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**Law and Legislation
Committee**

City Hall Complex
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SUPPLEMENTAL MATERIAL

Description of Attached: Attached is supplemental material received after publishing the agenda. The attached staff report replaces the original staff report in its entirety.

For the Meeting of: Tuesday, May 20, 2025 at 11:00 a.m.

Agenda Item: Discussion Item 4

4. Business Operations Tax Overview

File ID: 2025-01006

Location: Citywide

Recommendation: 1) Review, discuss and provide direction on potential amendments to Chapter 3.08 of the Sacramento City Code, relating to the Sacramento Business Operations Tax.

Contact: Pete Coletto, Director of Finance (916) 808-5416,
pcoletto@cityofsacramento.org; Jackie Rice, Finance Manager (916) 808-5844,
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City of Sacramento
Law and Legislation Committee Report
915 I Street Sacramento, CA 95814
www.cityofsacramento.org

File ID: 2025-01006

5/20/2025

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Presenter: Pete Coletto, Director of Finance, (916) 808-5416, pcoletto@cityofsacramento.org; Jackie Rice, Finance Manager, (916) 808-5844, jlrice@cityofsacramento.org; Department of Finance

Attachments:

1-Description/Analysis

Description/Analysis

Issue Detail: The City's Business Operations Tax (BOT) was enacted by Ordinance in 1975 and, for non-cannabis businesses, was last updated in 1991. Minimum payment, maximum payment, and gross receipts thresholds have not been adjusted for inflation since 1991. In 2010 and again in 2020 Management Partners recommended an update to the BOT as a strategy to enhance revenue. The City's 5-year forecast in the Fiscal Year (FY) 2025/26 Proposed Budget projects a structural deficit with ongoing expense growth outpacing revenue growth over the term of the forecast. During the FY2025/26 budget updates, Council directed staff to explore options to update the BOT. A summary of the different components of the current City code as it relates to the BOT is below.

Gross Receipts

- All businesses except professionals, brokers, contractors, property rental and cannabis
- Annual rate as follows:
 - \$30 base rate on gross receipts of \$10,000 or less
 - 0.04% of gross receipts in excess of \$10,000

- Annual maximum tax liability of \$5,000

Professionals

- Every person engaged in the profession of accountant, architect, attorney, audiologist, bacteriologist, certified public accountant, engineer, dentist, mortician, optometrist, osteopath, physician, podiatrist, psychologist, surgeon or veterinarian.
- Annual BOT determined by number of licensed years in the State of California:

Three years or less	\$75
More than three years, less than seven years	\$150
Seven years or more	\$300

- Each licensed employee receiving profits from the business charged according to table above.
- Annual BOT of \$30 for each additional licensed employee not receiving profits from the business.
- Annual maximum tax liability of \$5,000.

Professionals- Brokers

- Every person engaged in the business of real estate broker, insurance broker or stockbroker
- Annual BOT of \$100 for principal broker
- Annual BOT of \$30 for each additional employee subject to supervision by the principal broker
- Annual maximum tax liability of \$5,000

Contractors

- Every person engaged in any type of business activity as a contractor which requires a City building permit
- \$0.40 per \$1,000 of value used to determine the charge for the building permit
- Annual maximum tax liability of \$5,000

Housing and Shelter

- Rental of residential property
 - Annual base rate of \$25
 - \$1.75 for each rental unit in excess of four units
 - Rental of fewer than four units is exempt

- Annual maximum tax liability of \$5,000
- Hotels, Motels
 - Annual base rate of \$50
 - \$0.75 for each rental unit in excess of four units
 - Annual maximum tax liability of \$5,000
- Rental of Nonresidential Property
 - Taxed based on gross receipts
 - \$30 base rate on gross receipts of \$10,000 or less
 - 0.04% of gross receipts in excess of \$10,000

Staff is seeking direction from the Committee on potential amendments to Chapter 3.08 of the Sacramento City Code, relating to the modernization of the BOT. Staff have examined practices in similarly sized cities in California as detailed below.

Peer Jurisdictions

Jurisdiction	Minimum	Maximum	Gross Receipts Threshold	Tax Rate	Other Info
Bakersfield	\$25	None	None	\$0.65 per \$1,000 (professionals); \$0.30 per \$1,000 (other), lower rates as GR go up	A small number of business types pay flat rates.
Folsom	\$40	None	None	Flat fee based on gross receipts	.05/\$1,000 for GR over \$25.1M
Fresno	\$0	\$21,200	\$5,000	0.09% to 0.36% (varies by GR level)	Select business types assessed flat fee
Long Beach	\$281 to \$458 (dependent on business type)	None	N/A	\$11 to \$36 per employee	Select business types assessed flat fee plus per vehicle, table, etc.

Oakland*	\$60	None	Varies from \$14K to \$120K (dependent on business type)	0.0405% to 0.5% (dependent on business type and GR)	Property rentals- 1.395%
San Francisco**	None	None	N/A	0.05% to 1.008% (dependent on business type and GR)	
San Jose***	\$216	\$180,674	N/A	\$36 to \$72 per employee based on total employee count	Indexed to inflation

* Corrected clerical error found in Oakland rate. Changed from 0.04% to 0.05%.

** With the passage of Measure M, San Francisco's business tax rates will increase over the next three years.

*** Businesses in San Jose under certain gross receipt thresholds may apply for exemption under the "Business Tax Financial Hardship" program.

Nearby Jurisdictions

Jurisdiction	Tax Details
Auburn	Ranges from \$25 to \$100 annually for GR up to \$200k. GR over \$200k is 0.05%. GR over \$500k is \$250 + 10% of GR over \$500k. Flat rates for certain business types.
Citrus Heights	New business: \$108-\$377; annual renewal \$84-270; massage \$237-\$475
Davis	Ranges from \$1.50 to \$189 annually depending on GR up to \$110k; additional \$18 annually for every \$10k exceeding \$110k.
Elk Grove	\$12 for two years
Sacramento County	\$244 for 3 years, \$521 for one year, depending on business type
Stockton	0.09% for most businesses
Rancho Cordova	\$103 to \$321, depending on business type
Roseville	\$15 to \$250 annually, depending on gross receipts, employee count or rental units
West Sacramento	\$54 to \$80, depending on business type

Policy Considerations: Updating the BOT is consistent with Council adopted Core Budget Policies and Guidelines adopted February 14, 2017 (Resolution 2017-0078, Attachment 2). These policies call for one-time resources only be used for one-time costs; ongoing expenditures should be matched with ongoing financing sources and reserves are to be used in a planned and strategic manner. The BOT has not been updated since 1991 and since that time City expenses have increased, while the \$5,000 annual BOT payment cap has not increased, nor have minimum BOT payments. The City Budget is forecast to be in structural deficit with expense growth outpacing revenue growth.

Economic Impacts: The economic impact of a BOT modernization would be dependent on the strategy pursued. However, the increased tax burden will support and help offset the increased cost of essential City services, which also serve local businesses.

Environmental Considerations: Not applicable.

Sustainability: Not applicable.

Commission/Committee Action: Not applicable.

Rationale for Recommendation: During the FY2025/26 Budget Update, Council directed staff to explore options for updating the BOT. Staff is seeking direction from the Committee on what options to explore.

Financial Considerations: The City's FY2025/26 Budget projects a structural deficit with the City facing increased cost growth. In addition, the City has substantial unfunded pension and capital infrastructure liabilities. Updating the BOT and raising general purpose revenue is an important step in improving the City's fiscal position.

Local Business Enterprise (LBE): Not applicable.