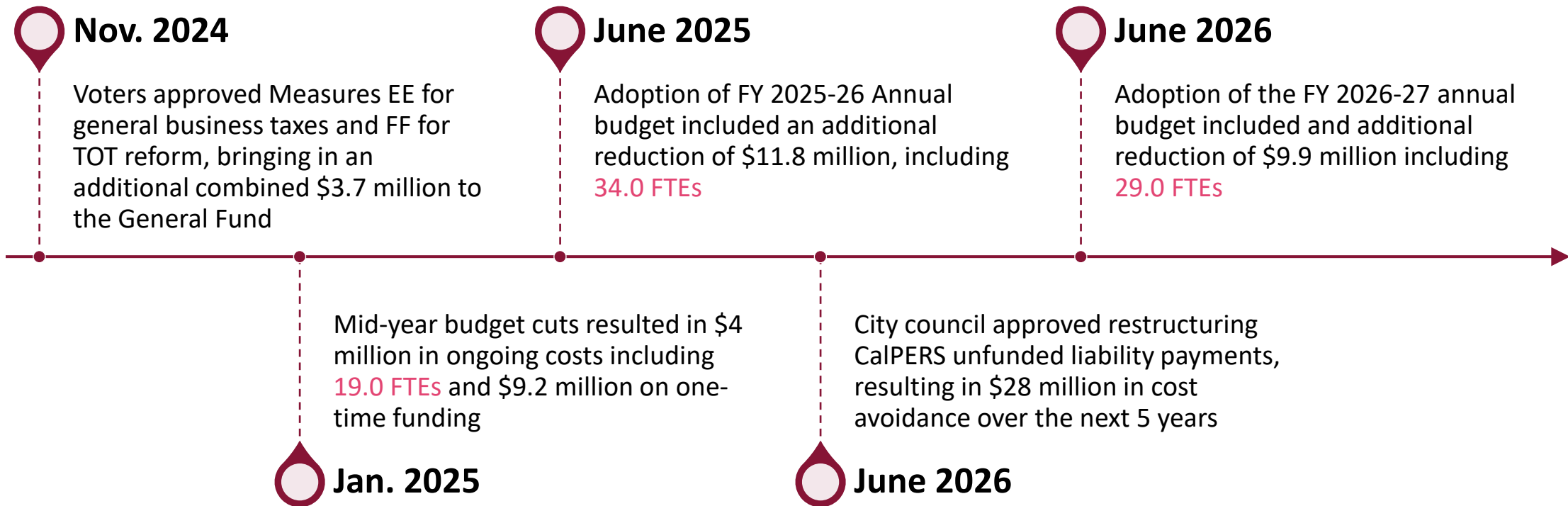
Corrective Actions Taken

- Actions have been taken to address the structural deficit over the last 3 fiscal years, including:
 - Reduction of staff: 82 FTEs eliminated
 - Shored up Reserves: Allocated \$10.2 million from projects to Reserves
 - Increased revenue: Voter-approved Business License and Transient Occupancy Taxes adding approximately \$4 million annually in revenue.
 - Increased cost recovery: Increased fees for recreation, permits, and credit cards
 - Pension reform: Restructured \$482 million of unfunded pension liability to pay off debt quicker and save \$28 million over the next 5 years
 - Gained efficiency through consolidation of 2 departments (Rec & Parks, CIRO)

Corrective Actions Taken

- Actions have been taken to address the structural deficit over the last 3 fiscal years, including: (continued)
 - Line by line review of department budgets with Finance Subcommittee
 - Engaged with independent outside review
 - Financial forecasting accurate, strictly objective, and follows best practices
 - Independent Department Review
 - Review by City Manager Budget Working Group
 - No audit findings received during Annual Comprehensive Financial Report
 - Government Finance Officer's Association
 - Certificate of Achievement for Excellence in Financial Reporting
 - Distinguished Budget Presentation Award

Corrective Actions Taken



General Fund Deficit FY 26-27

	FY 26-27	FY 27-28	FY 28-29	FY 29-30	FY 30-31
Revenues	\$224.7	\$231.3	\$236.1	\$242.4	\$242.1
Transfers In	8.2	2.6	2.6	2.6	2.6
Total Revenues & TI	\$232.9	\$234.0	\$238.8	\$245.1	\$244.8
Expenditures	231.3	234.3	242.1	250.1	258.5
Transfers Out	9.5	9.6	9.2	9.4	9.6
Total Expenditures & TO	\$240.7	\$244.0	\$251.3	\$259.5	\$268.1
Surplus (Deficit)	(\$7.8)	(\$10.0)	(\$12.5)	(\$14.4)	(\$23.3)

- Sales Tax Measure Q expires March 2031 (One quarter revenue lost shown. Total annual revenue is ~\$23.5 million)

