Agenda Item

Orange City Council

Item #: 9.1.	5/12/2026	**File #:** 26-0259

TO: **Honorable Mayor and Members of the City Council**

FROM: **Jarad Hildenbrand, City Manager**

1. SUBJECT

Consider revenue measures to address ongoing structural General Fund deficits and provide direction for the November 2026 General Municipal Election

2. SUMMARY

The City of Orange continues to face recurring structural General Fund deficits as operating revenues have not kept pace with rising labor costs, inflation, contractual services, and infrastructure maintenance needs. Over the past several budget cycles, the City has balanced budgets through service reductions, deferred capital projects, and one-time internal fund transfers. These measures are not sustainable long-term solutions.

Without additional ongoing revenue, future budget balancing will likely require deeper service reductions, deferred infrastructure investment, and increased pressure on public safety and quality-of-life services.

To improve fiscal stability and establish ongoing revenue sources, the City Council previously directed staff to return with potential revenue measures for consideration. This report provides an overview of several potential options, including a transactions and use tax (sales tax), transient occupancy tax increase, utility user tax, vacant property tax, cannabis gross receipts tax, parking operator tax, documentary transfer tax, the potential sale of the City's water and sewer utility systems, as well as modernizing the City's business license tax.

Staff seeks City Council direction regarding which measures warrant further analysis and whether preparation of ballot resolutions should proceed for the November 2026 General Municipal Election.

3. RECOMMENDED ACTION

1. Review and discuss potential revenue measures to address ongoing structural General Fund deficits; and
2. Provide direction regarding which measures should proceed for further analysis, polling, public outreach, and potential ballot preparation for the November 2026 General Municipal Election.

4. FISCAL IMPACT

Depending on City Council direction and voter approval, the potential revenue measures discussed in this report could generate significant ongoing General Fund revenue to improve long-term fiscal sustainability and reduce reliance on one-time budget balancing measures.

Estimated annual revenues vary by measure and are discussed individually within this report.

Additional fiscal impacts may include legal review, polling, public outreach, and election-related costs associated with placing measures on the ballot.

5. STRATEGIC PLAN GOALS

Goal 1: Maintain and Enhance Public Safety
Goal 2: Enhance Economic Development and Achieve Fiscal Sustainability.

6. DISCUSSION AND BACKGROUND

The City of Orange continues to face recurring structural budget deficits caused by operating revenues failing to keep pace with inflationary increases in labor costs, materials, contractual services, public safety operations, and infrastructure maintenance.

Between March 2023 and March 2026, the Consumer Price Index for the Los Angeles-Long Beach-Anaheim region increased approximately 10%, while the City has maintained average operating expenditure growth near 2% annually. During the same period, average operating revenue growth remained below 1%.

This imbalance has created a recurring structural deficit that requires ongoing corrective action.

To close annual budget gaps, the City has reduced service levels, deferred capital maintenance projects, and relied on transfers from internal service fund balances, including funds otherwise intended for long-term capital improvement needs. While these actions provide short-term relief, they are not sustainable solutions to a recurring fiscal imbalance.

Establishing reliable ongoing revenue sources is necessary to preserve service levels, maintain infrastructure, and support long-term financial stability.

In recognizing the need for consistent and ongoing revenue, at the March 24, 2026, City Council meeting, the City Council directed staff to bring back several revenue options for consideration including:

- Sales Tax Increase
- Transient Occupancy Tax Increase
- Utility User Tax
- Vacant Property Tax
- Cannabis Gross Sales Tax
- Parking Operator Tax
- Documentary Transfer Tax
- Evaluate selling the City’s water and sewer utility; and
- Business License Tax Modernization

Council Action Required:

Placing a revenue measure on the ballot requires approval by at least two-thirds of the City Council (5 of 7 votes).

Voter Approval Required:

- General Tax (general government purposes): Majority voter approval (50% + 1)
- Special Tax (restricted purpose): Two-thirds voter approval (66.67%)

Sales Tax Increase

Description:

A Sales Tax Increase, formally referred to as a Transactions and Use Tax (TUT), would impose an additional local sales tax on the purchase of tangible goods within the City of Orange. Assuming a 1% increase, this measure would add 1¢ to every $1.00 spent on taxable goods.

