



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

SUBJECT: Potential Ballot Measure
Increasing Transient
Occupancy Tax

FROM: Lee Wilcox

DATE: January 20, 2026

Approved

(Signature: Maguire)

Date:

1/28/26

COUNCIL DISTRICT: Citywide

RECOMMENDATION

Adopt a resolution:

(a) Calling and giving notice, on its own motion, for a Special Municipal Election to be consolidated with the statewide direct primary election occurring in the County of Santa Clara on June 2, 2026, to submit to the electors of the City of San José a measure to amend the San José Municipal Code to increase the City's General Fund portion of the Transient Occupancy (hotel) Tax from 4% to 6%, with the following statement of the measure to be printed in the ballot:

To fund essential city services including police and fire emergency response; address homeless encampments impacting parks, neighborhoods, and waterways; remove trash, illegal dumping, and graffiti; and maintain trails, playgrounds, recreational facilities, and park restrooms, shall an ordinance be adopted increasing the general fund transient occupancy (hotel) tax from 4% to 6%, generating approximately \$10 million annually, and paid by hotel/motel guests, until repealed by voters?

(b) Directing the City Clerk to, pursuant to Elections Code Section 12111, cause a synopsis of the proposed measure to be published at least one time not later than one week before the election in the *San Jose Mercury News*, a newspaper of general circulation within the City of San José, instead of printing the full text of the measure in the sample ballot;

(c) Authorizing the Mayor to submit a ballot argument in support of the measure, pursuant to Elections Code Section 9282;

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- (d) Authorizing the submittal of rebuttal arguments pursuant to Elections Code Section 9285;
- (e) Directing the City Attorney to prepare an Impartial Analysis, where, as authorized under Elections Code Section 9280, the following statement will be printed in the Impartial Analysis to be prepared by the City Attorney: "If you would like to read the full text of the measure, see [web address to be determined] or call 408-535-1260 and a copy will be sent at no cost to you"; and
- (f) Directing the City Clerk to take all actions necessary to place this measure on the June 2, 2026 ballot.

SUMMARY AND OUTCOME

Approval of this action will result in the City placing a measure on the June 2, 2026 ballot to amend the San José Municipal Code (Chapter 4.74 General Fund Transient Tax) and increase the General Fund portion of the Transient Occupancy (hotel) Tax from 4% to 6%. If approved by a majority of voters, the measure will generate approximately \$10 million annually in General Fund revenue to support essential City services. Adoption of this resolution will also authorize all actions necessary to conduct the election in coordination with the Santa Clara County Registrar of Voters.

BACKGROUND

Over the past quarter-century, the San José community has struggled to reconcile its relatively low levels of revenue per capita with the day-to-day service level demands of a major city. Since Fiscal Year 2002-2003, the City has resolved ongoing General Fund shortfalls totaling more than \$800 million. Though a handful of new revenue streams have come online during this period, and the City has created new business models and efficiencies, resolving these shortfalls has primarily been achieved through service-level reductions and eliminations. As a reflection of these reductions, the number of budgeted positions across all funds has decreased from a high of 7,481 in Fiscal Year 2001-2002 to 7,009 in Fiscal Year 2025-2026. Based on data compiled by the City Auditor, San José has the lowest number of full-time equivalent positions per 1,000 residents among major California cities.¹

Unfortunately, budget challenges continue – the City Manager's Office is preliminarily projecting a General Fund shortfall in Fiscal Year 2026-2027 ranging from \$55 million to \$65 million and the City Manager recently gave direction to departments to prepare reduction proposals as part of the 2026-2027 Proposed Budget development process.

¹ Annual Report on City Services 2024-25, page 16:

<https://www.sanjoseca.gov/home/showpublisheddocument/127267/639014024061230000>

While the community can take pride in the City as a lean organization, additional ongoing resources are needed to meet the increased scale and complexity of the community's needs. Accordingly, the City Council has, on multiple occasions over the last two fiscal years, provided direction to explore options for generating additional revenue to support essential services and improve the long-term health of the General Fund.