General Fund Reserves Spend Down

	FY2025	FY2026	Upcoming Budget Adoptions			
			FY2027	FY2028	FY2029	FY2030
6/30/2025 Final Reserves	\$79,582,000					
FY 26/27 Budget Deficit		(\$7,800,000)				
6/30/2026 Projected Reserves		\$71,782,000				
FY 27/28 Budget Deficit			(\$10,000,000)			
6/30/2027 Projected Reserves			\$61,782,000			
FY 28/29 Budget Deficit				(\$12,500,000)		
6/30/2028 Projected Reserves				\$49,282,000		
FY 29/30 Budget Deficit					(\$14,400,000)	
6/30/2029 Projected Reserves					\$34,882,000	
FY 29/30 Budget Deficit						(\$23,300,000)
6/30/2029 Projected Reserves						\$11,582,000
* Council Mandated Reserve was \$39.2M in FY2025, expected to be \$44.9M on June 30, 2027						

June 2026: Two-Year Budget Strategy

City Manager's Proposed Budget

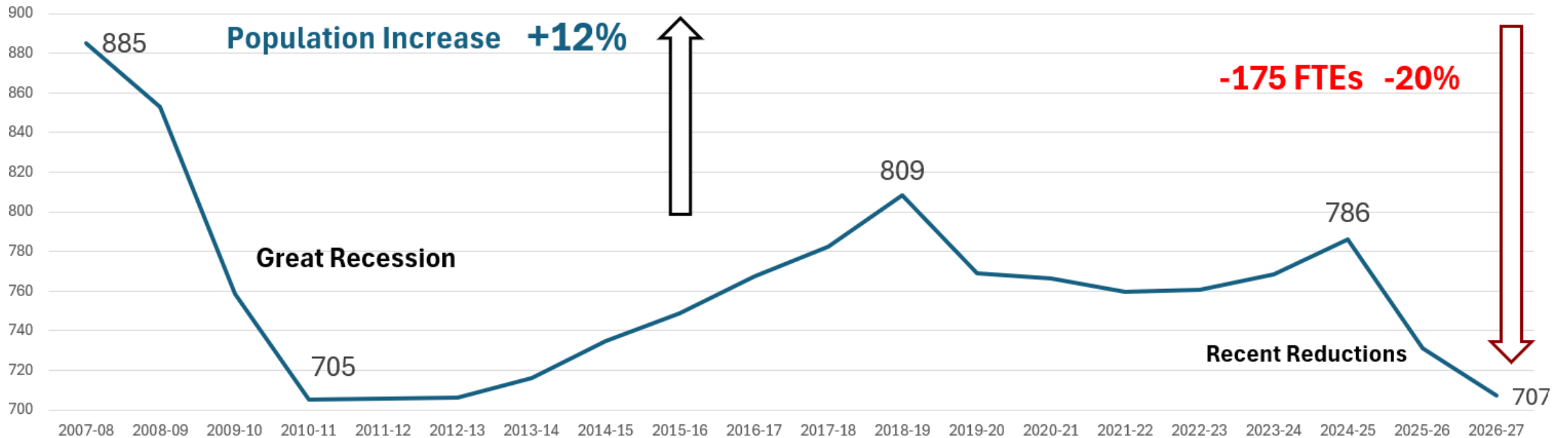
- Through a multi-pronged approach, the City Manager's proposed budget for FY 2026-27 contained almost \$9M in deficit reduction solutions as part of a two-year process
 - **Year 1 (FY 2026-27):**
 - Strategic Reserve Usage, adjusted staffing as grant funded programs expire, Vacancy Management, Innovative Financing, Targeted cost recovery improvements
 - **Year 2 (FY 2027-28):**
 - Structural deficit of **(\$10.0M)** on 7/1/2027 remains. Increased revenue or additional cuts will be needed to address deficit that is still growing.

Year 2 (FY 2027-28)

- FY 2027-28 represents the 4th year of potential continued cuts
 - Cuts will impact Police and Fire Departments significantly more than prior actions along with more visible quality of life services to the community
 - Police and Fire Departments are two-thirds of the General Fund's budget
- The General Fund is 77% salaries and benefits costs, requiring elimination of additional positions to balance the budget at the following potential levels:
 - 42 FTE elimination projected in FY 2027-28
 - 92 FTE elimination projected by FY 2030-31

General Fund Historical Staffing

General Fund FTE Count by Year



Year 2 Public Safety Impacts (FY 2027-28)

Police

- Elimination or consolidation of some Police special units
 - Impacts to Gangs, Narcotics, Traffic, Downtown Enforcement and Special Enforcement teams
- As of 7/1/2027 proposed 11.0 FTE reduction; equivalent of \$3.1M
- As of 7/1/2030 proposed 24.0 FTE reduction; equivalent of \$7.1M
- These reductions will have significant impacts to police response times to emergency calls for service.
- Elimination of some specialty teams will greatly impact our ability to recruit and retain police officers in a highly competitive hiring environment.

