ITEM NO. : 14.1

TOWN OF WINDSOR
AGENDA REPORT

Joint Windsor Town Council, Windsor Redevelopment Successor Agency and Windsor Water District Meeting Date: November 19, 2025

To:	Mayor and Town Council
From:	Tim Ricard, Economic Development Manager Nick Walker, Administrative Services Director
Subject:	Windsor Financial Forecast and Analysis of Revenue Options including the Potential for a Transactions and Use (Sales) Tax Measure

Recommendation to Council:

1. Receive report regarding the General Fund financial forecast and the solutions available to increase local revenue.
2. Provide direction to staff on community outreach for a potential Transactions and Use (Sales) Tax Measure.

Strategic Plan Element:

The recommended action supports the goal of Fiscal Health. Goal Statement: Ensure the economic health and long-term financial viability of the Town.

Background:

Windsor's strong sense of community is built on safe neighborhoods, well-maintained streets, beautiful parks, and community events that bring people together. These qualities define the Town's small-town charm and community pride.

The Town of Windsor is a service-based government agency which protects public safety, maintains roadways and infrastructure and provides recreational events and spaces for the community. However, the cost of providing these services is growing faster than the revenues the Town depends on. Rising expenses for public safety, infrastructure, insurance, materials, supplies, equipment, the cost of construction and general operations continue to outpace the modest growth of Windsor's primary revenue sources—property tax, sales tax, and transient occupancy tax.

The Town's 2025–27 Adopted Budget included approximately $7.5 million in operational reductions over the two years, including the reduction of three police positions, holding vacant staff positions open, and deferring maintenance on roads and park infrastructure, weed abatement, and community events. Even with these reductions, balancing the budget required the use of $7.9 million in reserves.

This temporary combination of cuts, deferrals, and reserve use has allowed Windsor to maintain a reduced—but still high—level of service in the short term. However, this approach is not sustainable. Without new, ongoing revenue, Windsor is projected to face annual General Fund shortfalls of $4–$5 million beginning in Fiscal Years (FY) 2027–29, which would deplete all remaining reserves by FY 2029. Absent new revenue or significant program reductions, the Town's ability to maintain essential services, repair infrastructure, and respond effectively to emergencies will be severely compromised.

Discussion:

To address the Town's structural budget shortfall, staff evaluated several potential local revenue tools commonly used by other California cities.

The analysis considered each option's ability to close Windsor's $4–$5 million annual General Fund gap, voter approval requirements, administrative feasibility, and alignment with the Town's long-term fiscal sustainability goals.

Staff evaluated the most common local revenue mechanisms used by California cities. The following table summarizes their key features.

Table 1. Revenue Options

Revenue Options	**Who Pays**	**Vote Required**	**Estimated Annual Revenue**
Transient Occupancy Tax	Visitors	Majority (50% + 1)	$200,000 to $300,000 per 1%
Business License Tax	Local Businesses	Majority (50% + 1)	$0.5–$1.5M
Property Tax Increase	Property Owners	Two-Thirds	N/A
Parcel Tax	Property Owners	Two-Thirds	N/A
Utility Users Tax	Residents & Businesses	Majority (50% + 1)	$1–$2.5M
Property Assessments	Property Owners	Weighted Majority	Varies
Transactions & Use Tax (Sales Tax Add-On)	Residents & Visitors	Majority (50% + 1)	$5.5M

As shown, most options provide limited revenue or require a supermajority (two-thirds of all voters). Only a Transactions and Use Tax provides both the revenue scale and flexibility needed to address Windsor's long-term fiscal deficit.

<u>Transient Occupancy Tax (Hotel "Bed" Tax)</u>
The Transient Occupancy Tax (TOT) applies to overnight stays in hotels, motels, and short-term rentals. Visitors pay the tax. Windsor's TOT revenues are approximately $2.7 million per year, and each 1% increase would generate roughly $225,000 annually.