In response to prior City Council direction, in April 2024, staff published Manager's Budget Addendum #10, *Exploring Options for Additional Revenue*, which outlined possible revenue strategies and considerations.² Through the adoption of the Mayor's June Budget Message for Fiscal Year 2024-2025, the City Council directed the City Manager to pursue potential paths to generate new revenue as identified in Manager's Budget Addendum #10, including new cost recovery fees, revenues to sustain and enhance parks, modernization of the City's Business Tax, and a potential sales tax measure.

Staff then conducted public opinion research to assess voter attitudes toward potential revenue measures and reported on these early polling results as part of the City Council 2025-2026 Budget Priorities Study Session on February 11, 2025.³ Additionally, staff contracted with Revenue & Costs Specialists in late 2024 to broadly compare the City's fees / taxes to other comparable cities. One tax identified in this report as a candidate for potential adjustment (tax increase) was the City's Transient Occupancy Tax (TOT).⁴

The TOT is a tax imposed on a hotel guest (transient) that the hotel operators collect and remit to the City on a monthly or quarterly basis. In San José, there are two separate TOT taxes under [Chapters 4.72](#) and [4.74](#) of the San José Municipal Code. Chapter 4.72 provides for TOT at 6% of the room rent and Chapter 4.74 provides for a TOT at 4% of the room rent, for a combined rate of 10%. The taxes collected pursuant to Chapter 4.72 must be expended to fund a convention and visitors bureau, fund cultural grants and the administration of arts programming, and support the operations for the City's convention center and cultural facilities; taxes collected under Chapter 4.74 are for general purposes. If this measure is approved by a majority of voters, the combined rate will increase from 10% to 12%.

In addition, most hotels within San José belong to the Convention Center Facility District and pay an additional 4% of the room rate under Chapter 14.32. The use of these special taxes is restricted for use in the rehabilitation or expansion of the City's convention center, including associated debt service. San José also has a Hotel Business Improvement District, which includes all hotels with 80 or more guest rooms

² <https://www.sanjoseca.gov/home/showpublisheddocument/112014/638518872821730000>

³ See presentation, Part 1, Section 3:

<https://sanjose.legistar.com/View.ashx?M=F&ID=13754884&GUID=58199039-4280-43EE-AAEF-AE0E4FBE9BF1>

⁴ <https://www.sanjoseca.gov/your-government/departments-offices/finance/tax-forms-permits-resources/hotel-taxes>

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located in San José. The Hotel Business Improvement District provides revenues for marketing efforts and event opportunities to drive business. The Hotel Business Improvement District assessment rate is a fixed amount per paid occupied room per night and is based on proximity to the convention center and San José Mineta International Airport. Staff found that, even with these components, the effective tax rate (which are inclusive of other revenue mechanisms, such as infrastructure districts and Tourism Business Improvement Districts) remains lower than that of peer jurisdictions, given that these jurisdictions have similar models in place alongside a typical TOT. A peer benchmark comparison is provided in the Attachment – Transient Occupancy Tax Peer Benchmarking, which includes comparisons for both TOT base hotel tax rates as well as effective tax rates.

Staff most recently conducted a poll of potential voters for the June 2026 Primary Election to understand voter sentiment regarding a potential increase to Chapter 4.74 of the San José Municipal Code related to TOT taxes collected for general purposes. The results of that poll are discussed below and are the basis of the staff recommendation.

ANALYSIS

The Administration worked with its consultant, Fairbank, Maslin, Maullin, Metz & Associates, Inc. to conduct a poll related to revenue identification. The poll was administered between November 19, 2025 to November 26, 2025, to a random sample of 1,040 registered voters in San José who are likely to participate in the November 2026 General Election. The sampling methodology allows one to estimate the opinion of all voters, with a statistical margin of error of $\pm 3.1\%$. The survey employed several methods of outreach (email, text, and telephone) and the data was collected in four different languages (English, Spanish, Vietnamese, and Chinese).