Year 2 Public Safety Impacts (FY 2027-28)

Police

- The loss of some specialty teams and minimum staffing levels in patrol will create an environment where police officers are only responding to crimes and do not have the ability to thoroughly investigate the offenses and bring justice to victims of violent crimes.
- This inability to properly investigate crimes leads to increases in violent crimes and visible blight across the city.
- The impacts of eliminating these police positions will have measurable impacts of the safety of our community.
- Police Officer community engagement opportunities will be severely limited due to fewer officers available to respond to calls for service.

Year 2 Public Safety Impacts (FY 2027-28)

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Fire

- Fire Station Closure(s)
 - Impacts to call response times, particularly emergency medical services, and core fire suppression readiness
 - Reduction of wildfire prevention and wildfire response capabilities
 - Reduction of special operations capability (technical rescue, water rescue, etc.)
 - Resources available will be below Measure O (PSAP) implementation levels, circa 2007
 - Call volume increase of ~66% in this time frame

Year 2 Public Safety Impacts (FY 2027-28)

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Fire

- Impact on recruitment and retention of employees due to uncertainty of future
- Other options will be explored to reduce service delivery impact
- Any reduction of this magnitude will have negative operational consequences.
- As of 7/1/2027 proposed 8.0 FTE reduction the equivalent of \$2.5M
 - Equivalent to the loss of an Engine company
- As of 7/1/2030 proposed 18.0 FTE reduction the equivalent of \$5.8M
 - Equivalent to the loss of both an Engine and a Truck companies



Budget Challenges

- Like many California cities, the City's general fund departments (e.g. Police, Fire, Transportation & Public Works, and Recreation & Parks) are experiencing increasing and uncontrollable costs to deliver core services.
- Santa Rosa is more dependent on sales taxes than similar agencies due to unchangeable structural issues
 - City only retains 11.7% of Property Taxes while neighboring agencies retain up to 20% due to Proposition 13
- Sales Tax Collections were **\$2.1** million less in FY 2025 than three years earlier
 - The City does not retain all sales tax from online sales and loses revenue to the warehouse fulfillment location
 - Changes in consumer behavior towards non-taxable transactions and online sales is forecasted to continue