This tax differs from the City's existing base 1% Bradley-Burns local sales tax. The Bradley-Burns tax is allocated based primarily on the place of sale, meaning revenue is generally received by the jurisdiction where the business is located.

By contrast, a voter-approved District Tax (Transactions and Use Tax) is largely destination-based, meaning the revenue generally flows to the jurisdiction where the purchased goods are delivered, shipped, or put into use. This allows the City to capture additional revenue from both local purchases and certain online and remote sales where the product is ultimately used within Orange.

Sales tax is often considered one of the most significant ongoing General Fund revenue sources available to local governments because it captures revenue from residents, visitors, and regional consumers rather than relying solely on local property owners.

Additionally, Orange would remain generally competitive with surrounding Orange County cities even with a 1% increase, depending on how neighboring jurisdictions structure their own local district taxes.

If the City Council wished to pursue this measure, policy considerations would include:

- The proposed tax rate
- The duration of the tax measure, including whether the tax would sunset after a fixed period (such as 10, 20, or 30 years) or remain in effect until ended by future voter action
- Whether the measure should be structured as a general tax or special tax
- Timing of the ballot measure and voter education efforts
- Community polling and public outreach regarding voter support

Because this would be a voter-approved local tax measure, adoption would require both City Council action to place the measure on the ballot and voter approval at the November 2026 General Municipal Election.

Projected Annual Revenue:

Assuming a 1% Transactions and Use Tax measure, the estimated annual revenue is approximately $37 million in ongoing General Fund revenue.

Actual revenues would vary based on taxable sales activity, economic conditions, consumer spending patterns, and the final tax structure approved by voters. However, among the revenue measures discussed in this report, a sales tax increase represents one of the most significant opportunities for stable, long-term General Fund revenue generation.

Transient Occupancy Tax Increase (Local Sales Tax Increase)

Description:

A Transient Occupancy Tax (TOT), commonly referred to as a “hotel tax” or “bed tax,” is a tax imposed on short-term lodging stays, including hotels, motels, inns, and similar accommodations. In the City of Orange, the current TOT rate is 10%, and the tax applies to any occupancy of 30 consecutive days or less.

The tax is collected by the lodging operator from the guest at the time of payment and then remitted to the City. Because TOT is paid primarily by visitors rather than residents, many cities view TOT increases as one of the least impactful locally generated revenue measures on local households and businesses.

TOT revenues are commonly used to support general municipal services such as police, fire, street maintenance, parks, and other essential City operations, while also capturing revenue generated by tourism, business travel, and regional visitors.

If the City Council wished to pursue a TOT increase, policy considerations would include:

- The proposed tax rate increase
- Whether the increase should be structured as a general tax or special tax
- Whether exemptions or special classifications should apply
- The duration of the tax measure, including whether the increase would sunset after a fixed period (such as 10, 20, or 30 years) or remain in effect until ended by future voter action
- Community outreach and stakeholder engagement with local hotel operators and the hospitality industry

Because TOT is a locally imposed tax measure, increasing the rate would require City Council action to place the measure on the ballot and voter approval at the November 2026 General Municipal Election.

Projected Annual Revenue

At the current 10% TOT rate, the City is projecting approximately $6.3 million in TOT revenue by the end of Fiscal Year 2026.

Based on current hotel activity and occupancy trends, each additional 1% increase in the TOT rate is expected to generate slightly more than $600,000 annually in ongoing General Fund revenue.

Actual revenues would fluctuate based on hotel occupancy levels, tourism activity, business travel demand, and broader economic conditions. While TOT does not generate the same revenue potential as a sales tax increase, it remains one of the more viable revenue measures because the primary tax burden falls on visitors rather than Orange residents.

Utility User Tax

Description:

A Utility User Tax (UUT) is a locally imposed tax on the use of utility services. It is typically calculated as a percentage of a customer's monthly bill and collected by the utility provider, who then remits the revenue directly to the City.