While a modest increase could supplement revenue, it would not close the deficit. Windsor, like most Sonoma County jurisdictions, already has a high combined lodging tax rate when including Tourism Improvement Districts (TIDs) and the Countywide Business Improvement Assessment (BIA).

Table 2. Sonoma County TOT Rates

Jurisdiction	**TOT Rate**	**Additional Tourism Assessment**	**Combined Lodging Rate**
Town of Windsor	12%	+ 2% County BIA	14%
Santa Rosa	11%	+ 3% City TID + 2% County BIA	16%
Petaluma	10%	+ 2% County BIA + 2% City TID	14%
Cotati	10%	+ 2% County BIA	12%

Sebastopol	12%	+ 2% County BIA	14%
Rohnert Park	12%	+ 2% County BIA	14%
Sonoma	13%	+ 2% City TID	15%
Healdsburg	14%	+ 2% City TID	16%
Cloverdale	10%	+ 2% County BIA	12%
Unincorporated County	12%	+ 2% County BIA	14%

Given this landscape, Windsor has limited room to expand its TOT rate without affecting competitiveness.

Business License Tax (BLT)

The Town currently charges a flat business license fee, rather than a business license tax. Under the existing system, new businesses pay a one-time application fee of $71 and an annual renewal fee of $26. These amounts are designed solely to cover the administrative cost of processing and maintaining business licenses. By law, such fees cannot be used to generate general revenue for Town services—they must be limited to the reasonable cost of program administration.

By contrast, a Business License Tax (BLT) is a voter-approved revenue measure that generates ongoing, unrestricted funds for general municipal purposes. A BLT can be structured in several ways—such as a flat amount per business, a tiered rate based on gross receipts, or a hybrid model that scales with business size or type. Depending on the structure and rate adopted, a modernized BLT in Windsor could generate between $500,000 and $1.5 million annually. Implementing such a measure would require a majority vote (50% + 1) at a general election.

While a BLT would diversify local revenue and ensure businesses contribute directly to the community, it would also place the financial burden primarily on Windsor's local businesses, rather than being shared regionally with visitors and nonresidents as a local sales tax would. For this reason, a Business License Tax may complement—but would not replace—the need for a broader, community-wide funding source.

Property Tax Increase

Under Proposition 13, property tax rates in California are capped at 1% of a property's assessed value, and cities cannot raise this rate to fund general operations.

The only mechanism available to increase property tax revenue is through voter-approved general obligation bonds, which must be dedicated to specific capital improvements—such as facilities, infrastructure, or parks—and require two-thirds voter approval.

Because these revenues are restricted to debt repayment for specific projects, rather than ongoing operations, a property tax increase is not a viable tool for addressing Windsor's General Fund structural deficit.

Parcel Tax

A Parcel Tax is a flat charge applied to each taxable parcel within the Town, typically used to fund specific services or capital improvements such as parks, street maintenance, or public safety facilities.

Under California's Proposition 218, parcel taxes are classified as special taxes and therefore require two-thirds voter approval. Revenues must be dedicated to clearly defined purposes and cannot be used for general government operations unless narrowly structured.

While parcel taxes provide a stable and predictable source of funding, their restrictive legal framework and high voter-approval threshold make them a challenging and inflexible tool for addressing Windsor's structural General Fund deficit. They are best suited for targeted, project-specific investments rather than closing ongoing operating shortfalls.

Utility Users Tax (UUT)

A Utility Users Tax (UUT) is a percentage-based charge added to utility bills such as electricity, gas, telecommunications, or internet services. Some cities also apply a UUT to water, sewer, or solid waste services.

A UUT requires a majority vote (50% + 1) if structured as a general tax, or two-thirds voter approval if designated for a specific purpose. Depending on the rate (typically 3%–5%) and the utilities included, a UUT in Windsor could generate a couple of million dollars annually.

While a UUT provides a steady and reliable source of revenue, it directly increases household and business utility costs, meaning the financial impact would fall primarily on Windsor residents and employers.

Property Assessments

Property Assessments are charges levied on parcels that receive a specific and measurable local benefit, such as enhanced landscaping, street lighting, or maintenance within a defined district.

