



# Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Sarah Zarate

**SUBJECT: EXPLORING OPTIONS FOR  
ADDITIONAL REVENUE**

**DATE:** May 20, 2024

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Approved

Date: 5/21/24

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## **RECOMMENDATION**

Direct the City Manager to prioritize exploring options for additional revenue during Fiscal Year 2024-2025, and to bring back options for City Council consideration in Spring 2025 for possible inclusion as ballot measures in 2026.

## **BACKGROUND**

At the March 19, 2024 City Council meeting, as part of the Mayor's March Budget Message for Fiscal Year 2024-2025, the Mayor and City Council discussed potential ballot measures that would bring additional funding to the City for operations and maintenance to improve neighborhood parks and other City services. The following analysis provides an update on the Administration's current efforts and information on previous actions taken by City Council on ballot measures to increase revenue.

## **ANALYSIS**

The General Fund continues to face challenges that will grow in the coming years due to slowing revenue growth projections that do not keep pace with the cost of previously authorized services, potential reallocation of revenues by the State, and necessary new spending. The pressure on the General Fund comes at a time when the City faces a growing infrastructure backlog totaling roughly \$1.7 billion in unfunded costs – over \$554 million of which is for parks, pools, open space, and recreation facilities.<sup>1</sup> To ensure the City is best prepared to address these underlying fiscal challenges, it must consider significant cost-cutting measures and/or pursue additional revenue sources.

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<sup>1</sup> For information on the City's infrastructure backlog, see:

<https://sanjose.legistar.com/View.ashx?M=F&ID=12828173&GUID=D9051F3C-D031-4CAA-8F10-40C0865FD545>

As directed by the Mayor's March Budget Message for Fiscal Year 2024-2025, as approved by the City Council, staff is exploring various ways to secure new revenue. Each of these is discussed below. The recommendation included in this memorandum reaffirms the City's commitment to identify new revenue sources over the course of the next fiscal year to inform potential new investments to pursue during the 2026 election cycle.

#### *Revenue Identification Request for Proposals*

The City Manager's Office drafted a Request for Proposals (RFP) to procure a consultant to identify new cost recovery fees to help partially address the future forecasted General Fund shortfalls. The RFP directed that any new fee identified would not require changes to State law and would have minimal impact on the City's low-income residents. Once procured, the consultant will develop, recommend, and execute a survey of other California municipalities' cost recovery fees and charges schedules for the California State Fiscal Year 2023-2024 (July 1, 2023, to June 30, 2024). Staff aims to have the survey include the 10-15 largest California municipalities, all municipalities in Santa Clara County, and other municipalities currently collecting cost recovery fees that are innovative or unusual. The consultant will categorize these cost recovery fees into umbrella categories similar to the City of San José's existing fees to allow for easier comparison across jurisdictions. Staff anticipates receiving findings in a written report in Fall 2024.

#### *Parks Revenue Polling*

The City Manager's Office is currently working with a polling consultant, True North Research, Inc., to test various concepts to generate revenue for parks, including parcel taxes, bond measures, and allowing long-term leases in parks. Surveying of likely San José voters will be conducted in May 2024 and results brought to City Council for discussion at its June 18, 2024 meeting. Depending on polling results, City Council may direct staff to draft necessary documents over the summer of 2024, including a resolution and ordinance to place a measure on the November 2024 ballot, and return to City Council no later than August 6, 2024 with necessary documents. The last day for November 2024 ballot measure resolutions and tax rate statements to be submitted to the County of Santa Clara Registrar of Voters is Friday, August 9, 2024.<sup>2</sup>

#### *Modernization of the City's General Business Tax*

The City's Business Tax was first adopted on July 15, 1963. The City subsequently updated its Business Tax calculation methodology in 1984 (that included an increase in the tax rate in 1986). In 2016, in response to the citizen-initiated Gross Receipts Tax Ballot Measure, staff and consulting experts performed an analysis of the previous Business Tax, the Gross Receipts Tax Citizen ballot Measure, and options for updating the General Business Tax; that analysis was presented to City Council on March 8, 2016.<sup>3</sup> In August 2016, City Council approved placing a ballot measure modernizing the General Business Tax on the November 2016 ballot, including an ordinance, resolution, and ballot language. The measure passed in November 2016 and was

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<sup>2</sup> <https://files.santaclaracounty.gov/2024-01/november-5-2024-presidential-general-election-calendar-v2.pdf?VersionId=W27fe2sS6BMxuvbkfke09De0yP8VJ6WI>

<sup>3</sup> See the February 2016 Staff memorandum with preliminary analysis on a Citizen Initiated Gross Receipts Tax Ballot Measure, and options for updating the Business Tax here: [https://sanjose.granicus.com/MetaViewer.php?view\\_id=&event\\_id=2126&meta\\_id=559674](https://sanjose.granicus.com/MetaViewer.php?view_id=&event_id=2126&meta_id=559674)

made effective July 1, 2017.<sup>4</sup> As a result of the modernization of the General Business Tax, revenue doubled from approximately \$13 million per year to \$26 million per year.