Common utility services subject to a UUT may include:

- Electricity
- Natural Gas
- Water (if authorized by ordinance)
- Telecommunications services such as:
  - Landline telephone service
  - Cellular phone service
  - Internet service (where permitted)
  - Cable television services

The tax is generally paid by the end user (the resident, business, or property owner receiving the service) and appears as a separate line item on the monthly utility bill.
Many California cities utilize a UUT as a stable General Fund revenue source because utility usage tends to remain relatively consistent regardless of broader economic conditions. UUT revenues are commonly used to support general municipal services such as police, fire, parks, street maintenance, and other essential City operations.

The City of Orange currently does not impose a UUT.

If the City Council wished to pursue a UUT measure, policy considerations would include:

- Which utility services would be taxed
- Whether exemptions should apply (such as seniors, low-income households, or medical baseline users)
- The proposed tax rate (commonly ranging from 3% to 6%)
- Whether the measure would be presented to voters as a general tax or special tax

Because Orange does not currently have a UUT in place, adoption would require voter approval. Unlike TOT, a UUT is paid directly by residents and businesses through monthly utility bills and may receive greater public scrutiny during ballot consideration.

Projected Annual Revenue

Based on preliminary estimates, a 4% Utility User Tax could generate approximately $10.7 million annually in ongoing General Fund revenue. Actual revenues would depend on the final tax structure, included utility categories, exemptions, and overall utility consumption levels.

Vacant Property Tax

Description:

A Vacant Property Tax (VPT) is an annual tax imposed on property owners whose residential, commercial, or undeveloped properties remain vacant for extended periods of time. The purpose of a VPT is to discourage long-term vacancies, promote productive use of land and buildings, reduce neighborhood blight, and encourage economic activity and housing availability.

The definition of "vacant property" is a policy decision to be determined by the City Council and can vary significantly depending on community priorities. For example, the City may choose to focus on vacant residential units, underutilized commercial storefronts, undeveloped parcels, or a combination of all three.

As a point of comparison, the City of Oakland has adopted a Vacant Property Tax program. Under Oakland's ordinance, a property is generally considered vacant if it is occupied or actively used for fewer than 50 days during a calendar year. Oakland's program applies to residential, commercial, and undeveloped properties and generates approximately $10 million annually.

Separately, staff intends to bring forward a related vacant property registration ordinance in the coming weeks. A registration program would require property owners to disclose vacancy status and maintain current records with the City. Establishing this administrative framework would support implementation and enforcement of a future VPT should voters approve such a measure.

If the City Council wished to pursue a VPT measure, policy considerations would include:

- What types of properties would be subject to the tax
- How "vacancy" would be defined
- Whether exemptions should apply (such as active construction, probate, temporary vacancy during tenant turnover, or redevelopment activity)
- The annual tax amount by property type
- Whether the measure would be presented to voters as a general tax or special tax

Because the City of Orange does not currently impose a Vacant Property Tax, adoption would require voter approval.

Projected Annual Revenue:

Using Oakland's VPT structure as a reference model, the following annual tax levels could be considered:

Property Type	Tax Rate
Residential	$6,000 per parcel
Condominium, duplex, or townhome unit under separate ownership	$3,000 per vacant residential unit
Nonresidential	$6,000 per parcel
Parcel with ground floor commercial activity allowed but vacant	$3,000 per parcel

Undeveloped	$6,000 per parcel

Actual revenue potential in Orange would depend on the final policy structure and the total number of qualifying vacant properties. Staff is currently evaluating vacancy data citywide.

Assuming a comparable annual tax structure and identifying qualifying vacant parcels, a VPT could generate a meaningful ongoing General Fund revenue source while also advancing broader land use, economic development, and neighborhood revitalization goals.

Cannabis Gross Sales Tax

Description:

Currently, the City of Orange prohibits all commercial cannabis-related activities, including retail dispensaries, delivery services, manufacturing, testing laboratories, distribution, and cultivation. If the City Council wishes to consider cannabis as a potential revenue source, the first policy decision would be whether to permit some form of commercial cannabis activity within the City.

A Cannabis Gross Receipts Tax is a locally imposed tax on the total revenue generated by cannabis businesses operating within the city. Unlike traditional sales tax, this tax is based on gross business receipts rather than individual transactions and is paid by the business operator.

