City Council Budget Work Session

February 28, 2026

Updated 2/27/26 at 4:30 pm

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Welcome and Public Comment

Work Session Agenda

9:10-9:35 Setting the Stage

9:35-10:00 Five-Year Baseline Financial Forecast

10:00-10:30 Business License Tax Modernization

10-minute Break

10:40-11:10 Other Revenue Options

11:10-11:50 Cost Saving & Efficiency Measures

11:50-12:20 Recommended Approach to FY 2027 Budget and Beyond

30-minute Lunch

12:50-2:00 Council Discussion and Feedback

2:00-2:30 Accountability and Next Steps

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Setting the Stage (25 mins)

What Caused Hayward's Fiscal Challenges?

- Increased staffing and programs dependent on one-time ARPA and grant funding
- Entered into labor contracts misaligned with market and fiscal realities
- Faced slowing and declining real estate and market related revenues which failed to match overly optimistic budgeted revenues
- Did NOT adhere to financial best practices: maintaining realistic financial projections; budgeting accurately for overtime, contract increases, and leave payouts; using salary savings as a "crutch," and purchasing a risky real estate asset budgeted as a non-liquid reserve
- Experienced leadership transitions and dilution of authority and responsibility

RESULT: Exceeded FY24-25 General Fund budget by $30 million (15% of revenues) and depleted all General Fund cash reserves

Impact to Core Services

- Over the past two years, the City has eliminated general-fund supported special initiatives
- Over the past six months, the City has begun to reduce core services to address fiscal challenges
- During the budget work session in May, departments will present on service models and impacts in more detail

Examples of Impacted Services To Date

- Reduced library hours and programs
- Elimination of community grants
- Reduction of two fire companies
- Longer response time for illegal dumping removal
- Longer response time for permit review and inspections

Strategic Roadmap Priorities

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Highly Ranked FY26 Strategic Projects

Champion Climate Resilience
Implement bike distribution program with the goal of increasing bike access and usage
Create a citywide tree inventory and database
Enhance Community Safety
Update and train on the City's Community Resilience Plan, with the goal of being a model of resiliency
Using the organizational assessment of the Police Department, analyze police beats to optimize service levels
Grow the Economy
Activate Cinema Place and continue the property management strategy
Bring zoning amendments to remove barriers for businesses, allow popups, and allow appropriate commercial uses in residential districts
Invest in Infrastructure
Begin construction of La Vista Park
Evaluate safety enhancements for the Downtown Loop
Continue implementation of "A Bench for Every Stop" project
Preserve, Protect & Produce Housing for All
Engage with Alameda County stakeholder to secure Measure W dollars to support the response to homelessness in Hayward
Support development of and ensure safe community integration of St. Regis Behavioral Health Campus
Strengthen Organizational Health
Bring a revised budget in the fall and mid-year budget review, with strategies to advance fiscal solvency
Implement the interdepartmental assessment of Access Hayward to enhance effectiveness and increase transparency

Resident Satisfaction Survey

- **Who:** Random sample of 1,320 residents 18+ between March 29 and April 9, 2025, interviewed in English and Spanish by phone and online.
- **Trend:** Overall satisfaction with quality of life was at highest point in more than a decade.
- **Greatest concerns: (1)** Cost of housing, **(2)** Homelessness, **(3)** Crime, **(4)** Traffic congestion on local streets, **(5)** Potholes and street maintenance, and **(6)** Litter and graffiti.
- **Service priorities: (1)** Fast emergency response, **(2)** Safe neighborhoods, **(3)** Safe and well-maintained streets and sidewalks, **(4)** Healthy local businesses that stay in Hayward **(5)** A clean and well-maintained city, and **(6)** Adequate preparation for disasters such as wildfires and earthquakes.

Key Budget Lessons Learned

01. *Adhere to Financial Best Practices*

- Accurate baseline financial projections grounded in market and financial realities
- Appropriate use of one-time and ongoing funds
- Appropriate budgeting of over-time, salary savings, and realistic revenue estimates
- Appropriate accounting of restricted funds and reserves (i.e., cinema place)
- Strengthen internal monitoring and controls

02. *Improve Transparency and Accountability*

- Regularly share and analyze updated projections and actuals internally and externally
- Establish and adhere to financial policies grounded in financial best practices
- Hold each other and our colleagues accountable at all levels of the organization
- Create a culture of collaboration, transparency and “see something, say something”

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Key Budget Lessons Learned *(cont.)*

03. *Practice Strong Leadership at All Levels*

- Raise and vocalize issues and concerns with Council, staff, labor partners and community
- Attract, retain and train qualified staff
- Be prepared to make difficult or unpopular recommendations grounded in financial realities

04. *Financially Constrain Labor Negotiations and Contracts*

- Educate Council, negotiators and labor partners on current and future market and financial realities
- Institute an iterative process with Council and Finance Department regarding cost of proposals from the beginning to end of negotiations
- Establish consistent salary survey and equity adjustment methodologies grounded in market realities and Hayward ‘s financial situation that are equitable among bargaining groups
- Consider risk sharing measures

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How Did We Close the Gap this Year?

- **Workforce Reductions** – overall reduction of approx. 15%
  - Strong vacancy management
  - Voluntary separation program
  - Layoffs and other terminations

Ongoing

- **Use of Fund Balances** – used balances established for capital and rainy day
  - OPEB Trust
  - Measure C

One-Time

- **Concession Bargaining** – Successful concessions with public safety, Council, and unrepresented groups
  - Temporary reductions in HFD minimum staffing; shift changes for HPD; and furloughs and pay reductions for Council and unrepresented groups

One-Time & Ongoing

How Did We Close the Gap this Year? (cont.)

- **Other Cost Saving Measures** – employed numerous other cost saving measures
  - Limiting non-essential travel
  - Unspent fund balances from CIP funds
  - Review and cancellation of non-essential contracts
  - Reductions of service and supply budgets
  - Business license tax audit
  - Discontinued event spending and actively partnering with HARD

One-Time
&
Ongoing

Questions and Comments

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Five-Year Baseline Financial Forecast (25 mins)

Revenue Assumptions – Baseline Budget Forecast

- All existing revenues, no new or additional revenue that have not yet been approved or realized (e.g., business license tax increase or additional cannabis tax from unopened cannabis dispensary)
- Property, sales, and utility user tax projections based on most recent consultant reports
- Other revenues are escalated conservatively at 1% to 3% annually based on historic trends
- No one-time funds used to estimate the baseline fiscal year budget, such as Measure C transfer and OPEB Trust transfer

Expense Assumptions – COLAS

- Cost-of-living adjustments (COLAs) in existing contracts at their maximum
- Assumes 2% annual COLAs for all subsequent years (except 4% for 1909 in 2028)

COLAs	7/1/2026	1/1/2027	7/1/2027	1/1/2028	7/1/2028	1/1/2029	7/1/2029
SEIU Clerical	3.0%		2.0%		2.0%		2.0%
SEIU Maintenance	3.0%		2.0%		2.0%		2.0%
Local 21	3.0%		2.0%		2.0%		2.0%
HAME	3.0%		2.0%		2.0%		2.0%
IAFF Local 1909	1.5%	4.0%*		4.0%		2.0%	
HPOA		7.0%		7.0%		2.0%	
HPMU	0.0%		7.0%		7.0%		2.0%
Unrep Exmpt/Non-Exmpt	3.0%		2.0%		2.0%		2.0%
Unrep Executive	4.0%		2.0%		2.0%		2.0%

*2.32% contractual increase, assuming an additional 1.68% COLA from survey

Expense Assumptions – Baseline Budget Forecast

- Fire and police overtime reductions based on recently approved Local 1909 and HPOA side letters through this calendar year or six months of the upcoming FY
- All current vacancy savings related to current vacancy management, voluntary separation program and layoffs
- Added previously unbudgeted expenses related to annual leave payouts and special pays
- CalPERS retirement costs increased by $6.5 million for next fiscal and assumed 3% increase for subsequent years
- Worker's compensation funded at 80% confidence level consistent with Council adopted guidance
- Maintenance & Utilities increased by 2% year over year
- Supplies & Services increased by 2.5% year over year
- Capital Projects increased 3% year over year

Base Financial Forecast

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Property Tax	$77,458,791	$79,474,678	$82,198,193	$85,031,671	$87,979,643
Sales Tax	$47,559,300	$46,474,500	$46,621,319	$47,715,154	$48,718,210
Utility Users Tax	$25,000,000	$27,654,080	$28,466,428	$29,666,401	$30,947,188
Other Revenue	$59,996,909	$59,803,400	$60,401,928	$61,011,224	$61,631,505
Transfers In	$23,237,000	$4,490,959	$4,564,778	$4,640,073	$4,716,875
Revenue Total	**$233,252,024**	**$ 217,897,617**	**$222,252,646**	**$228,064,523**	**$233,790,273**
Salaries & Benefits	$184,505,500	$197,349,821	$217,390,307	$223,662,767	$228,774,500
Other Expenses	$48,746,500	$53,136,048	$54,890,631	$56,705,577	$58,583,035
Expenses Total	**$233,252,000**	**$250,485,868**	**$263,956,988**	**$271,954,592**	**$278,856,982**
Surplus/(Shortfall)	**$0**	**($32,588,251)**	**($41,632,211)**	**($43,739,817)**	**($44,628,831)**

Why Does there Continue to Be a $30 Million Deficit?

Link to Year Over Year Spreadsheet

- Baseline revenue doesn’t use $18.8 million in one-time funds used last fiscal year
- $1.5 million in projected reductions in sales tax and property transfer tax revenues
- COLAs are an additional $3.65 million
- $6.5 million increase in CalPERS retirement costs
- $3.7 million increase in worker’s compensation funding
- $1.9 million increase in maintenance and utility costs
- New $4 million budgeted for leave payouts and special pays

Recommended Approach to Measure C Spending

Forecasted numbers below are an estimate, not a budget

Fiscal Year	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Starting Balance	21,017,752	18,234,095	14,523,543	10,891,220	7,297,583	3,694,743
Forecasted Revenues	19,848,697	19,469,262	19,852,984	20,205,429	20,518,489	21,028,881
Operating Expenses	8,431,804	8,684,758	8,945,301	9,213,660	9,490,070	9,774,772
Debt Service	4,450,550	4,495,056	4,540,006	4,585,406	4,631,260	4,677,573
Available for Future Capital Projects				3,000,000	7,000,000	10,000,000
Transfer to General Fund	9,750,000	10,000,000	10,000,000	7,000,000	3,000,000	
Total Expenses	22,632,354	23,179,814	23,485,307	23,799,066	24,121,330	24,452,345
Revenue Net Expenses	(2,783,657)	(3,710,552)	(3,632,323)	(3,593,637)	(3,602,841)	(3,423,464)
Ending Balance	**18,234,095**	**14,523,543**	**10,891,220**	**7,297,583**	**3,694,743**	**271,279**

Recommended Approach to Building Back the Reserve

- Until the reserve reaches 16% ($40 million), continue to hold the fund balance in Measure C to manage cash flow (roughly $18 million for FY27, or 7% of expenditures)
- All proceeds from property sales/leases go to the reserve
- If revenue comes in higher than budgeted or one-time revenue is received, it goes to the reserve