Assessments must be based on the proportional special benefit received by each property and are approved through a weighted ballot process by affected property owners, rather than a public election.

While assessments can be a useful tool for targeted improvements or maintenance within limited areas, they cannot fund general government services or be used to address the Town's overall structural deficit. For Windsor, property assessments may be best suited for neighborhood- or district-level enhancements, rather than as a Town-wide revenue solution.

Transactions and Use Tax (Sales-Tax Add-On)

A Transactions and Use Tax (TUT)—often referred to as a local sales tax—is a voter-approved "add-on" tax of up to 1% applied to most taxable sales, including online and delivered purchases made by Windsor residents and visitors.

These measures are common throughout California and are typically implemented in quarter-cent (0.25%) increments, allowing flexibility in setting a rate that aligns with local needs. The tax is collected and administered by the California Department of Tax and Fee Administration (CDTFA) and remitted directly to the Town.

Historically, California cities adopted "sunset" terms for local sales tax measures typically between 10 and 20 years. While these temporary measures provide short-term relief, they limit the Town's ability to engage in long-term fiscal and infrastructure planning. More recently, many communities have adopted measures that remain in effect "until ended by voters." This approach keeps control in the hands of residents, while allowing the Town to plan effectively for essential long-term needs such as road rehabilitation, park maintenance, and public safety investments.

If structured as a general tax, a TUT requires a simple majority vote (50% + 1) for approval. Revenues can then be used for any municipal purpose, subject to public oversight and independent annual audits.

Based on HdL's FY 2026–27 taxable sales projection, a 1% local Transactions and Use Tax (TUT) would generate approximately $5.5 million annually—enough to close Windsor's projected structural budget gap and provide a stable, locally controlled source of revenue to begin restoring service levels, filling vacant police positions, and addressing deferred maintenance on roads and parks.

Analysis of Local Sales Tax Measure

In California, the base sales tax rate is 7.25%, and cities may generally add up to 2% in local Transactions and Use Taxes (TUTs), for a typical combined maximum rate of 9.25%.

Sonoma County jurisdictions have received special legislative authority to levy additional taxes that don't count against the 2%. In particular, in 2018, the County, Cities, and the Transportation Authority were authorized to exceed that limit by up to an additional 1.0%. The 2018 special legislation requires any additional tax be approved before January 1, 2026.

However, even after January 1, 2026, half of the standard 2% local authority remains available to the Town of Windsor. The County has used the other half and then added 1.0% under the special legislative authority bringing the base sales tax rate in Sonoma County to 9.25%.

Because Windsor has never used the standard local taxing authority and other Sonoma County cities have, the Town retains the ability to adopt a local TUT of up to 1% under existing state law. If Windsor voters approve a local 1% tax, the rate in Town will be 10.25%.

Table 3. Sonoma County Sales Tax Rates

Jurisdiction	**Sales Tax Rate**
Sebastopol	10.50%
Cotati	10.25%
Petaluma	10.25%
Sonoma	10.25%
Santa Rosa	10.00%
Cloverdale	10.00%
Rohnert Park	9.75%
Healdsburg	9.75%
Windsor	**9.25%**

This comparison highlights Windsor's unique position as the only city in Sonoma County without a local add-on sales tax. For decades, the Town has been a careful steward of taxpayer dollars—maintaining high-quality services and balanced budgets without relying on additional local tax revenue. Meanwhile, other cities have generated millions of dollars annually through their local sales taxes to fund public safety, parks, and infrastructure improvements.

A local Windsor sales tax would provide stable, locally controlled funding to protect the services and amenities that define Windsor's quality of life—safe neighborhoods, well-maintained streets and parks, and vibrant community spaces that bring residents together. These locally generated revenues would help restore critical service levels reduced in recent years, support public safety staffing, and invest in long-deferred maintenance for infrastructure, roads, and recreation facilities.