Importantly, the City Council could choose to regulate and permit cannabis businesses through local zoning and operational ordinances without immediately seeking voter approval of a separate cannabis tax measure. In that scenario, the City would still receive the standard 1% Bradley-Burns local sales tax generated from taxable retail cannabis sales, just as it does from other retail transactions. A separate voter-approved gross receipts tax would be required only if the City wished to impose an additional local cannabis-specific tax beyond the standard sales tax.

If the City Council chose to pursue this option, several policy decisions would need to be made, including:

- Whether to allow retail cannabis businesses (dispensaries and delivery services)
- Whether to allow non-retail cannabis businesses (manufacturing, testing labs, distribution, and related operations)
- The number of permitted licenses
- Appropriate zoning and allowable operating areas
- Operational regulations, security requirements, and community impact standards
- Whether to pursue only standard sales tax revenue or also seek voter approval for an additional cannabis gross receipts tax
- The proposed gross receipts tax rate, if pursued

As a point of comparison, Costa Mesa provides a useful local model.

In 2018, Costa Mesa voters approved non-retail cannabis business activity, including testing laboratories and manufacturing facilities, while also authorizing a gross receipts tax initially set at 6%

(later reduced to 1%). These operations were limited to specific industrial zones and subject to conditional use approvals.

In 2020, Costa Mesa voters approved Measure Q, which authorized retail cannabis businesses including storefront dispensaries and delivery services in designated commercial and industrial areas. Measure Q also authorized a 4% to 7% gross receipts tax on retail cannabis operations, in addition to the existing 1% Bradley-Burns local sales tax the City already receives. The Costa Mesa City Council later adopted the full 7% gross receipts tax rate.

As of Fiscal Year 2025-2026, Costa Mesa reports more than 20 storefront and non-storefront cannabis businesses operating citywide.

Because Orange currently prohibits all commercial cannabis activity, implementation would first require local regulatory changes. Voter approval would only be required if the City sought to impose an additional cannabis-specific gross receipts tax beyond the standard local sales tax.

Projected Annual Revenue:

By allowing both non-retail and retail cannabis businesses and authorizing more than 20 licensed operators, Costa Mesa's Annual Comprehensive Financial Report for Fiscal Year 2024-2025 reports cannabis tax revenues of slightly more than $4 million annually.

Actual revenue potential in Orange would depend heavily on the number of authorized businesses, permitted business types, tax rates adopted by voters, and market demand. Revenue estimates would likely be significantly lower if the City limited the number of licenses or allowed only non-retail operations.

Even without a voter-approved cannabis gross receipts tax, the City would still realize ongoing General Fund revenue through the standard Bradley-Burns local sales tax generated by retail cannabis transactions.

Parking Operator Tax

Description:

A Parking Operator Tax is a locally imposed tax collected as a percentage of the fee paid by an individual to park in a parking facility. The tax is typically added to the customer's parking charge and collected by the parking operator, who then remits the revenue to the City.

For example, if the parking fee is $10.00 and the parking operator tax rate is 10%, the tax owed would be $1.00, resulting in a total parking charge of $11.00.

Depending on how the measure is structured, the City could apply the tax to private parking facilities, City-owned parking facilities, or both. Policy decisions would include determining which operators are subject to the tax, whether exemptions apply, and whether the tax should focus on larger commercial operators rather than smaller private lots.

Potential policy considerations include:

- Whether the tax applies to private operators only or also City-owned facilities
- Minimum parking facility size thresholds (for example, operators with 200 or more spaces)

- Whether hospitals, universities, or nonprofit operators would be exempt
- The proposed tax rate
- Whether the measure would be presented as a general tax or special tax

As a point of comparison, Santa Monica applies a locally adopted parking facilities tax on both private and City-owned parking operations that charge for parking. It is the responsibility of the parking operator to collect the tax and remit the revenue to the City.

In Orange, a Parking Operator Tax could potentially apply to major institutional operators such as hospitals and universities, as well as private surface parking lots used for large special events, including professional sporting events near Angel Stadium and Honda Center. This could include privately operated event parking lots that generate revenue during games, concerts, and other regional events.