The 2016 efforts around the General Business Tax were significant and required substantial staff time, resources, and outreach. If the City Council wishes to pursue a change to the existing General Business Tax structure for 2026, staff recommends direction to prioritize this work in 2024-2025 to poll on the issue to understand public sentiment and enter into a consulting agreement to analyze options for the City Council, as well as time for ample community outreach.

*General Purpose Sales and Use Tax*

In previous years, City Council has held discussions about whether and how to proceed with bringing a local revenue measure to the voters specific to sales tax. State law places statutory limitations on the City’s ability to bring a sales tax measure to the voters by placing a cap on local sales tax additions. Specifically, by State law, there is a 2% cap on additional transactions and use taxes (TUTs – e.g. sales taxes) that can be added at the local level, which includes City, County, and special district governments. As such, to go beyond the 2% cap, State law would have to be amended to authorize the City to pursue a TUT increase; the Administration would then bring a potential ballot measure before City Council for approval.

The existing combined sales tax rate in the City of San José is 9.375%, of which 7.25% is the statewide base sales tax. The additional 1.875% represents increases by county-wide government agencies, and the City of San José also receives 0.25%. The following chart shows the current distribution of Sales Tax in San José:<sup>5</sup>

**Table 1: Sales Tax in San José**

Rate	Jurisdiction	Purpose
<b>Components of Statewide 7.25%</b>		
3.6875%	State	Goes to State's General Fund
0.25%	State	Goes to State's General Fund
0.50%	State	Goes to Local Public Safety Fund to support local criminal justice activities (1993)
0.50%	State	Goes to Local Revenue Fund to support local health and social services programs (1991 Realignment)
1.0625%	State	Goes to Local Revenue Fund 2011
1.25%	Local	0.25% Goes to county transportation funds 1.00% Goes to city or county operations
<b>Components of Santa Clara County 1.875%</b>		
0.125%	County	2020 Peninsula Corridor Joint Powers Board Retail Transactions and Use Tax (7-01-2021)
0.125%	County	Retail Transactions and Use Tax (04-01-2013)

<sup>4</sup> See the following memorandums to City Council for reference on past actions and analysis of the City’s Business Tax: [https://sanjose.granicus.com/MetaViewer.php?view\\_id=&event\\_id=2141&meta\\_id=579538](https://sanjose.granicus.com/MetaViewer.php?view_id=&event_id=2141&meta_id=579538)

<sup>5</sup> For breakdowns of State Tax, see: <https://www.cdtfa.ca.gov/taxes-and-fees/sut-rates-description.htm>; for a breakdown of the District Tax, see: <https://www.cdtfa.ca.gov/formspubs/cdtfa105.pdf>

Rate	Jurisdiction	Purpose
0.50%	County	Transit District (10-01-1976)
0.50%	County	Valley Transportation Authority (04-01-2006)
0.125%	County	VTA BART Operating and Maintenance Transactions and Use Tax (07-01-2012)
0.50%	County	Silicon Valley Transportation Solutions Tax (04-01-2017)
<b>Components of City of San José 0.25%</b>		
0.25%	City	Transactions and Use Tax 0.25% 10-01-2016
<b>TOTAL ALL – 9.375%</b>		

Under California law, placing a local sales tax on the ballot requires the approval of two-thirds of the governing body. For the City of San José City Council, a local sales tax would require eight members to approve placing it on the ballot. If the tax proposal is for general purposes, then a simple majority of the voters must approve it. If it is a special purpose funding measure dedicated to specific services or projects, then a two-thirds voter approval is required for passage.

The last time the City of San José placed a local sales tax measure on the ballot was in 2016, when voters approved the current 0.25% Transactions and Use Tax for general purposes.

The City of San José and the County of Santa Clara together are at the state cap for TUTs, requiring state legislation to exceed the 2% cap. The City’s Intergovernmental Relations (IGR) team is currently engaging in discussions with members of its State delegation to explore the introduction of a bill that would allow the City to increase its tax. The IGR team will provide the City Council with updates on these discussions as part of its Fall Intergovernmental Relations Report in 2024.

**COORDINATION**

This memorandum was coordinated with City Attorney’s Office and the City Manager’s Budget Office.

/s/  
 SARAH ZARATE  
 Director, Office of Administration, Policy,  
 and Intergovernmental Relations