CITY REAL ESTATE STRATEGY – 2026-2027

Target Properties for Year 1

City Center

Cinema Place

C St & Main St

Action Steps

1. Independent appraisals
2. Evaluate hold, lease, restructure, or fee sale options
3. Initiate Surplus Land Act (SLA) process
4. Return to Council with negotiation parameters
5. Execute transaction consistent with Council direction

CITY REAL ESTATE STRATEGY – 2026-2027

Current Actions & Next Steps

Nov 2025 to Feb 2026

- Received City Council direction
- Proceed with appraisals
- Identify properties for Surplus Lands Act

March to April 2026

- Begin Surplus Lands Act with approved properties
- Develop marketing materials and marketing of priority sites

May to June 2026

- Share appraisal results and market interest to City Council
- Receive updated direction based on market interest and evaluation

July 2026 & Forward

- Return to City Council for ongoing direction and approval of price and terms

<u>Estimated Timeline for Property Sales</u>

No Surplus Land Act Interest: 8–12 Months
With Surplus Land Act Negotiation: 10–15 Months
Complex Entitlements/CEQA: 12–18+ Months

Questions and Comments

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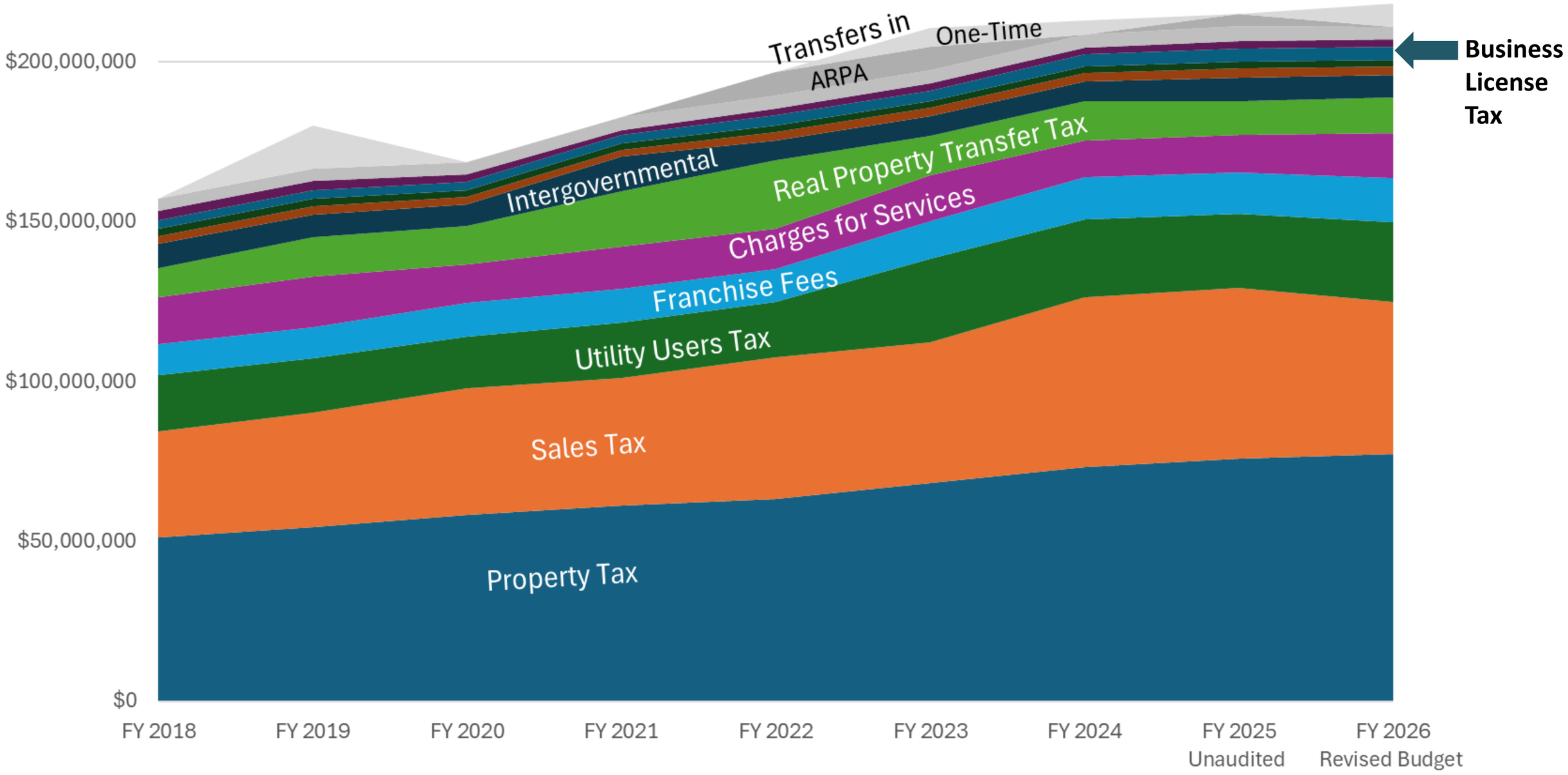
Business License Tax Modernization (30 mins)

General Fund Revenue Sources



Business License Tax Modernization

Business Tax Overview

Hayward's business license structure has remained largely unchanged for decades.

Current BLT revenue includes:

- Approximately $3.3M revenue in FY25
- Nearly 10,000 payers

Current BLT Tax calculations based on:

- Flat annual fees
- Employee counts
- Limited gross receipts categories
- Consistent rate categories across business sizes (not progressive)

Business License Tax Modernization

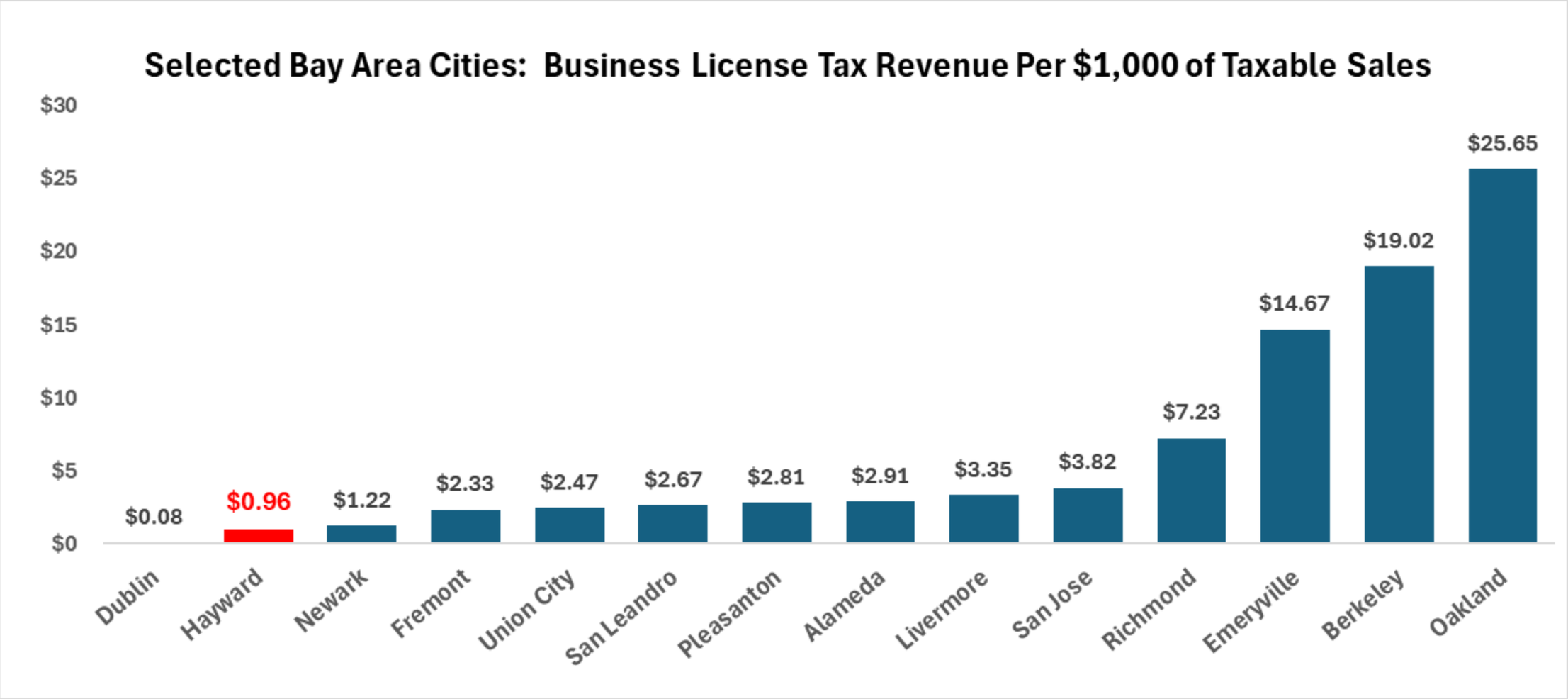
Business Tax Overview

Why Should Hayward Modernize Its Business License Tax Now?

- Opportunity for revenue alignment with neighboring jurisdictions
- Update outdated business categories (e.g., card writing stands, circuses & carnivals)
- Capture modern industries not reflected (e.g., data centers)
- Align with Council interest in exploring a progressive rate structure

Business License Tax Modernization

Comparison with Other Jurisdictions



Business License Tax Modernization

Business Tax Scenarios

- Developed a scenario (“Match Neighbors Scenario”) that increases tax rates, but keeps Hayward consistent with surrounding jurisdictions that compete with the City to attract and retain businesses:
    - Maintains a progressive structure in line with Council direction
    - Minimizes increases to small businesses and increases rates on larger businesses and data centers
    - Results in approximately 3.4 times more revenue or an additional $8.8 million of new General Fund revenue
- Also, prepared alternative scenario that raises 7x more revenue (“7X Revenue Scenario”) by significantly increasing rates across all categories, but has the potential of adversely impacting Hayward’s competitiveness

Business License Tax Modernization

Comparison of Neighboring Jurisdictions

Estimated Business Taxes by City:

	Large Retail	Small Retail	Restaurant	Professional Services Firm	Large Professional Services Firm	Small Contractor	Large Contractor	Manufacturer	Auto Dealer	Residential Rental (50 Units)	Grocery	Hotel/ Motel (84 rooms)
Employees	200	5	25	20	150	5	55	90	30	N/A	60	15
Gross Receipts	$400,000,000	$1,500,000	$1,900,000	$10,000,000	$70,000,000	$2,000,000	$18,000,000	$30,000,000	$20,000,000	$1,700,000	$10,000,000	$2,500,000
Estimated Business Tax by City:												
Hayward:												
Current Law	$107,999	$404	$512	$13,267	$93,067	$80	$167	$133	$2,243	$566	$1,143	$674
Match Neighbors	$197,000	$450	$570	$15,000	$105,000	$1,000	$13,875	$8,690	$7,500	$3,400	$3,500	$750
7x Revenue	$939,000	$1,500	$1,900	$16,250	$132,500	$4,000	$39,250	$18,698	$30,500	$5,100	$6,750	$2,500
San Leandro	$10,711	$435	$1,489	$2,811	$19,971	$699	$5,979	$4,914	$1,752	$961	$3,333	$962
Fremont	$100,030	$405	$505	$13,030	$91,030	$295	$1,895	$9,030	$5,030	$2,240	$2,530	$2,530
Pleasanton	$120,000	$450	$570	$3,000	$21,000	$600	$5,400	$9,000	$6,000	$510	$3,000	$750
Alameda	$160,000	$600	$760	$4,000	$28,000	$800	$7,200	$4,845	$8,000	$1,000	$4,000	$420
Emeryville	$400,000	$1,500	$1,900	$10,000	$70,000	$2,000	$18,000	$30,000	$20,000	$1,700	$10,000	NA *
Berkeley	$480,000	$1,800	$2,280	$36,000	$252,000	$3,600	$32,400	$14,536	$24,000	$48,960	$6,000	$27,025
Oakland	$969,050	$1,450	$1,890	$45,600	$343,100	$3,900	$48,350	$17,599	$34,875	$23,715	$8,825	$4,950
Richmond	$1,228,600	$2,000	$2,640	$43,500	$372,000	$4,500	$61,650	$34,300	$58,750	$48,960	$11,850	$6,000

** Emeryville rquires hotels to pay $1.00 per thousand dollars of gross receipts only for revenue not subject to its 12% transient occupancy tax. Industry sources indicate 95% of self-service hotel revenues are room revenues. (https://wolfgramm.com/education/understanding-the-economics-of-hotels/)*

Business License Tax Modernization: “Match Neighbors”

Match Neighbors vs. Current Law

			Match Neighbors		Tax Rates by Bracket			Tax Revenue (2026 $)		Avg Tax Rate (per $1,000)	
TAX CATEGORY	**Payers**	**Gross Receipts (2026 $)***	**Min tax**	**Alt Payroll Tax**	**$0 mil - $5 mil**	**$5 mil - $25 mil**	**$25 mil +**	**Current Law**	**Match Neighbors**	**Current Law**	**Match Neighbors**
Retail Sales	1,341	$2,917,255,148	$60	$0.70	$0.30	$0.40	$0.50	$694,021	$1,244,578	$0.24	$0.43
Grocers	58	$311,466,346	$60	$0.70	$0.30	$0.40	$0.50	$36,695	$119,991	$0.12	$0.39
Automobile Sales	103	$671,723,379	$60	$0.70	$0.30	$0.40	$0.50	$71,859	$297,804	$0.11	$0.44
Wholesale Trade/Warehouse	701	$4,646,990,288	$60	$0.70	$0.50	$0.60	$0.70	$549,313	$2,873,243	$0.12	$0.62
Manufacturing (Value Add)	365	*$1,474,924,344*	$60	$0.70	$0.60	$0.80	$1.00	$390,021	$1,270,765	$0.26	$0.86
Business/Personal Svcs	1,537	$920,476,690	$60	$0.70	$0.50	$1.00	$1.50	$169,286	$685,548	$0.18	$0.74
Professional Svcs	1,376	$1,419,045,992	$60	$0.70	$1.50	$1.50	$1.50	$1,027,473	$2,246,783	$0.72	$1.58
Contractors	2,107	$700,214,941	$60	$0.70	$0.50	$0.88	$1.25	$191,275	$396,625	$0.27	$0.57
Hotel/Motel	19	$28,944,004	$60	$0.70	$0.30	$0.40	$0.50	$8,282	$9,215	$0.29	$0.32
Utility Companies	8	$145,564,178	$60	$0.70	$0.50	$0.88	$1.25	$1,075	$161,871	$0.01	$1.11
Trucking/Transportation	320	$576,448,601	$60	$0.70	$0.30	$0.40	$0.50	$111,582	$234,878	$0.19	$0.41
Data Centers	6	$34,574,216	$60	$0.70	$2.50	$2.50	$2.50	$2,359	$86,491	$0.07	$2.50
Miscellaneous	44	$17,208,925	$60	$0.70	$2.50	$2.50	$2.50	$3,481	$45,296	$0.20	$2.63
Commercial Rental	1,107	$740,542,575	$60	$0.70	$2.00	$2.25	$2.50	$221,232	$1,534,887	$0.30	$2.07
Residential Rental (4+ Units)	515	$282,637,889	$60	$0.70	$2.00	$2.25	$2.50	$86,982	$586,496	$0.31	$2.08
Residential Rental (1-3 Units)	4,858	$154,719,415	$60	$0.70	$2.00	$2.25	$2.50	$0	$326,960	$0.00	$2.11
Total	**14,466**	**$15,042,736,931**	**Total Estimated Base Taxes (excluding penalties)**					**$3,564,937**	**$12,121,430**	**$0.24**	**$0.81**
			Estimated Penalties					$95,866	$325,963		
			Total Estimated Business Tax Revenue					**$3,660,804**	**$12,447,393**		

* Represents estimated gross receipts for payers not currently reporting gross receipts

Business License Tax Modernization: “7X Revenue”

7x Revenue vs Current Law

			7x Revenue		Tax Rates by Bracket			Tax Revenue (2026 $)		Avg Tax Rate (per $1,000)	
TAX CATEGORY	**Payers**	**Gross Receipts (2026 $)***	**Min tax**	**Alt Payroll Tax**	**$0 mil - $5 mil**	**$5 mil - $25 mil**	**$25 mil +**	**Current Law**	**7x Revenue**	**Current Law**	**7x Revenue**
Retail Sales	1,341	$2,917,255,148	$60	$1.50	$1.00	$1.70	$2.40	$694,021	$4,959,468	$0.24	$1.70
Grocers	58	$311,466,346	$60	$1.50	$0.50	$0.85	$1.20	$36,695	$243,267	$0.12	$0.78
Automobile Sales	103	$671,723,379	$60	$1.50	$1.00	$1.70	$2.40	$71,859	$1,316,026	$0.11	$1.96
Wholesale Trade/Warehouse	701	$4,646,990,288	$60	$1.50	$1.00	$1.25	$1.50	$549,313	$5,982,171	$0.12	$1.29
Manufacturing (Value Add)	365	*$1,474,924,344*	$60	$1.50	$1.25	$1.75	$2.25	$390,021	$2,771,701	$0.26	$1.88
Business/Personal Svcs	1,537	$920,476,690	$60	$1.50	$1.00	$1.50	$2.00	$169,286	$1,196,754	$0.18	$1.30
Professional Svcs	1,376	$1,419,045,992	$60	$1.50	$1.50	$1.75	$2.00	$1,027,473	$2,591,108	$0.72	$1.83
Contractors	2,107	$700,214,941	$60	$1.50	$2.00	$2.25	$2.50	$191,275	$1,425,318	$0.27	$2.04
Hotel/Motel	19	$28,944,004	$60	$1.50	$1.00	$1.50	$2.00	$8,282	$29,889	$0.29	$1.03
Utility Companies	8	$145,564,178	$60	$1.50	$1.50	$1.50	$1.50	$1,075	$223,008	$0.01	$1.53
Trucking/Transportation	320	$576,448,601	$60	$1.50	$0.75	$1.13	$1.50	$111,582	$609,482	$0.19	$1.06
Data Centers	6	$34,574,216	$60	$1.50	$2.50	$2.50	$2.50	$2,359	$86,560	$0.07	$2.50
Miscellaneous	44	$17,208,925	$60	$1.50	$2.50	$2.50	$2.50	$3,481	$46,919	$0.20	$2.73
Commercial Rental	1,107	$740,542,575	$60	$1.50	$3.00	$3.50	$4.00	$221,232	$2,382,453	$0.30	$3.22
Residential Rental (4+ Units)	515	$282,637,889	$60	$1.50	$3.00	$3.50	$4.00	$86,982	$930,551	$0.31	$3.29
Residential Rental (1-3 Units)	4,858	$154,719,415	$60	$1.50	$3.00	$3.50	$4.00	$0	$464,158	$0.00	$3.00
Total	**14,466**	**$15,042,736,931**	**Total Estimated Base Taxes (excluding penalties)**					**$3,564,937**	**$25,258,835**	**$0.24**	**$1.68**
			Estimated Penalties					$95,866	$679,247		
			Total Estimated Business Tax Revenue					**$3,660,804**	**$25,938,082**		

* Represents estimated gross receipts for payers not currently reporting gross receipts

Business License Tax Modernization

Staff Recommendation

- Move forward with the Match Neighbor Scenario to generate significant revenue at the same time not jeopardizing Hayward business economy and incorporate any feedback on specific tax rate category adjustments

Business License Tax Modernization

Polling

- **Method:** 400 to 600 likely voter interviews, phone/online, English & Spanish, +/- 4.9 to 4.0% accuracy with a 95% confidence level
- **Cost of Poll:** $40,750 to $46,250.
- **Ballot Question:** To maintain core municipal services including firefighting, 911 emergency medical response, neighborhood police protection and pothole repair, shall the measure to update Hayward's business license tax to create a progressive structure that imposes the highest rates on the highest-grossing businesses, generating approximately $XX million annually, with a $XX minimum tax and rates ranging from $.XX to $X.XX per $1,000 of gross receipts, as stated in the ordinance, be adopted?
- **Structure:** Would you vote yes or no on this measure? Before/after arguments

Business License Tax Modernization

Proposed Timeline

- **February 28:** Obtain feedback from Council on modernization approach and ballot language
- **Week of March 9**: Conduct poll of registered voters, depending on Council feedback
- **Month of March:** Hold additional business and labor partner outreach meetings
- **April 7:** Hold a Council Work Session on poll results, ballot language and tax rates
- **Late April/Early May**: Recommend Council action to place tax modernization measure on November 2026 ballot, depending on polling and Council direction

Business License Tax Modernization

Questions for Council Consideration:

Revenue

- Does the Council agree with the Staff Recommendation?
- Are there specific sectors that should pay higher or lower tax rates?

Residential Landlords

- Should landlords with only 1-3 units continue to be exempt?