However, enforcement and administration present practical challenges, particularly for privately operated surface lots that primarily operate on a cash basis. In many cases, revenue reporting would rely heavily on operator self-reporting and remittance compliance. Without strong audit authority and enforcement mechanisms, accurately verifying collections may be difficult, and underreporting could significantly reduce actual revenue realized by the City.

Because of these administrative concerns, institutional operators such as hospitals, universities, and professionally managed facilities may provide a more reliable and enforceable revenue base than temporary or cash-based event parking lots.

Because the City of Orange does not currently impose a Parking Operator Tax, adoption would require voter approval.

Projected Annual Revenue

Potential revenue would vary significantly depending on how the measure is structured, including which parking operators are included, the final tax rate, exemption categories, and actual parking utilization.

As an example, if the City focused on larger non-government parking operators with 200 or more parking spaces, three major facilities would likely be subject to the tax:

- Chapman University
- St. Joseph Hospital
- Children’s Hospital of Orange County (CHOC)

Collectively, these facilities contain more than 6,000 parking spaces. Parking rates vary based on duration and operator policies.

Assuming a median parking rate, full-year operations, and a 14% tax rate, the estimated annual revenue could be approximately $2.5 million.

As a point of comparison, Santa Monica’s Annual Comprehensive Financial Report for Fiscal Year 2024-2025 reports approximately $14.1 million in annual parking facilities tax revenue.

Revenue estimates are conceptual only and highly dependent on final tax structure, exemptions, parking utilization rates, operator compliance, and legal considerations involving institutional and nonprofit operators.

Sale of the Water and/or Sewer Utility Systems

Description:

As a general law city, and subject to compliance with California Public Utilities Code Section 10061, the City may lease, sell, or transfer all or part of its publicly owned and operated water and sewer utility systems. This process requires evaluation of proposals, public hearings, formal City Council findings regarding equal or better service, and majority voter approval prior to any sale or transfer of utility operations located within City boundaries.

Staff is not recommending the sale of the City's utility systems at this time, but rather identifying the legal process and evaluating whether further study may be warranted as part of a broader long-term financial strategy.

The potential sale of the City's water and sewer utility systems would be a significant policy decision with substantial operational, financial, labor, and community implications. Considerations include long-term customer rate impacts, infrastructure investment obligations, customer service standards, regulatory compliance, local control over essential utility operations, labor impacts, and the appropriate use of any one-time sale proceeds.

Additionally, because utility operations are currently performed by City employees represented by recognized employee organizations, the City must comply with applicable labor laws, including Government Code Section 3504.1 (AB 339), which requires advance written notice to affected employee organizations prior to issuing a Request for Proposals (RFP) for services that fall within represented job classifications. This notice must generally be provided no less than 45 days in advance and may trigger meet-and-confer obligations regarding the impacts of any proposed outsourcing or transfer of operations.

Provided below is a general overview of how the process would proceed:

Optional Step 1 - Independent Valuation and Utility Assessment

Prior to issuing any Request for Proposals (RFP), the City may elect to obtain an independent third-party valuation and utility system assessment to better understand the potential market value of the water and sewer utility systems and whether a sale would be in the City's long-term public and fiscal interest.

This review could include:

- System asset valuation
- Infrastructure condition and deferred maintenance obligations
- Capital improvement needs
- Outstanding debt and liabilities
- Pension and labor-related obligations
- Customer rate impacts

- Operational risks and regulatory compliance considerations
- Comparison of alternative service delivery models, including continued City operation, contract operations, regional partnerships, or full divestiture

This approach would allow the City Council to make a more informed policy decision before initiating a formal sale process.

Alternatively, the City could proceed directly to a competitive Request for Proposals (RFP) process and allow the market to establish value through formal proposals and purchase offers from qualified acquiring entities.

Step 1 - Labor Notification

Prior to issuing any Request for Proposals (RFP), the City must provide written notice to any recognized employee organizations representing employees performing work within the scope of the utility operations being considered for transfer or outsourcing, consistent with Government Code Section 3504.1 (AB 339).