Every respondent was asked the following question:

To fund essential city services including police and fire emergency response; address homeless encampments impacting parks, neighborhoods, and waterways; remove trash, illegal dumping and graffiti; and maintain playgrounds, recreational facilities, park restrooms and trails, shall an ordinance be adopted increasing the general fund transient occupancy (hotel) tax from 4% to 6%, generating approximately \$10 million annually, paid by hotel/motel guests, until repealed by voters?

Ballot measures seeking to increase taxes have different voter thresholds depending on the type of tax and how revenues will be used. An increase in Chapter 4.74 TOT is considered a general purpose tax. A general purpose tax under California law requires approval by a simple majority of voters (50% + 1). General taxes may be used for any City purpose and are deposited into the City's General Fund. As noted in Table 1 below, 55% of respondents are likely to support an increase to the general fund TOT, with an additional 12% undecided.

TABLE 1: Survey Responses to an Increase in the TOT (Hotel Tax)

TOTAL YES	55%
Definitely yes	30%
Probably yes	17%
Undecided, lean yes	7%
TOTAL NO	32%
Undecided, lean no	3%
Probably no	6%
Definitely no	23%
UNDECIDED	13%

Because the survey methodology allows one to estimate the larger voter response to the ballot language, considering that 55% of respondents are likely to support the TOT increase, which is well over the simple majority threshold, and, with an additional 12% of voters undecided, a portion of which are likely to support, the Administration believes that the proposed ballot measure is viable. Given the strong likelihood of viability and the serious needs San José faces, particularly regarding increasing pressure on the General Fund, the Administration recommends that the City Council place this potential measure on the June 2, 2026 ballot.

Increasing the City's TOT from 10% to 12% will align San José with regional and statewide norms and does not materially risk the City's competitiveness in the hotel or convention market. The benchmarking data in the Attachment shows that San José's current TOT rate is below that of nearly all peer cities, despite being a major economic and travel hub, for example: San Francisco (14%), Oakland (14%), Santa Clara (11.5%), and Sunnyvale (12.5%). An increase to 12% brings San José into parity with comparable urban centers and remains within the typical range that travelers expect in California.

Economic research suggests that TOT levels exhibit inelasticity as an indicator, especially when within an already competitive band, with minimal influence on hotel demand and lodging decisions, which are driven more by location, amenities, and overall trip costs. In fact, a 2022 Brookings Metro analysis found that moderate increases in lodging taxes tend to be capitalized into pricing structures over time, with little effect on demand elasticity for business and convention travelers. Given that TOT is paid by guests, not operators, and that the proposed increase remains modest compared to regional peers, this measure balances fiscal responsibility with competitive positioning.

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EVALUATION AND FOLLOW-UP

If the City Council approves placement of this measure on the ballot, the City Attorney, City Clerk, and City Manager will prepare it, and the City Clerk will deliver the measure to the Santa Clara County Registrar of Voters for placement on the June 2, 2026 ballot prior to the deadline of 5 p.m. on March 6, 2026.

Additional deadlines include:

- Ballot Arguments are due to the Registrar on March 10, 2026; and
- The City Attorney's Impartial Analysis and Rebuttals, if authorized by the City Council, are due to the Registrar on March 17, 2026.

The Primary Election is Tuesday, June 2, 2026. Should voters approve the ballot measure, and upon election certification by the City Council, the general purpose tax increase would go into effect as of October 1, 2026. Prior to the potential tax increase going into effect, the Finance Department would initiate efforts to implement the change.

COST SUMMARY/IMPLICATIONS

Based on forecasted activity level, staff estimates that a TOT increase of 2% would generate approximately \$10 million annually, paid by hotel/motel guests. As a general purpose tax, this General Fund revenue would be available to support essential City services, including police and fire emergency response; address homeless encampments impacting parks, neighborhoods, and waterways; remove trash, illegal dumping and graffiti; and maintain trails, playgrounds, recreational facilities, and park restrooms; among others.