Current Tax Revenue

City Share of Property Tax & Sales Tax



Sonoma County Schools
55.1%

Sonoma County
29.5%

Other
3.7%

Santa Rosa
11.7%

Property Tax Allocation

Sales Tax Allocation



Santa Rosa
1.75 cents



Sonoma County
2.25 cents

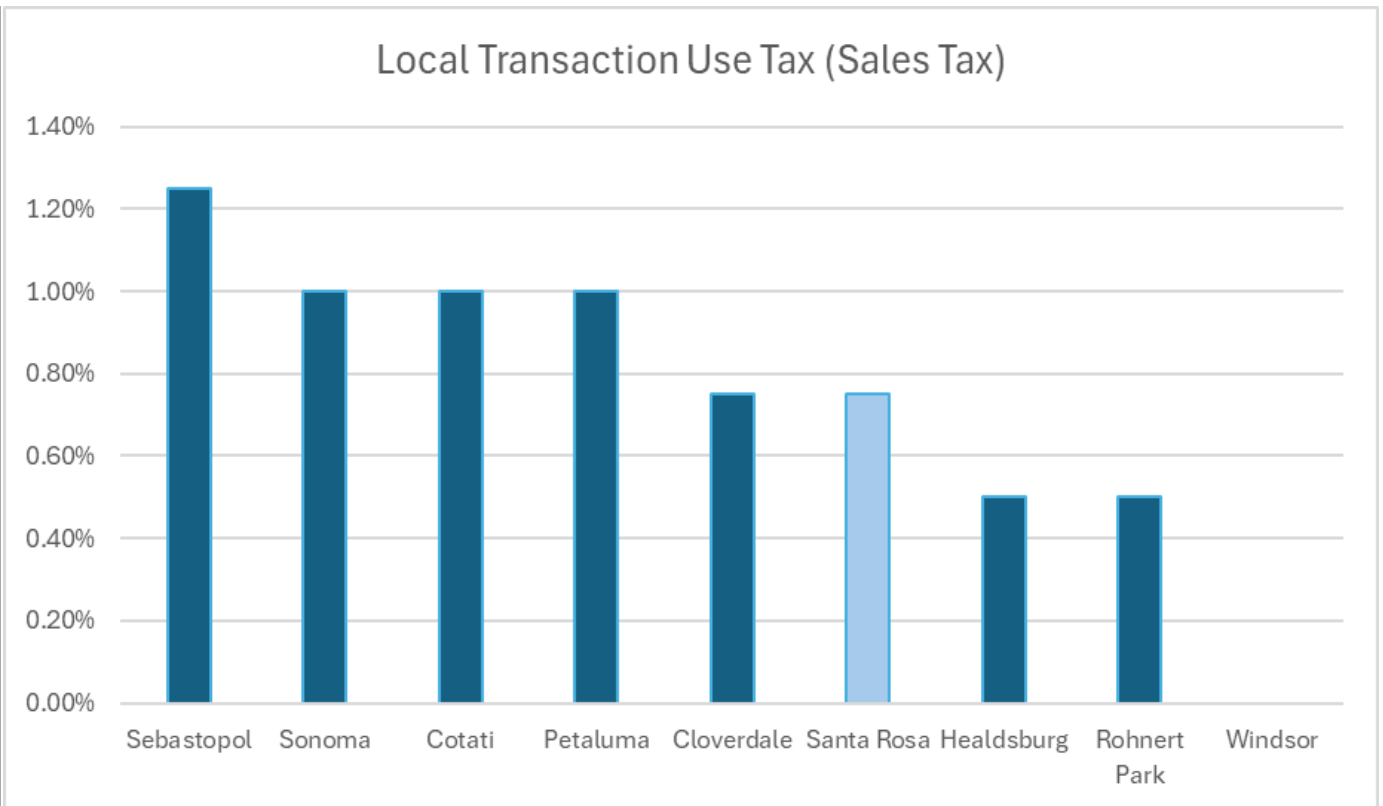


State of CA
6 cents

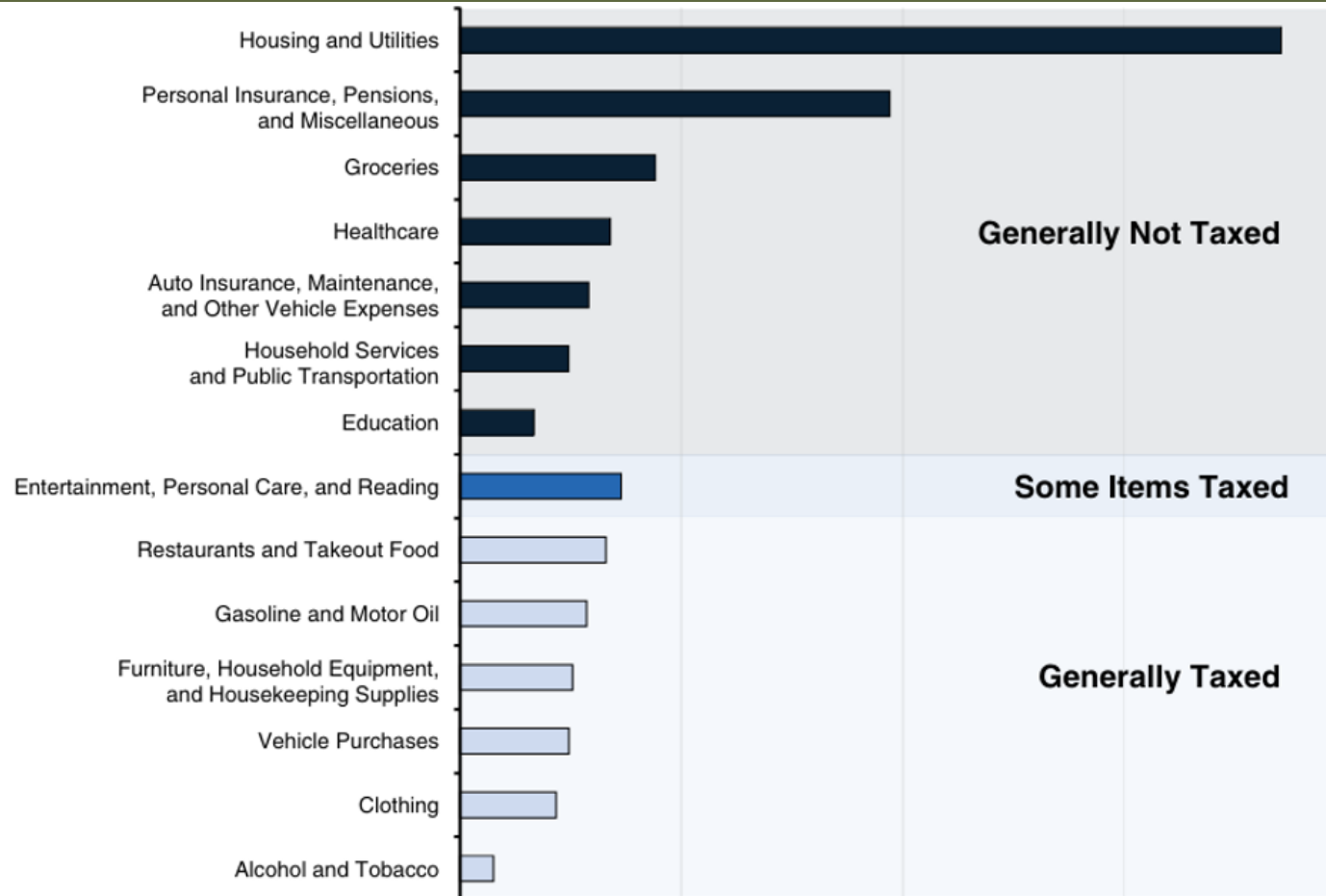
Revenue Enhancement

Sales Tax

Sales Tax by City - Sonoma County				
	Local	County	State	Total
Sebastopol	1.25%	2.00%	7.25%	10.50%
Sonoma	1.00%	2.00%	7.25%	10.25%
Cotati	1.00%	2.00%	7.25%	10.25%
Petaluma	1.00%	2.00%	7.25%	10.25%
Cloverdale	0.75%	2.00%	7.25%	10.00%
Santa Rosa	0.75%	2.00%	7.25%	10.00%
Healdsburg	0.50%	2.00%	7.25%	9.75%
Rohnert Park	0.50%	2.00%	7.25%	9.75%
Windsor	0.00%	2.00%	7.25%	9.25%



What are Taxable Sales?



Prioritizing Financial Stability

On February 19, 2025, the City Council adopted strategic priorities. The first priority is:

Achieve and Maintain Fiscal Sustainability and Budgeting Excellence

- *Adopt budget best practice policies*
- *Align budgeting strategies with City priorities*
- *Enhance revenue diversification*
- *Reduce debt dependency and strengthen credit ratings*
- *Improve financial transparency and public engagement*

Economic Development

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The City is proactively working to attract, support, and retain businesses. Recent efforts include:

- Identified \$1 billion in retail leakage to guide business recruitment and investment.
- Engaged 50+ national companies and commercial real estate professionals to advance business attraction.
- Completed target industry, retail, office, grocery, and market opportunity studies to strengthen recruitment strategies.
- Launched the Business Concierge Program to improve the customer experience for businesses and entrepreneurs.
- Expanded technical assistance, procurement training, startup resources, and entrepreneur support.
- Increased support for small, local, and socially and economically disadvantaged businesses through targeted outreach and partnerships.