Next Steps

- Provide feedback on polling language and direct staff to proceed with polling next week
- Provide direction on proposed tax rates and discuss next steps for finalizing potential measure

10 Min Break

We will return at 10:40 am

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Other Revenue Options (30 mins)

New/Updated Revenue Options: Likely

- **Updates to User Fee Schedule and Cost Recovery Fees [~$1 million]**: Cost recovery fees revised based on updated salaries and user fees based on market comparisons, which benefits multiple General Fund departments. **Ongoing**
- **New Data Centers [~$900,000-$2 million for FY26-27] :** Two new data centers are partially occupied or under construction which could benefit the City's General Fund over the next five years; an independent fiscal consultant vetted and conservatively estimated potential net fiscal impacts to the City. **Ongoing**
- **Use of Measure C, OPEB Trust, CDBG [$10 million, $4.5 million, $500,000]**: Eligible transfers from Measure C, OPEB Trust, and CDBG to temporarily transition the City to a structurally balanced financial position. **One-Time**

New/Updated Revenue Options: Uncertain/In Progress

- **Utility User Tax (UUT) from Streaming Companies [~$750,000 - $1.5 million]**: Ordinance changes adopted February 17th to strengthen City position to collect UUT on streaming companies starting next fall, although legal uncertainties remain so recommend starting in FY2028. **Ongoing**
- **Additional Cannabis Revenue [~$400,000]**: Estimating additional cannabis revenues based on new dispensary that is expected to open later this year; could be delayed due to litigation so recommend starting in FY2028. **Ongoing**
- **Updates to Internal Cost Allocations [~$500,000]**: Finance is reviewing all cost allocations to ensure they are accurately reflected and distributed across funds. **Ongoing**
- **Illegal Cannabis Grow Fines [Unpredictable]**: HPD and City Attorney's Office continue to try to collect illegal cannabis fines with significant uncertainty and ongoing staff burden with potential for unpredictable one-time funds. **One-Time**
- **Grants [Uncertain]:** Proactively pursuing grants to offset firefighter salaries and programs, the LINK program, and the Navigation Center currently covered by General Fund. **One-Time**

New/Updated Revenue Options: Emergency Medical Service (EMS) Responder Fee - Need Council Direction

- In 2013, first responder Advanced Life Support reimbursement was phased out, resulting in a loss of $476,543 annual revenue in 2013 dollars
- Seven Alameda County jurisdictions have passed nine EMS/public safety tax measures over the last 30 years and rely significantly on these revenues to fund public safety services
- Also, Alameda County Transport agencies bill a first responder fee (i.e., Alameda: $413; Albany: $300; Berkeley: $559) that generates ongoing revenue
- Few non-transport agencies like Hayward charge a first responder fee and with varied results (i.e., San Jose: $427; Vallejo: $590.96 Napa: $347)

Based on Vallejo comparables, Hayward potential is in the $50K to $350K with most likely minimal administrative impact

Ongoing

New/Updated Revenue Options: Short-Term Rental Ban Enforcement - Need Council Direction

- Purchase new software for $25,000 annually to enforce the City's ban on short-term rentals and obtain fine revenue and TOT revenue.
- Average of 272 unique rental units with 42% representing "rooms for rent."
- Enforcement of ban is likely to deter behavior and reduce revenues over time.
- May have the unintended consequence of impacting tenants given high percentage of "rooms for rent."
- Administrative burden is uncertain, but likely to be limited
- Potential for a one-year pilot and/or targeted focus on just single-family homes

$452,000 in estimated potential fine and TOT revenue initially, assuming $1,000 fine amount and 60% likely collection rate with uncertain ongoing annual revenue amount

One-Time
&
Ongoing

New/Updated Revenue Options:
Not Recommended at this Time

- **Mello-Roos Community Facilities District (CFD)**: Land-secured financing mechanism to fund infrastructure and/or municipal services that requires a 2/3 vote of property owners; future potential for large-scale public land sales.

One-Time & Ongoing

- **Enhanced Infrastructure Financing District:** Use of City's share of property tax increment to finance bonds to pay for infrastructure for new development, which results in foregoing City's future annual General Fund property tax revenue. Cannot be used to pay for General fund expenses.

One-Time

Additional Revenue Generation:
Economic Development Efforts

- Adopt Business-Friendly ordinance in April
- Identify Economic Development concierge program projects and work across departments to fast-track approvals, accelerate business openings
- Create unified, city-wide permit expediting options for priority business types including same day reviews, inspections and other services with commensurate fee structure
- Provide enhanced customer-service to industrial property-owners and real estate brokers to facilitate property sales, generate transfer tax revenue

Questions and Comments

Specifically looking for direction on:

- EMS Responder Fee
- Short Term Rental Ban Enforcement

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Cost Saving & Efficiency Measures (40 mins)

Cost Saving Measures: Likely

- **Navigation Center Cost Reductions [$1.6 Million]**: Reductions in program costs due to economies of scale with Regis Village project and ongoing County and grant funding without impacts to outcomes. Ongoing

- **Fire Department Non-Sworn Cost Recovery [Uncertain]:** Evaluating the cost of non-sworn, development related staff in the Fire Department and ensuring their cost is covered through fee revenues as much as legally possible. Ongoing

- **Police Department Savings [~$1.7 Million]**: Reductions associated with pausing hiring and/or downsizing or eliminating jail operations - the severity of service impacts will depend on the extent of the cuts. Ongoing

Cost Saving Measures: Likely

- **Maintain Worker's Compensation Annual Transfer at FY 2025/26 Funding Levels [$3.7 million]**: Maintain the FY 2025-26 annual funding level of the Worker's Compensation Fund at $6.1 million (which is below the "best actuarial" estimate level) instead of $9.75 million at an 80% confidence level, documented in a previous Council resolution. There is sufficient cash (over $20 million) in the fund which is retained to offset actuarially determined liabilities exceeding $25 million. In the event that claims exceed anticipated liabilities, there is a risk that the City will need to seek additional funds to pay claims.

One-Time

- **Reduce CIP Transfers [~850,000]**: Postpone certain CIP projects that are non-essential and not required for next fiscal year.

One-Time

Cost Saving Measures: Uncertain/In Progress

Labor Partnership *

- **Continue Reduction in Minimum Staffing in Fire Department [Additional $2 Million; Total of $4 Million]**. Extend reduction of minimum staffing in Fire Department in order to continue to realize overtime savings subject to negotiation of amendment to side letter with Local 1909. **One-Time**

- **Continue Shift Schedule Change in Police Department [Additional $1 Million; Total of $2 Million]**. Extend reduction of shift schedule change in Police Department in order to realize overtime savings subject to negotiation of amendment to side letter with HPOA. **Ongoing**

- **Concession Bargaining with Labor Partners [~$3.5 Million]**: Potential concessions through labor negotiations while in closed contracts, such as foregoing or deferring COLAs, furloughs, and other options, some of which could have significant impacts to services. **One-Time & Ongoing**

* All these items require negotiated agreement with labor partner(s)

Cost Saving Measures: Uncertain/In Progress

- **Additional 1-2% Reduction in Departmental Costs [~$2.5-$5 Million]:** Cuts to General Fund departments that will result in additional layoffs and significant service impacts to City services above and beyond cuts made for this fiscal year, dependent on result of concession bargaining.

One-Time
&
Ongoing

Cost Saving Measures: Not Recommended at this Time

Navigation Center Elimination: Complete elimination of the Center, resulting in 25-30 additional unhoused on City streets every day with limited savings **[Additional $650,000; total of $2.1 Million]**

Ongoing

- The HNC is working well – 83% of all exits in CY 2025 were to positive housing destinations
- Each year, 80-90 unsheltered individuals will have to look somewhere else for housing Increased unsheltered homelessness will directly impact City services across MSD, Code, HPD, HFD, Library, CMO, and ED, both in workload and costs
- Housing people experiencing homelessness reduces public system costs by $10,000-$30,000 per person per year
- By these estimates, closing the HNC would increase system-wide costs by between $833,000 and $2.5M per year

Cost Saving Measures: Not Recommended at this Time

HEART/LINK Program Elimination [$700,000]: Compete elimination of HEART/LINK Program would significantly impact HPD and services to vulnerable populations with mental health challenges

Ongoing

Studies have shown using civilian staff to respond in the community and address unmet social service needs is **40% to 45% less expensive** than using police officers for the same calls for service.

$1.2 million **for four HPD police officer vacancies**

compared to

$740,000 **for four civilian positions on LINK**

52%

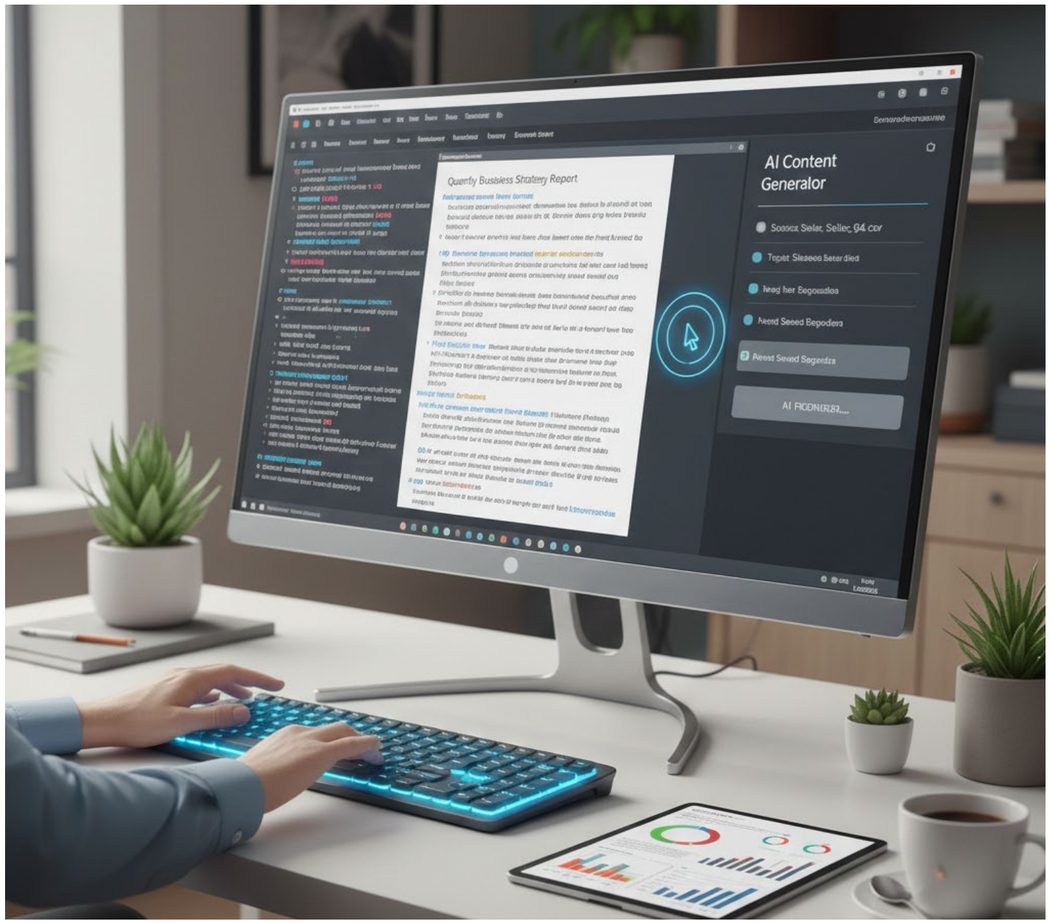
of LINK's referrals come from HPD

The HEART Program reduces reliance on patrol officers for calls involving mental illness, substance use disorders, and homelessness. It also reduces the burden on officers, allowing them to respond to other 911 calls.