This notice must generally be provided at least 45 days in advance and include:

- The anticipated duration of the contract or transaction
- The scope of work
- The anticipated cost
- Draft solicitation documents or equivalent information
- The reason the City believes the contract or transaction is necessary

During this period, the City may be required to meet and confer in good faith regarding the impacts of the proposed action, including employee displacement, reassignment opportunities, retirement impacts, and transition planning.

Following completion of the required labor notification process, the City may issue a Request for Proposals (RFP) so potential buyers or operators may submit formal proposals and purchase offers.

Step 2 - Request for Proposals

The City issues a Request for Proposals (RFP) so qualified public agencies, investor-owned utilities, and other private operators may submit formal proposals and purchase offers for the acquisition of the water and/or sewer utility systems.

The City would specify the method for soliciting and filing proposals, along with the evaluation criteria used to determine which entity is best qualified to provide equal or better service to customers.

Step 3 - Evaluation of Proposals

After evaluating proposals and offers, the City selects a preferred acquiring entity and determines whether the proposal is responsive, financially viable, and in the best long-term interest of the City and its residents.

The City may reject all proposals and take no further action.

Step 4 - Public Hearing and City Council Determination

The City Council conducts a public hearing to examine the proposals received, staff recommendations, and whether the proposed acquiring entity is best qualified to continue providing equal or better service to utility customers.

The City Council must determine either that the utility is not necessary for supplying utility service within the City, or that customers will receive equal or better service from the acquiring entity on terms that are just, reasonable, and non-discriminatory.

If the Council makes these findings, it may adopt a resolution placing the question of selling the utility systems before voters at a special or general election.

Step 5 - Acquiring Entity Concurrence

The acquiring entity's governing body adopts a resolution concurring with the proposed sale and the terms and conditions of the transaction.

Step 6 - Customer Disclosure

At least 30 days prior to the election, the acquiring entity must publicly disclose:

- A summary of the proposed purchase price and transaction terms
- A comparison of utility rates before and after the proposed acquisition
- Estimated savings to be achieved or additional costs expected to result from the acquisition

This information is intended to ensure transparency and allow voters to understand the direct customer impacts of the proposed transfer.

Step 7 - Election

An election is held, and voters determine whether to approve the sale.

Approval requires a majority of voters voting on the issue.

Step 8 - Regulatory Approval and Final Transfer

If approved by the voters, the transaction would likely require additional regulatory approvals depending on the structure of the transfer and the type of acquiring entity.

If the acquiring entity is an investor-owned utility, the California Public Utilities Commission (CPUC) would generally need to approve the transfer pursuant to California Public Utilities Code Sections 851 through 855, particularly where utility assets, service territory, or operational control are being transferred.

If the acquiring entity is a publicly owned utility or another public agency, the Local Agency Formation Commission (LAFCO) may need to approve changes involving service boundaries, service responsibility, annexation, or municipal service transfers, depending on the transaction structure.

In addition, for water system operations, the acquiring entity would also be required to obtain the necessary health and operational permits from the appropriate state or county regulatory agencies to ensure compliance with drinking water and public health requirements.

This is often a lengthy, multi-year process. For example, voters in Bellflower approved the transfer of the city's water utility in 2016, and the CPUC finalized the transfer in late 2022.

A sale of this nature would generate one-time revenue rather than an ongoing General Fund revenue source. As a result, proceeds could potentially be used for major unfunded liabilities, infrastructure investment, pension stabilization, debt reduction, capital improvements, or other significant one-time financial obligations, but would not independently resolve recurring structural General Fund operating deficits.

Additionally, because the City currently operates both systems, any evaluation would need to consider whether to market the water and sewer utilities together or separately, and how each structure would impact value, operations, and long-term service delivery.

Once sold, local control of utility operations is significantly reduced, and the decision is effectively permanent. Future City Councils would have limited ability to reverse the transaction, particularly where ownership of infrastructure, rate-setting authority, and operational control have been transferred to another entity.

Potential One-Time Revenue

Potential revenue is uncertain at this time and would depend entirely on market interest, system valuation, infrastructure condition, outstanding liabilities, regulatory requirements, and the final terms of any negotiated transaction.

