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OAKLAND

CITY OF OAKLAND

AGENDA REPORT

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TO: Office of the City Administrator
ATTN: Dan Lindheim
FROM: Community and Economic Development Agency
DATE: June 8, 2010

RE: Analysis of a Proposal to Expand the Current Business Incentive Program for New Oakland Businesses to Include Existing Oakland Businesses

SUMMARY

On February 23, 2010 Economic Development staff presented a report to the Community and Economic Development Committee on existing City incentives and services for Oakland businesses. The report recommended additional business retention and expansion strategies.

The CED committee accepted the February 23, 2010 staff recommendations, and also requested that staff assess the fiscal impact of expanding the recently adopted Business Incentive Program (BIP) program to include existing businesses. Currently, only new businesses with 20 or more employees qualify for the incentive. Under the proposal to offer expansion incentives, an existing Oakland business that expands by 20 or more employees and by at least 20 percent of its workforce would be eligible for a two-year business tax abatement commensurate with the expansion.

Given the City's ongoing budget challenges, staff does not recommend broadening the existing incentive program or offering any other new financial incentives that would diminish General Fund revenue at this time. Instead, staff recommends that the City preserve, enhance and actively market its existing business incentives and resources, such as the operations of the Business Assistance Center, the expansion of the Oakland Enterprise Zone and coordination with other business service providers. Economic Development staff also works one-on-one with many businesses that are planning to expand, in order to most effectively leverage existing local, state and federal services. The recommendation to not offer new incentives at this time, and focus resources on shoring up our existing core retention and expansion tools, is consistent with the February 23, 2010 report, and also the general consensus reached by the Business Development Committee (BDC). The BDC working group was convened by Economic Development staff late last year to assist in the development of strategies to support and expand Oakland's business base. The BDC consisted of Oakland business leaders, brokers, bankers, business service providers, and City of Oakland Economic Development and Redevelopment staff.

Item: _____
CED Committee
June 8, 2010

FISCAL IMPACT

The annual fiscal impact of expanding the BIP to include existing businesses would depend on: 1) how many Oakland businesses grow by 20 or more employees and by at least 20 percent of its workforce over the duration of the program, 2) how many of these businesses meet the qualifications (*Attachment A*) and apply for the incentive, and 3) how many businesses choose to remain in Oakland and/or expand because of this program.

According to the California Economic Development Department, 58¹ Oakland businesses grew by 20 or more employees and by at least 20 percent of its workforce between 2006 and 2007. If the incentive program had been enacted in 2007, and each of these businesses had received the incentive, the City would have lost approximately \$207,400 in business tax revenue during 2008. The annual fiscal impact of the program would approximately double to \$414,800 after Year 1 of the program. During the second year of the program, the Year 1 group of qualifying businesses would be receiving their second year of incentives at the same time that the Year 2 group of businesses receives its first year of incentives.

BACKGROUND

On October 20, 2009, the City Council adopted the Business Incentive Program to attract new businesses to Oakland. Shortly afterward, Economic Development staff convened the Business Development Committee (BDC) to discuss strategies and financial incentives to encourage the growth of Oakland's existing businesses. The committee met three times in late 2009 and early 2010. The BDC was clear in its message that Oakland businesses need a pathway to accessing existing tools and resources provided by the City and its public and private business services network.

KEY ISSUES AND IMPACTS

The growth and expansion of a business requires careful planning and execution. Businesses prepared and ready to expand have spent considerable time looking at cost, facility and equipment needs. Assistance from the City may be needed in the form of access to capital, technical assistance, and support through the entitlement process. The decision to expand will be made based upon a company's ability to handle all of these costs and requirements. Currently the City offers a range of business development services available to large and small businesses: City lending programs administered through the Oakland Business Development Corporation (OBDC), two Brownfields Loan programs, and a Recycling Market Development Loan program. Staff also maintains relationships with private sector and other government financing and venture

¹ Excluding eight additional businesses that are exempt from business taxes.

capital sources. The Oakland Business Assistance Center is a one-stop information and referral center for businesses. It offers full time staff to help business owners and entrepreneurs navigate City entitlements and requirements, and provides referral to local organizations, county and state agencies as well as other resources to start, operate and grow businesses in Oakland. The Oakland Enterprise Zone Program offers tax credits and benefits to companies located within its boundaries. Other business support services include site selection assistance, market and demographic information, and introduction to workforce development service providers and programs.