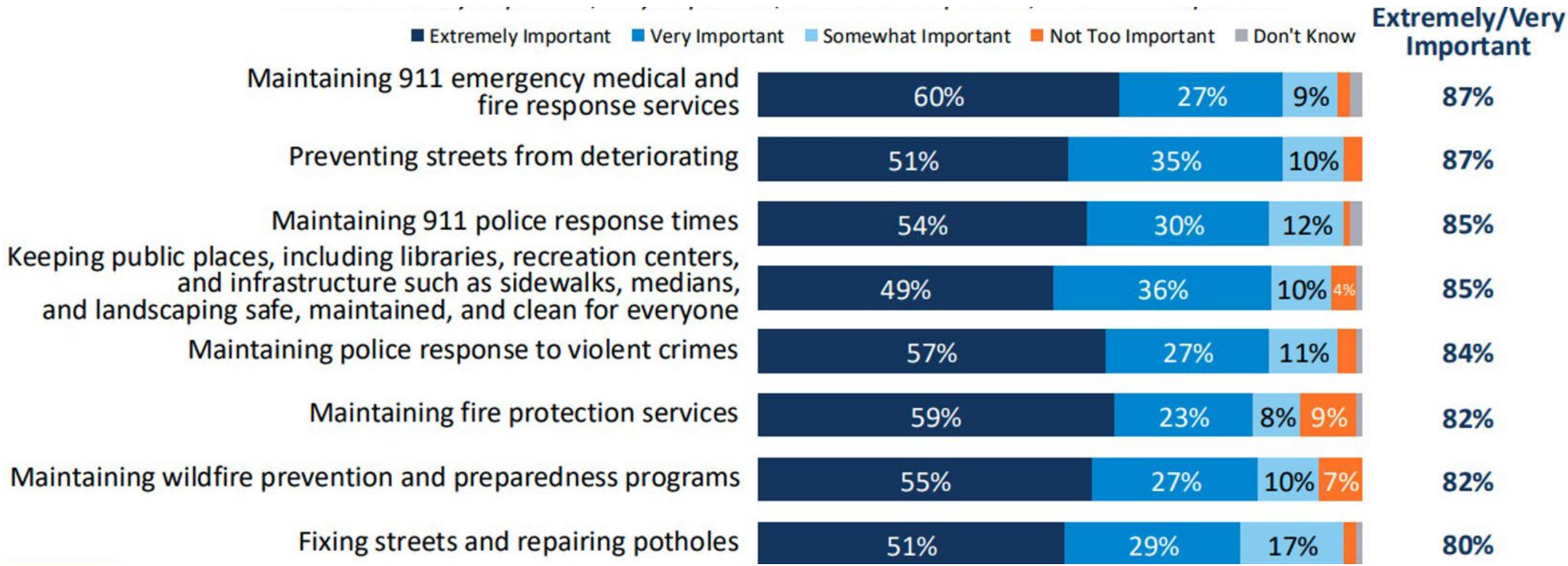
Community Engagement

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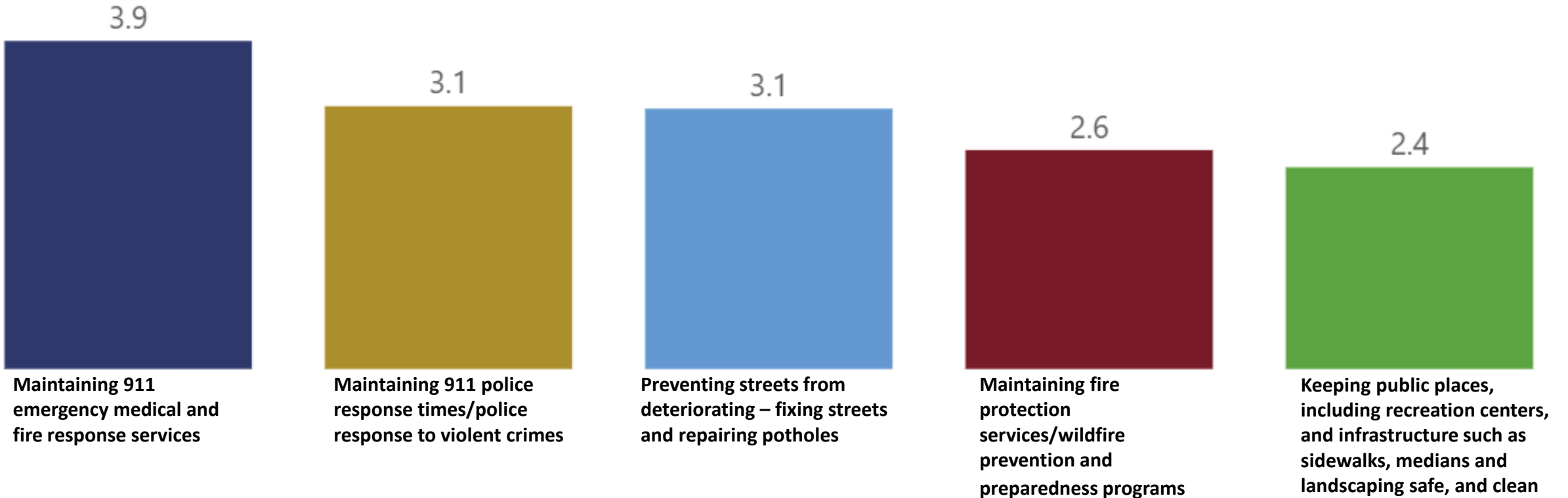
The City is conducting significant community engagement to understand our community's priorities and help address the budget crisis:

- City Manager's Budget Working Group (formed August 2025)
 - Sounding board and resource
- January resident survey
- Let's Talk, Santa Rosa community engagement initiative
 - Nearly 2,400 survey responses
 - 14 meetings and presentations complete, more scheduled
- June resident survey