Efficiencies through Technology

Document Review & Creation

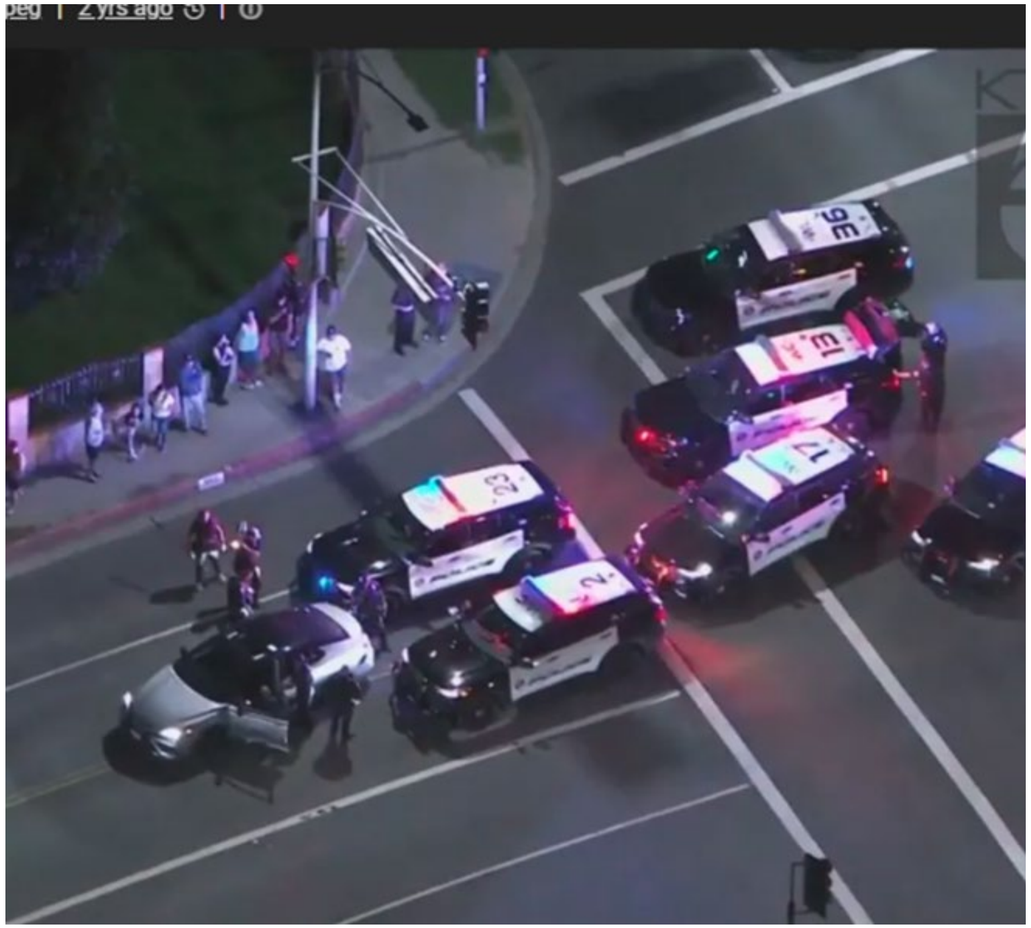
- Plan review pre-checks
- Staff report generation
- Automated note taking & meeting minute creation



Efficiencies through Technology

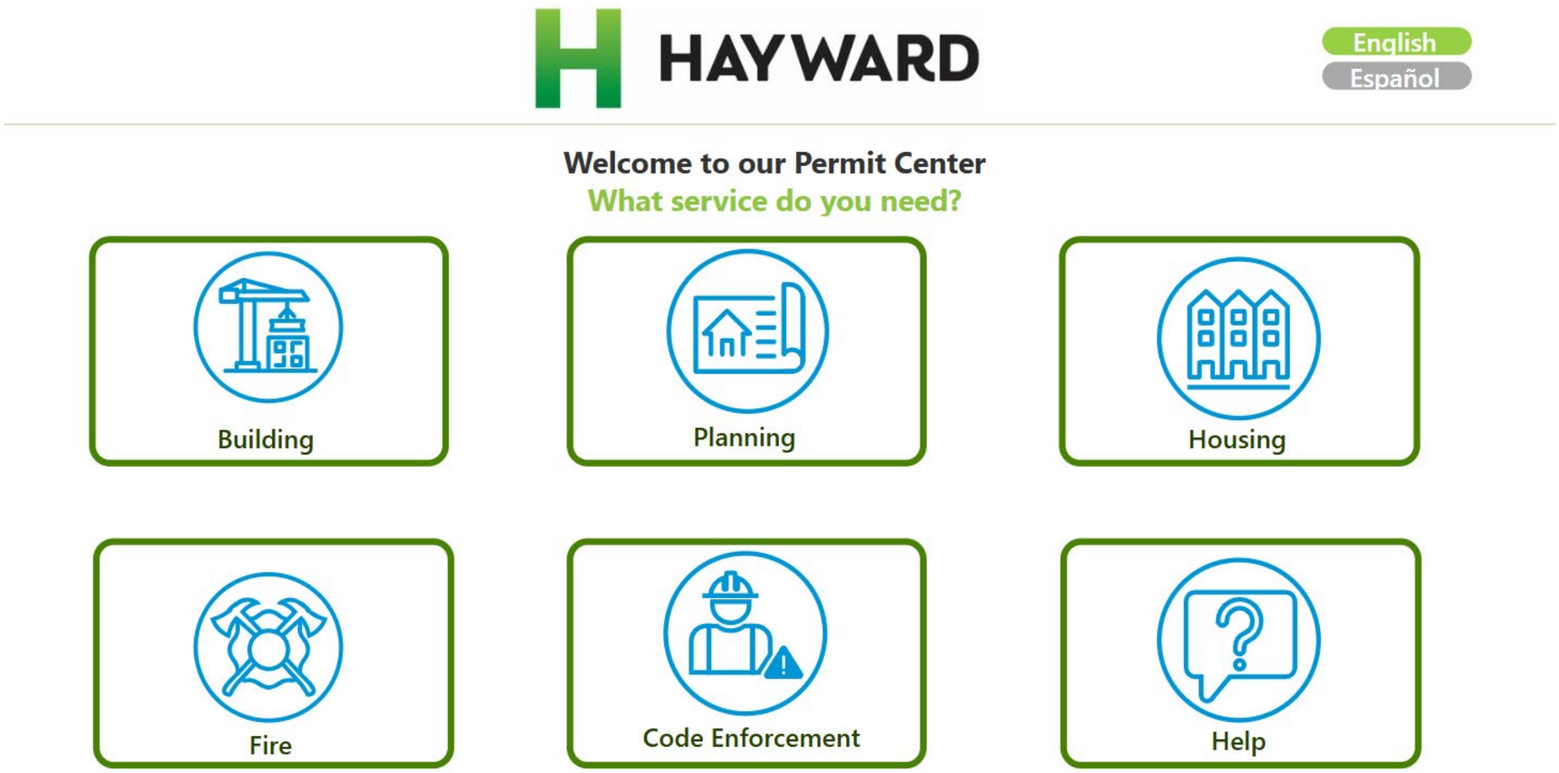
Drone as First Responder (DFR)

- Improves efficiency and officer safety
- Delivers rapid aerial response, real-time intelligence, and the ability to potentially clear thousands of calls without dispatching officers
- Supports multiple departments during critical incidents and natural disasters



Efficiencies through Technology

Permit Center Virtual Queue



Low Code Software

Cost Savings

Customer Service Focus

Efficiencies through Technology

Innovation Assistance

In-house Solution Experts Internal Use Cases Launching March 2026

Other Efficiency Measures

- Cost Neutral Departmental Restructuring as Part of Upcoming FY 2026-27

- Reduce Council meetings to two per month consistent with most cities in Alameda County – **Seeking Council Direction**

- Reduce number and/or frequency of certain Council committees – **Seeking Council Direction**
  - Council Sustainability Committee
  - Council Economic Development Committee
  - Council Public Safety Committee

Questions and Comments

Specifically looking for direction on:

- Reduction of Council meetings
- Frequency and number of Council Committees

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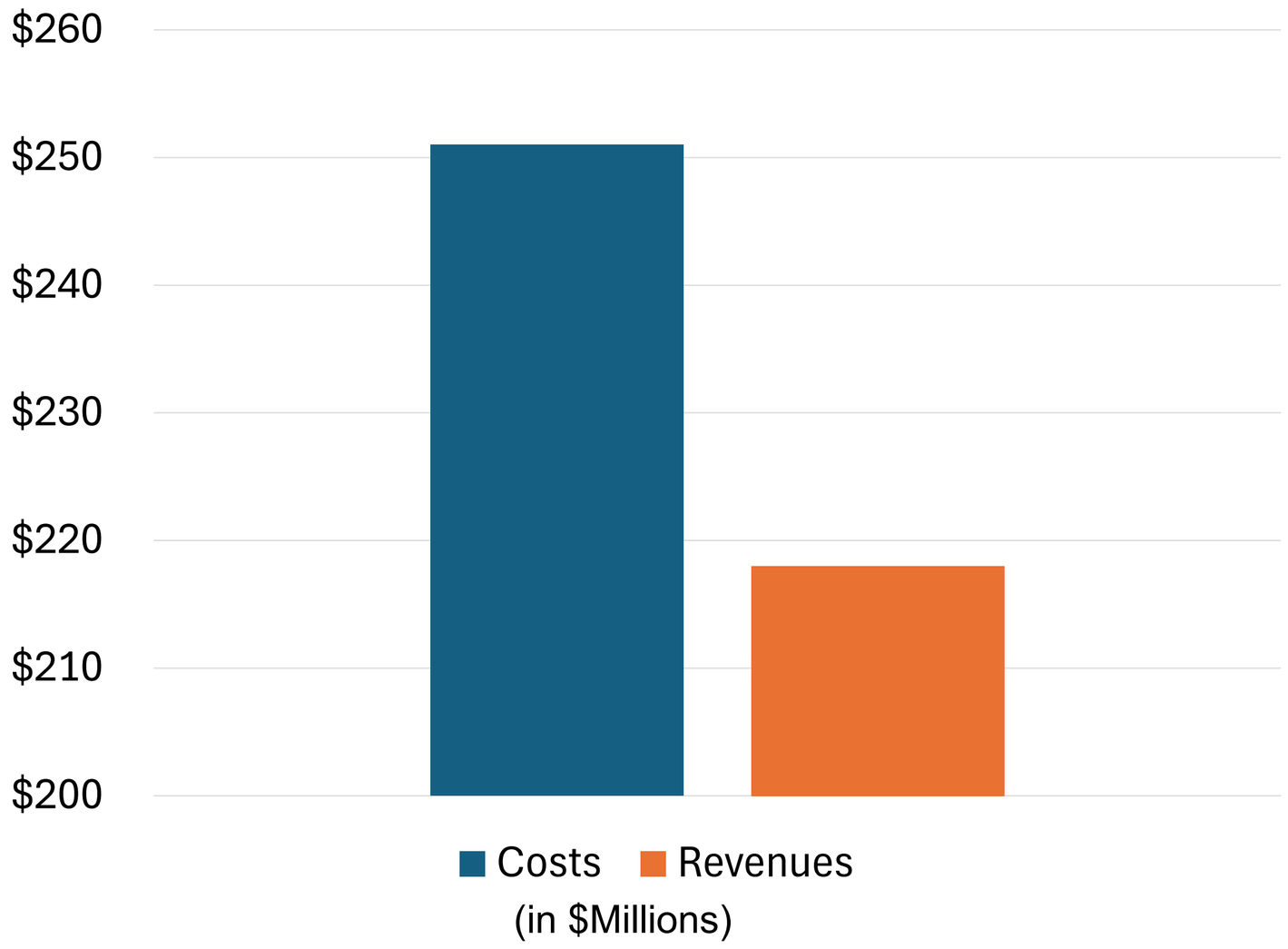
Recommended Approach to FY 2026-27 Budget and Beyond (30 mins)

