



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Councilmember Campos
Councilmember Cohen
Councilmember Ortiz
Councilmember Candelas

SUBJECT: SEE BELOW

DATE: February 5, 2026

Approved

Date: 2/5/2026

SUBJECT: Potential Ballot Measure Increasing Transient Occupancy Tax

RECOMMENDATION

1. Approve the staff recommendations.
2. Direct the City Manager to bring back to the City Council a status update on modernizing the City's Business Tax, in line with the FY 24-25 June Budget Message, to help close the projected budget deficits and return to Council by May 2026. This analysis should include but not be limited to the following:
 - a. Comparison of annual business tax receipts in large cities in the Bay Area and California.
 - b. The use and variations of gross receipts models versus head tax-based models, and any risks related to remote and hybrid work or other business trends.
 - c. The use or exclusion of tax caps; and
 - d. How the current business tax burdens small businesses compared to other models, and what could be done to help small businesses in future options.

BACKGROUND

The staff report provides compelling arguments to pursue additional sources of revenue. Notwithstanding prudent actions to reduce expenditures and increase efficiency, the City continues to struggle with chronic budget deficits. Continued cuts risks erosion of core City services, loss of essential staff, and elimination of programs valued by our community.

We appreciate the background information provided in the staff report and staff's diligence in preparing this ballot measure. The Mayor's June Budget Message for Fiscal Year 2024-2025 included forward-thinking and bold direction to explore a variety of options to generate new revenue. We recommend continuing this work, including evaluation of modernizing the City's Business Tax.

Crucially, small businesses, already under great strain, must be protected from additional tax burden. Our recommendation includes direction to ensure that impacts to small businesses not only are minimized, but instead are factored into the options for a business tax modernization.

The signers of this memorandum have not had, and will not have, any private conversation with any other member of the City Council, or that member's staff, concerning any action discussed in the memorandum, and that each signer's staff members have not had, and have been instructed not to have, any such conversation with any other member of the City Council or that member's staff.