January 2026 Survey Top Priorities



Let's Talk, Santa Rosa Survey Ranking Results



Let's Talk, Santa Rosa

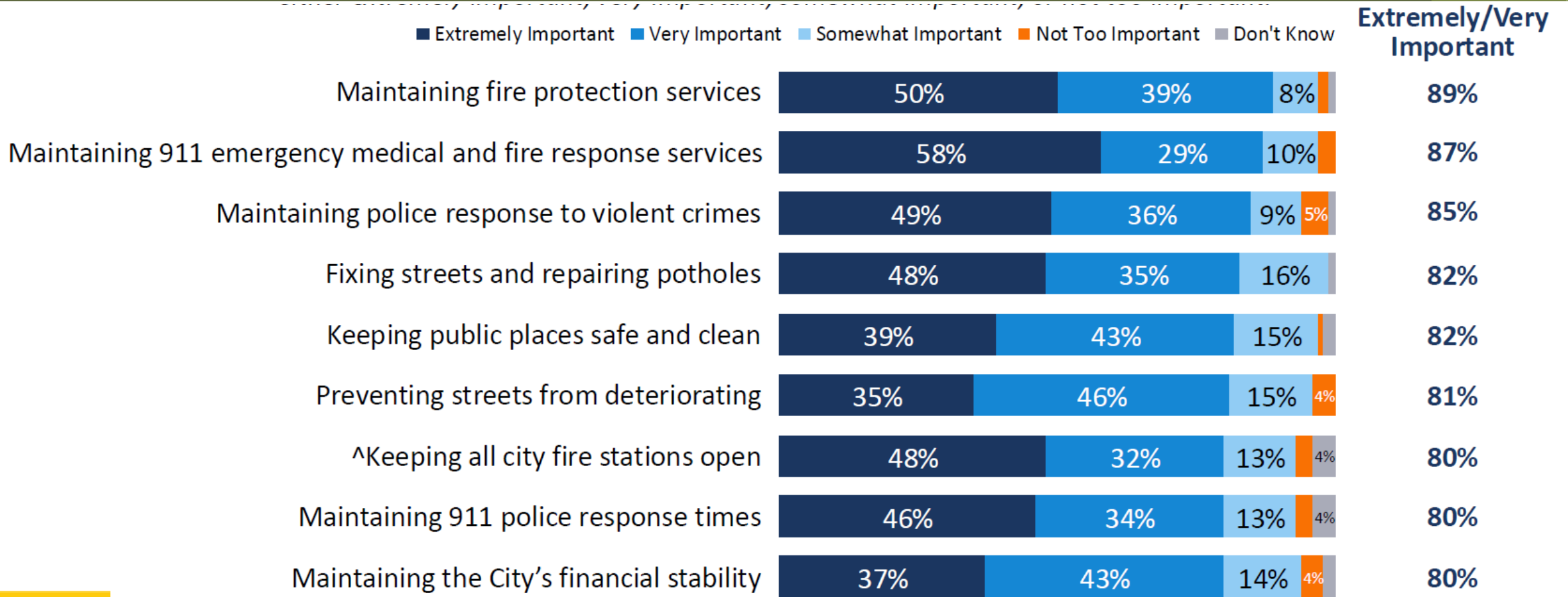
Key Themes in Open-Ended Feedback

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In addition to ranking, respondents provided the following open-ended feedback about city issues:

- 35% of respondents mentioned **public safety and transportation**, often citing traffic law concerns like speeding or pedestrian safety.
- 15% of comments included **maintenance**, with 44% on street repair and 25% on parks/public spaces.
- **Homelessness** was the second most frequent topic mentioned.

June 2026 Survey Top Priorities



Community Feedback Conclusions

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- Lived experience and perspective shapes priorities.
- Everyone wants to feel safe. Safety looks and feels different to each person.
- It's difficult for our community to rank core services. All core services are important.
- Our community wants core services maintained.
- Our community wants the City's financial stability maintained.

Budget Limitations and Community Priorities

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- It is difficult to meet community expectations with the current budget situation, which will continue to worsen.
- The City may need to eliminate 42 positions in FY 2027-2028 and 92 positions by FY 2030-2031. Impacts to core services in FY 2027-2028 include:
 - Fire station closure(s)
 - Elimination of police violent crimes teams
 - Reduced maintenance of streets, parks, and streetlights
 - Elimination of recreation programs
- **Without additional revenue, the City will not be able to meet our community's expectations.**

Revenue Enhancement

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The City has considered every option to increase revenue. Options evaluated include:

- Cost Recovery – enhanced within market tolerance
- Fee Increases – completed annually
- Property Tax – cannot be changed
- Business License Tax – increased by voters in 2024
- Transient Occupancy Tax – increased by voters in 2024
- Utility Users Tax modernization – efforts have not been successful
- Sales Tax – without action will be substantially reduced in March 2031 with expiration of Measure Q

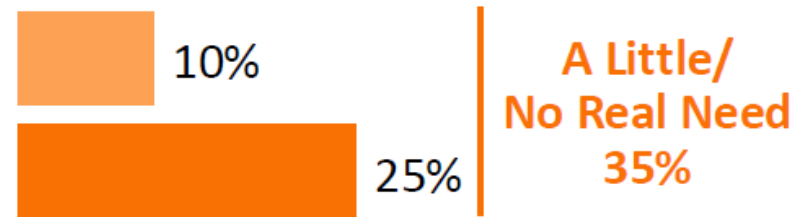
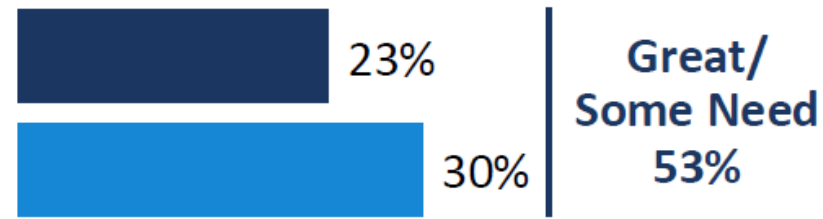
Potential Sales Tax

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- Re-authorize Measure Q at a 1 cent level until repealed by voters
- 100% would stay in Santa Rosa; would not depend on county-wide allocation
- Majority would come from brick and mortar sales transactions; remainder from online sales
- Estimated to generate \$47 million annually, resulting in an additional \$23.5 million annually
- A general purpose sales tax would allow the City to fill critical funding gaps without legal restriction
- A simple majority would be required to pass (over 50%)

June 2026 Survey Over Half See Need for More Revenue

53% of respondents believe the City has a great need or some need for additional funding. 35% believe the City has a little need or no real need. 12%, shown in grey, are undecided.