Approach to Recommended FY26/27 Budget

- Include revenue items that are likely, conservative and not dependent on voter approval
- Use one-time funding again next fiscal year until there is greater clarity on the success of the business license modernization tax measure, recovery of real estate market and associated property tax growth trend, and extent of revenue from data centers
- Assume cost saving measures that are likely to occur and minimize service impacts (for now); avoid across-the-board cuts until greater clarity on the success of concession bargaining
- Allow cost-neutral departmental restructuring of personnel

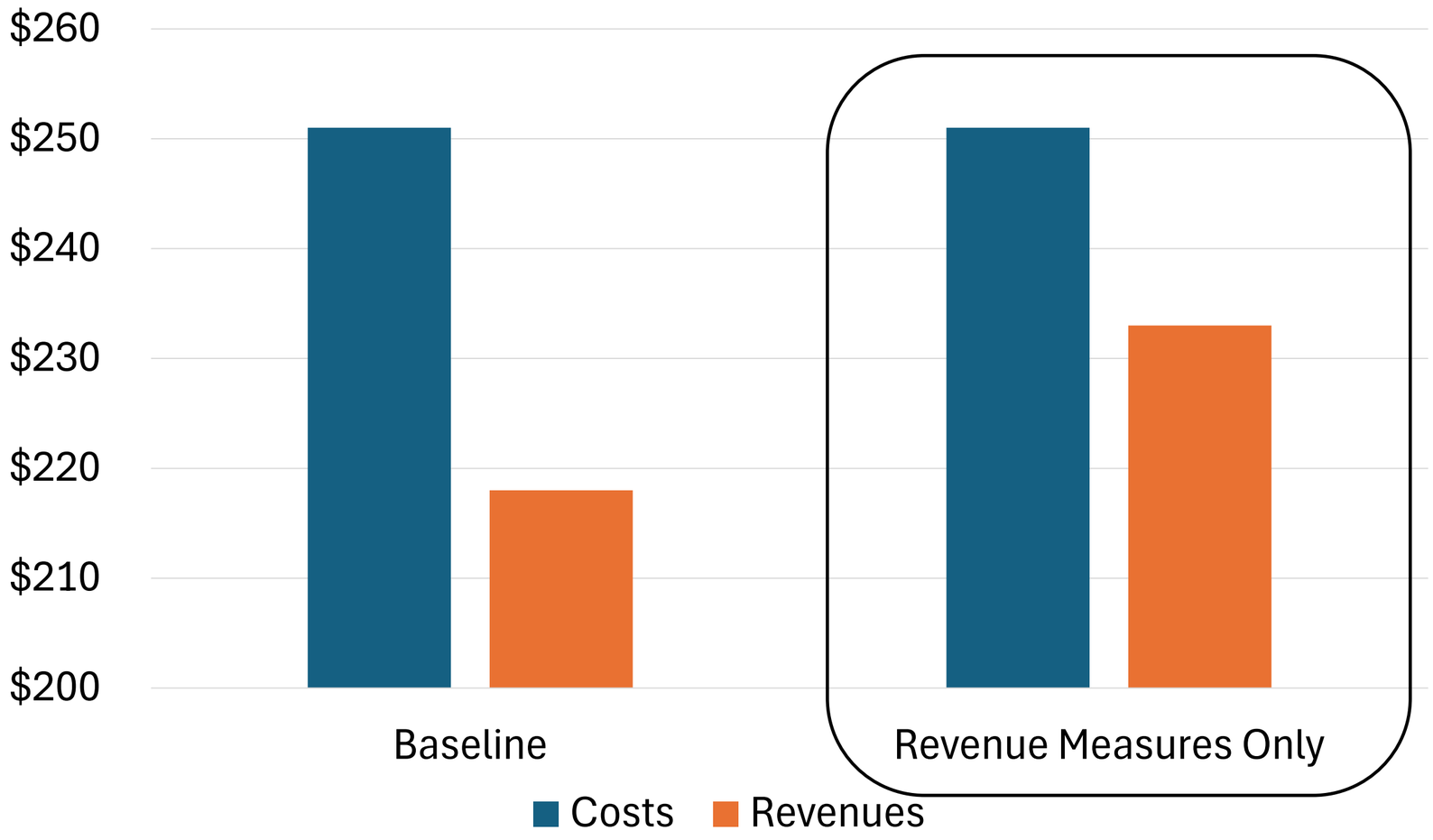
Comparison of Baseline Costs & Revenues



FY26/27 Recommended Revenue Measures

FY26/27 Projected Deficit	$32.60 Million	
Transfer Measure C	($10.0 Million)	One-Time
Transfer /Use of OPEB Trust	($4.5 Million)	One-Time
Use of CDBG	($0.5 Million)	One-Time
Data Center Revenue	($0.9 Million)	Ongoing
Fee Increases	($1.0 Million)	Ongoing
Projected Deficit (after deducting revenue measures)	**$15.7 Million**	

Comparison of Baseline & *Updated Revenue* Measures

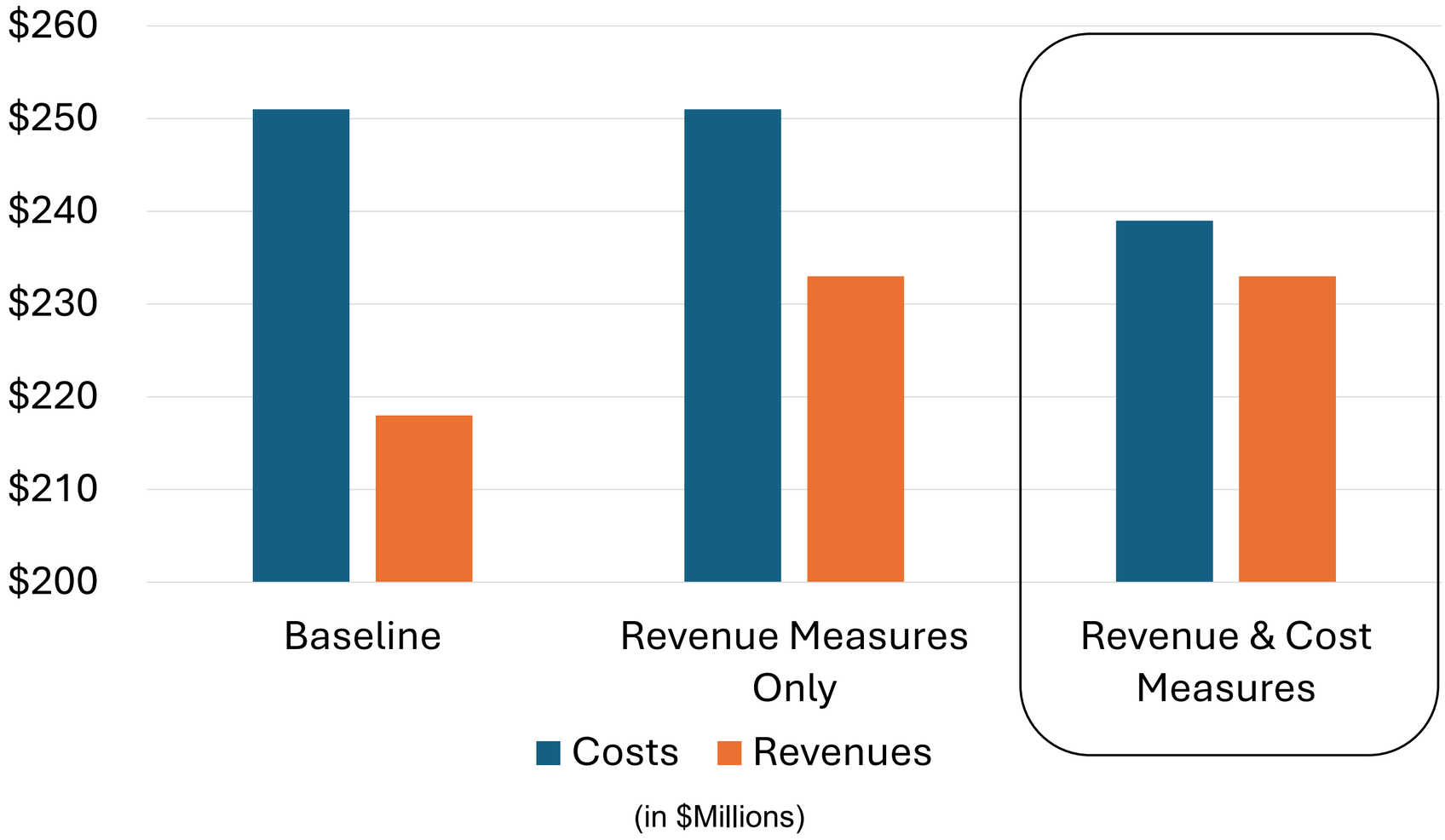


(in $Millions)

FY26/27 Recommended Revenue & Cost Saving Measures

FY26/27 Projected Deficit	$32.60 Million	
Transfer Measure C	($10.00 Million)	One-Time
Transfer /Use of OPEB Trust	($4.50 Million)	One-Time
Use of CDBG	($0.50 Million)	One-Time
Data Center Revenue	($0.90 Million)	Ongoing
Fee Increases	($1.00 Million)	Ongoing
Cost Reductions in Navigation Center	($1.60 Million)	Ongoing
Maintain Worker's Comp Transfer Amount	($3.70 Million)	One-Time
Public Safety Overtime Reductions	($3.00 Million)	One-Time & Ongoing
Police Department Savings	($1.70 Million)	Ongoing
Reduce CIP Transfers	($0.85 Million)	One-Time
Projected Deficit (after deducting measures)	**$4.85 Million**	

Comparison of Baseline & *Updated Revenue & Cost* Measures



How to Make Up the Gap?

1. **Additional 1-2% Reduction in Departmental Costs [~$2.5-$5 Million]:** Across the board departmental General Fund costs that will result in additional layoffs and significant service impacts to City services above and beyond cuts made for this fiscal year.