If the City Council wished to better understand the potential market value of the City's water and sewer utility systems, staff would recommend first evaluating whether the City wishes to pursue either an independent valuation, a competitive RFP process, or both.

Importantly, issuing an RFP would not obligate the City to sell either utility system. It would provide market-based information regarding potential value and buyer interest, allowing the City Council to understand what the market may be willing to pay and whether further evaluation is warranted. The City would retain full discretion to reject all proposals and take no further action.

Because utility systems are highly specialized assets, a competitive RFP process often provides a more practical and reliable valuation than a traditional appraisal alone, particularly when considering long-term operational responsibilities, infrastructure investment obligations, and regulatory compliance requirements.

As a point of comparison, the City of Bellflower transferred its water utility system for approximately $17 million. Given the significantly larger scale of Orange's combined utility operations, it is reasonable to expect that proposals could be materially higher; however, only a formal valuation study and competitive RFP process would determine actual market value.

Because this would be a major public policy decision involving the transfer of core municipal services, extensive public outreach, financial analysis, legal review, operational due diligence, and labor negotiations would be necessary before any recommendation to proceed.

Documentary Transfer Tax (Real Property Transfer Tax)

Description

A Documentary Transfer Tax (DTT), also referred to as a Real Property Transfer Tax, is a tax imposed on the transfer of real property when a deed, lease, or other instrument transferring ownership is recorded.

Under California law, counties and most general law cities impose the standard documentary transfer tax rate of $0.55 per $500 of value, or $1.10 per $1,000 of sale price.

The City of Orange currently applies this standard rate.

Some charter cities impose higher local transfer tax rates through their municipal charter authority. For example, the City of Santa Monica imposes a DTT rate of $3.00 per $1,000 of sale price for transactions of $5 million or less, and $6.00 per $1,000 for transactions exceeding $5 million.

Because Orange is currently a general law city, the City's authority to impose a higher local DTT above the standard statutory rate would require additional legal analysis. In many cases, cities pursuing higher transfer tax rates rely on charter city authority to do so.

Accordingly, implementation of an increased DTT may require either charter city status or other specific legal authority beyond what is currently available to the City.

Projected Annual Revenue:

Assuming the City had legal authority to increase the DTT rate to $3.00 per $1,000 of sale price, and based on recent real property sales activity in Orange, the measure could generate a meaningful ongoing General Fund revenue source.

Because actual revenues fluctuate significantly based on market conditions and transaction volume, a more precise estimate would require review by the City's property tax consultant and City Attorney analysis regarding legal feasibility.

Business License Tax Modernization

Description:

A Business License Tax Modernization strategy would involve reviewing and updating the City's existing business license structure to better reflect current economic activity, ensure equitable cost recovery, and identify opportunities for additional General Fund revenue.

Many cities maintain outdated business license structures that rely on flat annual fees or classifications that no longer align with modern business operations. Updating the City's business license program may provide an opportunity to improve revenue generation without creating an entirely new tax structure.

Many of the City's current business license tax rates have not been comprehensively updated since 1985. As a result, portions of the existing fee structure may no longer accurately reflect current business activity, inflationary impacts, service delivery costs, or the relative scale of modern commercial operations. This creates an opportunity for the City Council to evaluate whether the current structure remains equitable, competitive, and financially sustainable.

Potential modernization strategies could include transitioning from flat annual license fees to a gross receipts-based model, adjusting rates for larger commercial operators, establishing updated classifications for emerging industries, or creating specialized license categories for activities such as cannabis businesses, short-term rentals, entertainment venues, or other high-impact commercial uses.

Unlike broader tax measures such as sales tax or utility user tax, business license modernization is often viewed as a more targeted revenue strategy because it focuses on commercial activity rather than directly increasing taxes on residents.