4.9% Margin of Error

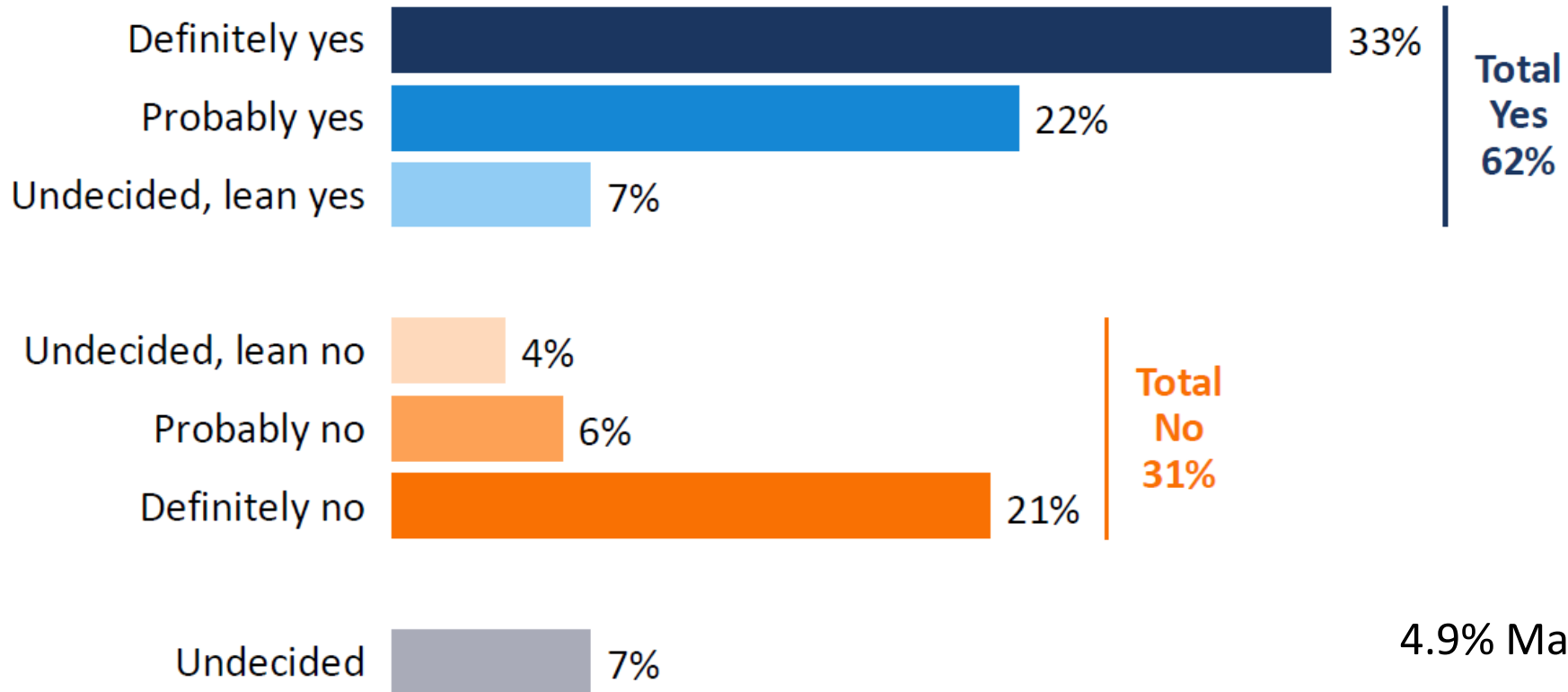
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Revenue Enhancement



June 2026 Survey Potential Ballot Measure Viability

55% of respondents indicated support for a measure, increasing to 62% when including those leaning towards yes.



4.9% Margin of Error

Impact

- A voter-approved re-authorization of Measure Q at a 1 cent level would allow the City to maintain core services.
 - Key community feedback is maintaining fire/medical services, maintaining police response, especially response to violent crimes, and fixing streets and potholes.
- Some additional revenue would be directed towards maintaining infrastructure without a current funding source.
- Revenue enhancement will ensure we are able to maintain Fire and Police service levels.

Impact

Santa Rosa is seeing growth and successes that need continued civic investment to maintain momentum. Recent examples include:

- Rebuilt Fire Station 5 in Fountaingrove.
- Created the Special Enforcement Team to reduce and respond to violent crime.
- About \$150 million in capital improvement projects are in construction or have been completed within the last 12 months.
- Decreased homelessness by 16% (518 people) since 2022.

Recommendation

The City Manager's Office presents this study session to provide the Council with information on enhancing the City's revenue and requests the Council provide direction to staff about whether to return with ballot measure language for Council consideration.



Questions and Feedback