One-Time & Ongoing

OR

2. **Concession Bargaining with Labor Partners [~$3.5 Million]**: Potential concessions through labor negotiations while in closed contracts, such as foregoing or deferring COLAs, furloughs, and other options, some of which could have significant impacts to services. *

One-Time & Ongoing

* All these items require negotiated agreement with labor partner(s)

Comparison of Baseline & *Updated Revenue, Cost, & Gap* Measures

Link to Recommended Scenario Spreadsheet

(in $Millions)

Considerations for Future Budgets

- **Revenues likely to increase by $14.2 million in FY 27/28**, assuming revenues from Streaming UUT, new cannabis dispensary, a successful business license tax modernization measure, and estimated increases from data centers.
- In FY27/28, **deficit is reduced to approximately $2 million**, but **assumes continued use of $14.5 million in one-time revenue** from Measure C, OPEB Trust and CDBG.
- **Future deficits grow as the Measure C contributions are reduced** unless "gap measures" (i.e., concessions and/or deeper cuts) are structural, ongoing changes to the budget.
- **General Fund needs to significantly reduce dependency on Measure C** contributions, if these funds will be used **to address longstanding public safety capital needs** (i.e., new police station or corporation yard)

Other Budget Priorities

- **Building Reserves**: As the City depleted all of its General Fund reserves last fiscal year, there is a need to restore reserves to the recommended 20% of its annual operating budget (or approximately $46 million), including in part from the sale of City properties and other one-time measures or windfall revenues.

- **Measure C Funded Priority Capital Projects:** The recently approved Measure K1 extended the Measure C sales tax measure with the goal of building a new modern police building, corporation yard, Fire Station 9, Weekes Branch and other capital needs, which requires that sufficient Measure C/K1 funding is available to fund ongoing debt service and not just used to balance the City's General Fund deficit.

- **Restoring Negative Cash Fund Balances**: There are several funds that are currently running negative cash balances in the range of $1 million to over $16 million, such as General Liability and Facilities funds that need to be restored, most likely with one-time funding.

Lunch

We will return at 12:50 pm

HAYWARD

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Council Discussion and Feedback on Recommended Approach (70 mins)

Discussion Questions

1. Do you agree with staff's recommended approach for the FY 2026/27 budget?

2. Do you have other ideas for balancing the budget next year?

3. What are your thoughts about how to approach future budget shortfalls?

4. Any further discussion about previous direction already provided related to revenues, cost saving and efficiency measures?

Questions and Comments

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Accountability and Next Steps (30 mins)

Key Policy Highlights: Balanced Budget

- Align annual expenditures with conservative revenue estimates to minimize the use of fund balance or other one-time financing sources for ongoing operating expenditures
- Revenue estimates shall not be based on optimistically hoped-for events but analytical techniques that use historical data, economic trends and indicators, information available from the state and other governmental agencies, and other accepted standards
- Expense estimates particularly those for large expenses including labor contracts and overtime shall be budgeted and based on analytical techniques that use historical data and comprehensive review of all cost impacts incorporating long term costs such as pension

Relevant Lessons Learned:

- *Develop accurate baseline financial projections*
- *Adopt a balanced budget with appropriate use of one-time and ongoing funds*

Key Policy Highlights:
Ongoing Review and Management

- Include information in each Council report about the actual or projected fiscal and resource impact on the proposed action for all items with a fiscal impact.
- Minimize changes to budget during the fiscal year
- If revenues fall below expected amounts or expenses exceed expected amounts, take all actions available to reestablish a revenue and expenditure relationship that conforms to the Recommended Budget

Relevant Lessons Learned:

- *Share and analyze updated projections and actuals internally and externally*
- *Institute an iterative process regarding costs of contract proposals and approvals*

Key Policy Highlights:
Fund Balance/Reserve Commitments

Establish Appropriate Reserves:

- Appropriation for Contingency
- Emergency Reserve - $5 Million
- Strategic Reserve – 20% of operating expenses
- Economic Stabilization Reserve: Minimize impact in the event of loss of a significant revenue source.
- Compensated Absences Reserve

Relevant Lesson Learned:

Appropriate accounting of reserves, including separating liquid reserves from non-liquid reserves (i.e., cinema place)

Key Policy Highlights:
Ongoing Reporting and Monitoring

Ongoing Reporting

- Current Year Estimate + Five-Year Forecast
- Budget Year End
- Annual Comprehensive Financial Report (ACFR)
- Single Audit (where required)
- Additional updates as needed such as monthly or mid-year to keep Council informed on current financial performance and developments

Relevant Lesson Learned:

Strengthen internal monitoring and controls including review of funds impacting the General Fund (such as Internal Service Funds)

Feedback on Draft Financial Policies from Council Budget & Finance Committee

- Organize and format the policies in a way that highlight the key budget and financial policies so that they are easy to find especially: Balanced Budget, Use of One-Time Revenues, Reserves/ Reserve Targets, Confidence Levels for General Liability and Worker's Compensation
- Add a target for percentage of ongoing revenue spent on staffing costs
- Clarify "should" versus "will"
- Ensure responsibility for each department to be aware of and adhere to policies

Next Steps

- Implement next steps on revenue, cost saving, efficiency and accountability measures based on Council feedback today, including business license tax and adoption of financial policies
- Brief all employees and labor partners on budget updates from Budget Retreat
- Commence concession bargaining with all labor groups and brief Council regularly in closed session
- Continue to move forward efforts to sell City property and restore reserves and brief Council in closed session, when needed
- Develop FY 2026-27 budget and hold work sessions in May with regular briefings to Council Budget and Finance Committee
- Approve any concessions with labor partners in May and adopt FY 2026-27 budget in June

Questions and Comments

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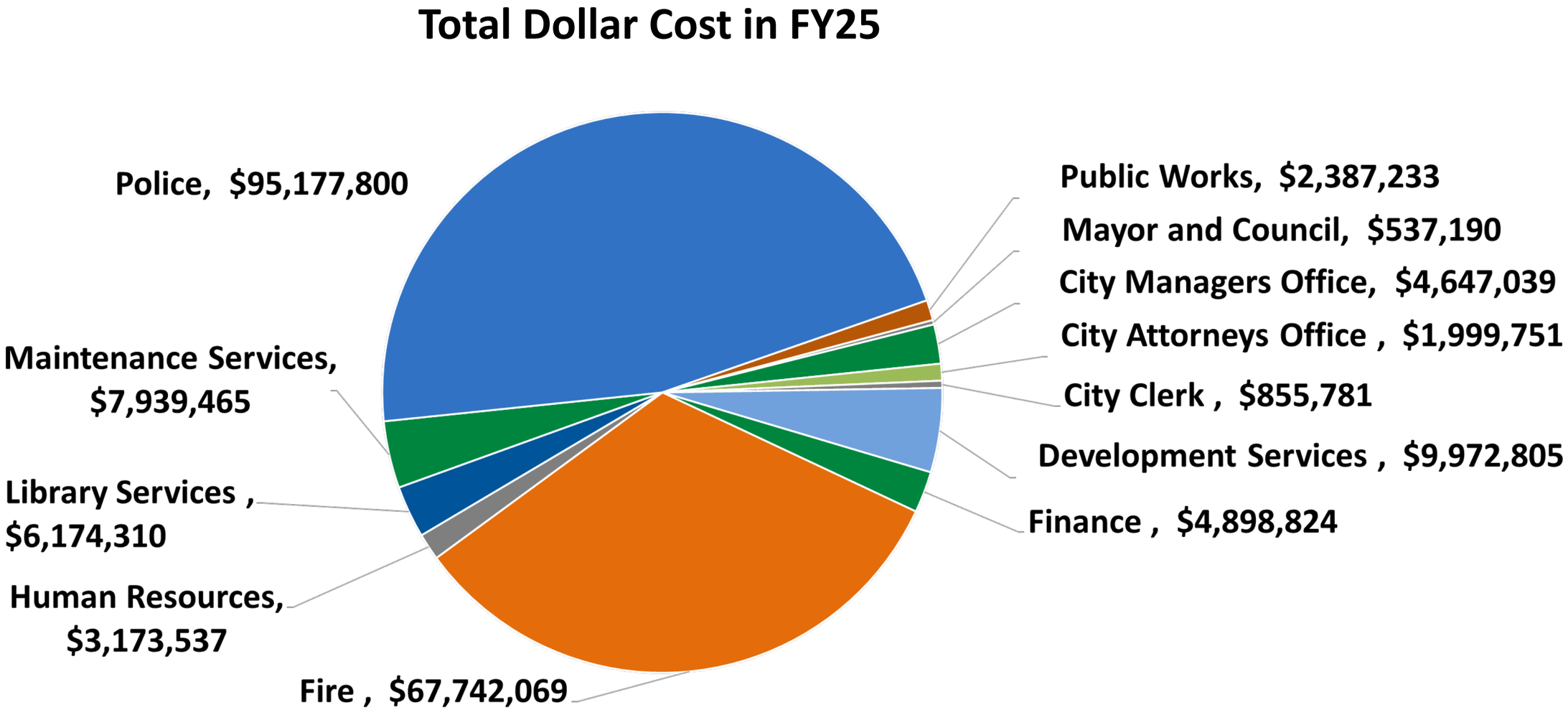
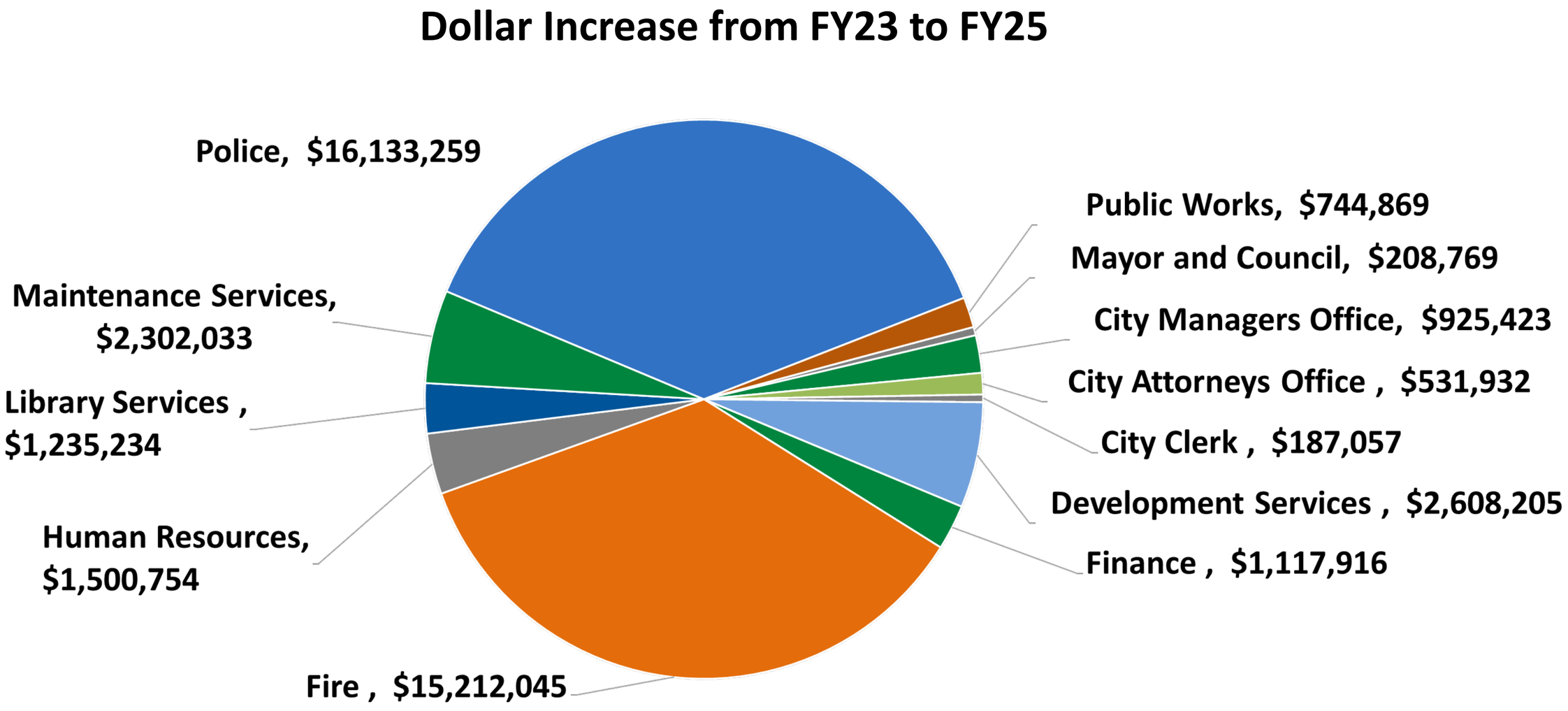
Additional Slides