Staff from the City Clerk's Office reached out to the County of Santa Clara Registrar of Voters to request 2026 June Primary Election cost estimates for the City of San José. The following cost estimates were provided:

2026 JUNE PRIMARY ELECTION	Estimated Cost of Election	Estimated Cost per Candidate Statement (not included in election costs)
1 st Item – One Measure with six pages	\$2,316,277	
Additional Item – District 1	\$65,572	\$3,820
Additional Item – District 3	\$60,900	\$3,760
Additional Item – District 5	\$63,924	\$3,800
Additional Item – District 7	\$63,994	\$3,800
Additional Item – District 9	\$74,941	\$3,920
Total Estimated Costs (does not include Estimated Cost per Candidate)	\$2,645,608	

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The existing Elections and Ballot Measures City-Wide Expenses budget is sufficient to pay for the June Primary Election, including the ballot measure recommended in this memorandum.

BUDGET REFERENCE

The table below identifies the fund and appropriation to support the cost of placing the ballot measure on the June 2, 2026 Primary Election ballot, as recommended in this memorandum.

Fund #	Appn. #	Appropriation Name	Total Appropriation	Estimated Cost	2025-2026 Adopted Budget Page	Last Budget Action (Date, Ord. No.)
001	3955	Elections and Ballot Measures	\$4,290,000	\$2,645,608	909	10/21/2025 31252

COORDINATION

This memorandum was coordinated with the City Attorney's Office, the City Clerk's Office, City Manager's Budget Office, and Finance Department.

PUBLIC OUTREACH

This memorandum will be posted on the City Council Agenda website for the February 10, 2026 City Council meeting. Staff conducted hotel industry outreach, including Team San José, in January 2026. Industry engagement focused on sharing information, listening to operational and economic perspectives, and gathering input on potential considerations.

COMMISSION RECOMMENDATION AND INPUT

No commission recommendation or input is associated with this action.

CEQA

Not a Project. File No. PP17-004, Government Funding Mechanism or Fiscal Activity with no commitment to a specific project which may result in a potentially significant physical impact on the environment.

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PUBLIC SUBSIDY REPORTING

This item does not include a public subsidy as defined in section 53083 or 53083.1 of the California Government Code or the City's Open Government Resolution.



Lee Wilcox
Assistant City Manager
City Manager's Office

For questions, please contact Erik Jensen, Deputy Director, City Manager's Office of Administration, Policy, and Intergovernmental Relations, at erik.jensen@sanjoseca.gov.

ATTACHMENT:

Transient Occupancy Tax Peer Benchmarking

ATTACHMENT: Transient Occupancy Tax Peer Benchmarking

City	TOT Rate (sorted largest to smallest)	Effective Tax Rate ⁵
Palo Alto	15.5%	
Anaheim	15%	17%
Los Angeles	14%	16%
Milpitas	14%	
Oakland	14%	16%
San Francisco	14%	17.5%
San Diego	13.75%	15.75%
Long Beach	13%	16%
Riverside	13%	
Sunnyvale	12.5%	
Bakersfield	12%	
Campbell	12%	
Cupertino	12%	
Fresno	12%	
Sacramento	12%	16.45%
Santa Clara	11.5%	17.5%
Morgan Hill	11%	
Santa Ana	11%	
Chula Vista	10%	
Fremont	10%	
Mountain View	10%	
San José	10%	14.5% to 15.1%
Santa Clarita	10%	12%
Gilroy	9%	11%
Irvine	8%	10%
Stockton	8%	

⁵ Effective tax rate considers other revenue mechanisms, such as infrastructure districts and Tourism Business Improvement Districts. Data is provided for a subset of peers jurisdictions researched.