If the City Council wished to pursue this option, policy considerations would include:

- Whether the current business license structure should remain based on flat fees, employee counts, gross receipts, or other classifications
- Whether rates should be modernized for larger commercial operators or high-revenue business sectors
- Whether new classifications should be created for emerging business activities
- Whether cost recovery for regulatory, enforcement, and inspection services should be improved
- Whether voter approval would be required depending on the scope and structure of the proposed changes

In some cases, administrative fee adjustments may be accomplished by ordinance, while broader tax increases or restructuring of the business license tax may require voter approval depending on legal and constitutional requirements.

Importantly, if the City Council wishes to impose new business taxes or materially increase existing business license tax rates beyond administrative cost recovery adjustments, voter approval may be required under California law. While certain administrative fee updates may be adopted by ordinance, broader tax increases or the creation of new business tax structures would generally require placement on the ballot for voter consideration.

Because business license modernization can range from administrative fee adjustments to voter-approved tax restructuring, legal review would be necessary to determine the most appropriate implementation path.

Projected Annual Revenue:

Potential revenue would depend entirely on the current structure of the City's business license program and the scope of any proposed modernization.

For example, modest administrative updates and fee adjustments may generate limited additional revenue, while broader restructuring to a gross receipts-based model could create a more significant and ongoing General Fund revenue source.

Staff would recommend first conducting a comprehensive review of the City's existing business license program, benchmarking Orange against comparable cities, and identifying opportunities where modernization could improve both fairness and long-term fiscal sustainability.

Because this strategy may be implemented incrementally and may not always require voter approval, it can serve as both a short-term administrative revenue enhancement and a longer-term policy discussion for broader tax reform.

Recommended Next Steps:

Unlike sales tax or transient occupancy tax measures, Business License Tax Modernization requires significant preparatory analysis before a ballot measure or ordinance can be considered. Because the City's current business license structure has not been comprehensively updated since 1985, staff recommends a phased approach focused first on technical review and policy development.

The first step would be to retain a third-party municipal revenue consultant, such as HdL Companies, to conduct a comprehensive review of the City's existing business license program. This review would include benchmarking Orange against comparable cities, evaluating the competitiveness and fairness of current rates, identifying outdated classifications, and analyzing whether alternative structures such as gross receipts-based models would provide improved long-term revenue stability.

Following consultant review, staff would work with the City Council to develop a proposed modernization structure, including recommended classifications, updated fee schedules, exemption policies, and whether the City should pursue administrative adjustments, voter-approved tax restructuring, or both.

If the proposed changes involve new taxes or material increases to existing business license tax rates beyond administrative cost recovery, the measure would likely require voter approval and placement on a future municipal ballot.

Given the time required for consultant analysis, legal review, stakeholder outreach, public education, and ballot preparation, staff does not believe there is sufficient time to responsibly complete this process for the November 2026 General Municipal Election.

Instead, staff would recommend treating Business License Tax Modernization as a longer-term revenue strategy with the goal of preparing a potential measure for the November 2028 General Municipal Election.

This approach allows adequate time for technical analysis, business community engagement, legal review, and thoughtful policy development while ensuring the City advances a well-supported and defensible modernization strategy rather than a rushed ballot measure.

Conclusion

Staff requests City Council direction regarding which revenue tax measures warrant additional analysis and whether staff should proceed with preparation of ballot resolutions for consideration prior to the July 14, 2026 deadline for placement on the November 3, 2026 General Municipal Election ballot.

For measures that require voter approval such as sales tax, transient occupancy tax, utility user tax, vacant property tax, parking operator tax, and certain cannabis or business tax structures timely direction is necessary to allow for legal review, polling, public outreach, and ballot preparation.

For other policy items such as regulating cannabis businesses without an additional gross receipts tax, evaluating the potential sale of the City's water and sewer utility systems, documentary transfer tax authority, and long-term business license modernization Council direction would guide future policy development, legal analysis, and strategic planning rather than immediate ballot preparation.

Additionally, Council may wish to provide direction regarding whether to prioritize a single revenue measure or pursue multiple measures, whether any proposed taxes should be structured as general taxes or special taxes, and which longer-term revenue strategies should continue to be evaluated beyond the November 2026 election cycle.

Staff recommends prioritizing a limited number of the most viable measures for further analysis rather than advancing numerous competing ballot measures simultaneously.

7. ATTACHMENTS

- None