Employee Cost by Department in FY25
(General Fund and Measure C)



Employee Cost Increase by Department
(General Fund and Measure C)



Employee Cost Increase by Department
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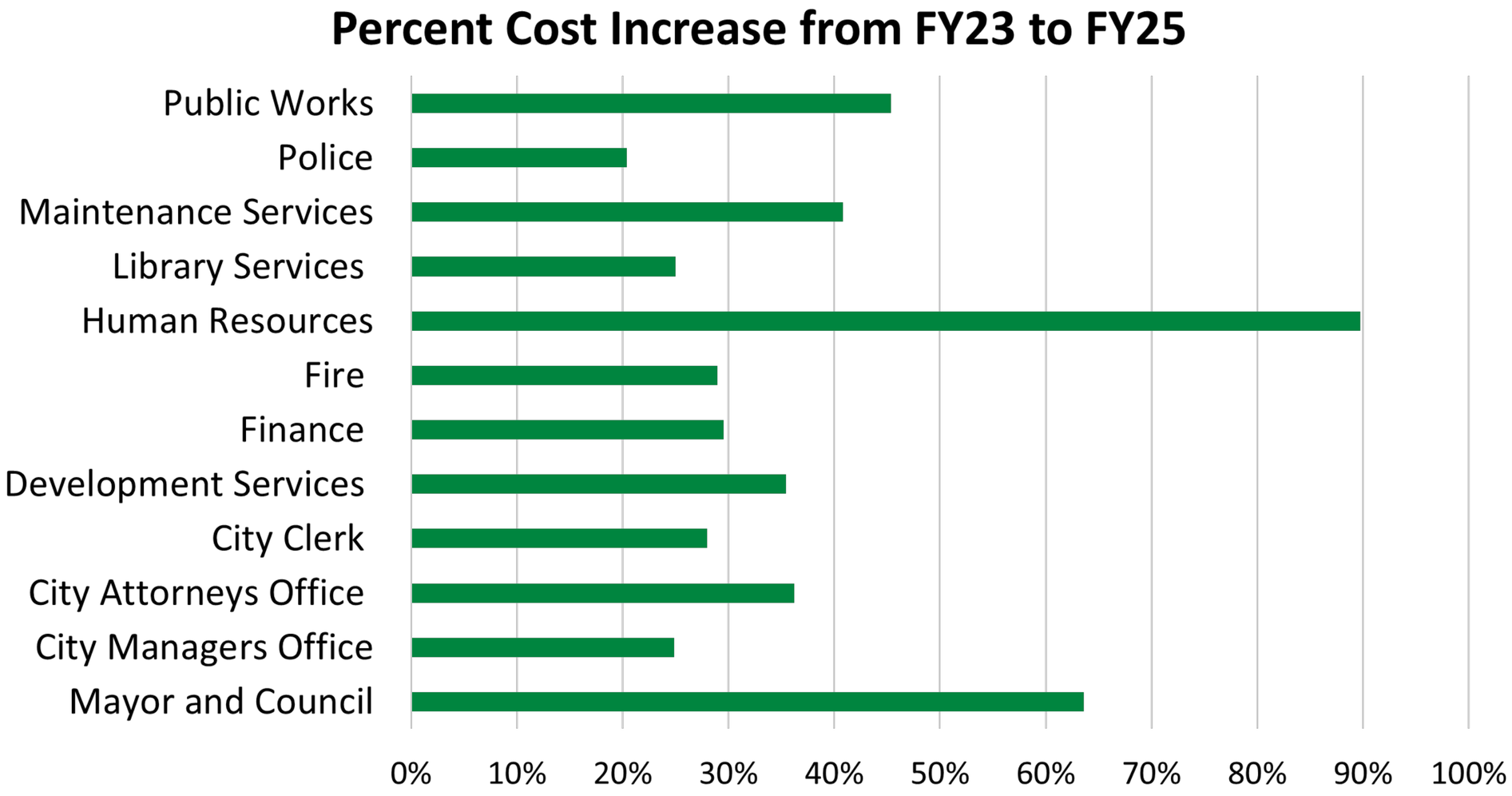

Business License Tax Modernization

Summary of Business Tax Rate Comparison

Sumary of Business License Tax Rates by Business Category: Hayward vs. Other Nearby Jurisdictions

City	Retail	Grocery	Auto Dealers	Professional Services	Contractors	Manufacturers	Residential Landlords	Commercial Landlords
Hayward	$0.27 per thousand gross receipts $0.11 per thousand for certain retailers (grocers, gas stations, etc.)	$0.11 per thousand Minimum $16.00	$0.11 per thousand Minimum $16.00	$100 plus $1.33 per thousand gross receipts over $100K Minimum $21.35	Up to 3 employees = $53.35 flat 4-6 employees = $80.00 flat 7-10 employees = $106.70 flat 11+ employees = $106.70 + $1.35 per employee > 10	Per employee rates: 1-8 = $33.35 9-25 = $66.70 26-100 = $133.35 101 or more = $200.00	Up to 3 units: $0 4+ units: $0.27 per thousand gross receipts	$0.27 per thousand gross receipts
San Leandro	$171.00 plus $52.70 per each owner & employee	$171.00 plus $52.70 per each owner & employee	$171.00 plus $52.70 per each owner & employee	$171.00 plus $132.00 per each owner & employee	$171.00 plus $105.60 per each owner & employee	$171.00 plus $52.70 per each owner & employee	$171.00 plus $15.80 per each unit or space	$171.00 plus $26.30 per 1,000 sq ft
Fremont	$30.00 plus $0.25 per thousand gross receipts ($0.30 if in residential district)	$30.00 plus $0.25 per thousand gross receipts ($0.30 if in residential district)	$30.00 plus $0.25 per thousand gross receipts ($0.30 if in residential district)	$30.00 plus $1.30 per thousand gross receipts	$95.00 plus $0.10 per thousand gross receipts	$30.00 plus $0.30 per thousand gross receipts	Up to 4 units: $0 5+ units: $30.00 plus $1.30 per thousand gross receipts	$30.00 plus $1.30 per thousand gross receipts
Pleasanton	Minimum $25.00 $0.30 per thousand gross receipts	Minimum $25.00 $0.30 per thousand gross receipts	Minimum $25.00 $0.30 per thousand gross receipts	Minimum $25.00 $0.30 per thousand gross receipts	Minimum $25.00 $0.30 per thousand gross receipts	Minimum $25.00 $0.30 per thousand gross receipts	Minimum $25.00 $0.30 per thousand gross receipts	Minimum $25.00 $0.30 per thousand gross receipts
Alameda	Minimum $119.00 $0.40 per thousand gross receipts	Minimum $119.00 $0.40 per thousand gross receipts	Minimum $119.00 $0.40 per thousand gross receipts	Minimum $119.00 $0.40 per thousand gross receipts	Minimum $119.00 $0.40 per thousand gross receipts	Minimum $119.00 $0.40 per thousand value added	$20.00 per unit	Minimum $119.00 $20.00 per 1,000 sq ft
Berkeley	Minimum $51.00 $1.20 per thousand gross receipts	Minimum $51.00 $0.60 per thousand gross receipts (Both retail and wholesale grocers)	Minimum $51.00 $1.20 per thousand gross receipts	Minimum $51.00 $3.60 per thousand gross receipts	Minimum $51.00 $1.80 per thousand gross receipts	Minimum $51.00 $1.20 per thousand value added	Minimum $77.00 per bldg 1-4 units: $10.81 per thousand 5+ units: $28.80 per thousand gross receipts	Minimum $77.00 per bldg $10.81 per thousand gross receipts
Oakland	Minimum $60.00 Progressive: $0.90 to $2.50 per thousand gross receipts (Grocery, Auto Dealers differ)	Minimum $60.00 Progressive: $0.50 to $2.50 per thousand gross receipts	Minimum $60.00 Progressive: $1.20 to $2.50 per thousand gross receipts	Minimum $60.00 Progressive: $3.60 to $5.00 per thousand gross receipts	Minimum $60.00 Progressive: $1.80 to $5.00 per thousand gross receipts	Minimum $60.00 Progressive: $0.90 to $2.50 per thousand gross receipts	Minimum $13.95 $13.95 per thousand gross receipts	Minimum $13.95 $13.95 per thousand gross receipts
Emeryville	Minimum $25.00 Maximum $450,998 $1.00 per thousand gross receipts	Minimum $25.00 Maximum $450,998 $1.00 per thousand gross receipts	Minimum $25.00 Maximum $450,998 $1.00 per thousand gross receipts	Minimum $25.00 Maximum $450,998 $1.00 per thousand gross receipts	Minimum $200.00 Maximum $450,998 $1.00 per thousand gross receipts	Minimum $25.00 Maximum $450,998 $1.00 per thousand gross receipts	Minimum $25.00 Maximum $450,998 $1.00 per thousand gross receipts	Minimum $25.00 Maximum $450,998 $3.50 per thousand gross receipts
Richmond*	Progressive: $1.20 to $3.20 per thousand gross receipts (Grocery, Auto Dealers differ)	Progressive: $0.60 to $2.00 per thousand gross receipts	Progressive: $1.20 to $5.00 per thousand gross receipts	Progressive: $3.60 to $6.80 per thousand gross receipts	Progressive: $1.80 to $3.00 per thousand gross receipts	Progressive: $1.20 to $5.00 per thousand gross receipts	1-4 units: $10.81 per thousand 5+ units: $28.80 per thousand gross receipts (various reductions/exemptions for new construction and major renovations, non-profits, rent controlled units, owner living on site, etc.)	1-4 units: $10.81 per thousand 5+ units: $28.80 per thousand gross receipts, various reductions/exemptions (new construction and major renovations, non-profits, rent controlled, owner living on site, etc.)

** Richmond allows small businesses to pay an alternative annual fee of $100 if their annual gross receipts are less than $250,000. This applies to all business categories except Cannabis firms and Residential and Commercial Landlords.*

Alternative Bases (when Gross Receipts Not Used)

per employee

per value added

per residential unit

per sq ft