Equally important, a local sales tax would ensure that visitors and commuters who shop, dine, or purchase goods in Windsor contribute their fair share toward maintaining the services they rely on—such as police protection, traffic safety, and public spaces. Currently, Windsor residents pay higher sales tax rates when shopping in neighboring cities, helping fund those communities' services instead of their own. A local measure would allow Windsor to retain more of its economic activity within town, strengthen local fiscal independence, and invest those dollars directly back into the community.

What items are exempt from sales tax in California?

California law exempts many essential goods and certain services from sales tax. These items would remain exempt even if Windsor adopted a local sales tax:

- Groceries
- Diapers and baby formula
- Feminine hygiene products
- Prescription medications
- Medical devices and supplies.
- Utilities
- Agricultural products
- Educational materials

The proposed local sales tax would only apply to goods and services already subject to California's sales tax. If an item is exempt under state law, it will remain exempt — the local tax does not change those rules.

These exemptions help ensure that a local sales tax would not increase the cost of everyday necessities for Windsor families.

Accountability and Oversight

All funds generated by a Windsor sales tax would remain 100% under local control—no funds could be taken by the State or County.

Revenues would be deposited into the Town's General Fund, budgeted through a transparent public process, and subject to annual independent financial audits.

To reinforce public accountability, the Town will establish a Citizens' Oversight Committee to review revenues and expenditures, ensuring funds are used as intended to maintain essential local services.

Community Outreach

Based direction provided by the Town Council regarding the use of consultants, all research, messaging, and outreach efforts described in this report—including Town halls, stakeholder meetings, and informational presentations—are being developed and implemented by Town staff as part of a grassroots, internally led effort. This approach reflects the Town's commitment to transparency, fiscal responsibility, and inclusive engagement within current resource constraints.

Staff proposes a robust community outreach and listening process to gather feedback on both the potential sales tax rate structure and term. This process will be designed to ensure broad, inclusive participation and to build community understanding of Windsor's fiscal challenges, service priorities, and available options.

Outreach efforts will include:

- Multiple Town Hall–style meetings, including at least one session conducted in Spanish, to ensure participation from Windsor's diverse community.
- "Road show" presentations with local organizations such as the Rotary Club, Chamber of Commerce, sports clubs, homeowners' associations, and community service groups, providing opportunities for dialogue and Q&A in familiar community settings.
- Stakeholder roundtables with key sectors, including business leaders, nonprofits, youth and senior representatives, and neighborhood associations.
- Online engagement tools for residents who cannot attend in person.
- Continued updates via the Town's website, social media channels, and newsletters to promote transparency and keep the community informed throughout the process.

The feedback received through this outreach will help staff refine options for the sales tax structure, term and ballot language and guide development of the measure framework to be presented to the Town Council in spring 2026 for consideration. While this community-driven approach will provide valuable qualitative feedback, investigation of additional opportunities to gauge resident sentiment and support for different rate and term options may be useful.

<u>Timeline and Next Steps</u>

- Winter 2025 – Spring 2026: Conduct extensive public outreach, including multilingual town halls, community "road show" presentations, stakeholder meetings, and resident sentiment tracking to gauge understanding and support for different rate and term options.
- Spring 2026: Present outreach results to the Town Council, along with recommendations on measure structure and draft ballot language.
- July 2026: Council consideration and adoption of a resolution calling the election and submitting the measure to the County Registrar of Voters.
- November 3, 2026: General Election – Windsor voters consider the local Transactions and Use (Sales) Tax measure.
- April 1, 2027: Effective Date – Tax implementation begins if approved by voters.

Fiscal Impact:
A 1% Transactions and Use Tax would generate approximately $5.5 million per year, enough to close Windsor's projected structural budget gap and provide a stable, locally controlled source of revenue to begin restoring service levels, fill open police positions, and addressing deferred maintenance on roads and parks.

Environmental Review:
This action does not constitute a "project" within the meaning of California Environmental Quality Act (CEQA) Guidelines Section 15378 and requires no environmental review.

Attachment(s):
None.

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