One of the most effective business attraction strategies for the City is to promote a positive business climate through a strong business retention program. New businesses are drawn to cities that provide good service to existing clients. However, one of the themes arising from the BDC working group, and shared by Economic Development staff, is a concern that a new business incentive would drain the general fund of resources that would otherwise be spent to provide core city and business services. Preserving baseline city services will do more to assist Oakland businesses to succeed and expand than a new business tax abatement program, especially considering that the amount of the proposed abatement would be very small relative to the capital investment necessary to qualify for the incentive (Table A, below).

Many BDC participants also stated that the city's existing business resources are highly valuable and effective at retaining and expanding businesses, yet many Oakland business owners are unaware of these resources or do not know how to access them. Consequently, the BDC recommendations reflect a desire to do more outreach and education about existing incentives and programs, rather than create new ones. The recommendations include educating business owners about existing resources through the Business Assistance Center, and utilizing CEDA's marketing budget to reach a larger proportion of the business community.

PROGRAM DESCRIPTION

Under the existing BIP, the City Administrator can authorize business tax abatements for up to two years – not to exceed \$250,000 per year – for businesses with 20 or more employees that relocate from outside the city into Oakland. Under the expansion proposal analyzed in this report, an existing Oakland business that expands by 20 or more employees and by at least 20 percent of its workforce would be eligible for a two-year business tax abatement commensurate with the expansion, but not to exceed \$250,000 per year. Growth would be benchmarked to a company's workforce size as declared on its state income tax prior to expansion, then compared to the tax information after expansion, to measure the actual increase in employment. All companies requesting a BIP incentive would be assessed based on the Requirements and Considerations Table (*Attachment A*).

Item: _____
CED Committee
June 8, 2010

The estimated values of the business tax abatements that Oakland businesses would receive under the expanded BIP are indicated in Table A. For example, if a construction company expanded by 20 employees, and its gross receipts grew by \$1 million, the company would receive a business tax abatement of approximately \$1,800. A professional services company that expanded by 70 employees and grew its payroll by \$5 million would receive a business tax abatement of about \$18,000.

Table A: Potential Fiscal Impact of Business Expansion Initiative

Business Tax Classification	Increase in Business Tax Base		
	\$1,000,000	\$3,000,000	\$5,000,000
	Additional Business Taxes Liability (amount of incentive under proposed amendment to BIP)		
Retail	\$1,200	\$3,600	\$6,000
Grocer	\$600	\$1,800	\$3,000
Auto Sales	\$1,200	\$3,600	\$6,000
Wholesaler	\$1,200	\$3,600	\$6,000
Business/Personal Services	\$1,800	\$5,400	\$9,000
Professional Services	\$3,600	\$10,800	\$18,000
Rec. & Ent.	\$4,500	\$13,500	\$22,500
Construction Contr.	\$1,800	\$5,400	\$9,000
Manufacturing	\$1,200	\$3,600	\$6,000
Media Firms	\$1,200	\$3,600	\$6,000
Public Utility	\$1,000	\$3,000	\$5,000

PROGRAM ANALYSIS

After careful analysis, Economic Development and Revenue & Tax Division staff have concluded that expanding the BIP to include existing businesses would not create an effective tool for economic development. In addition, expanding the BIP would be problematic to implement for the following reasons:

- The proposal would offer a retroactive incentive to businesses after their expansion is complete. Therefore, the City would be providing the incentive to businesses with the capacity to expand without the need for financial incentives from the City.
- The amount of the incentive would in most cases be too small to induce a company to expand. The incentive would be limited to the amount of business taxes correlated to the expansion (Table A). Under the existing BIP, the incentives offered to new Oakland

Item: _____
CED Committee
June 8, 2010

businesses have more potential to bring companies to Oakland because the incentive is calculated based on the entire payroll or gross receipts generated by the businesses.

- Incorporating existing businesses into the BIP would require significant staff time to process the initial applications and track over time. Once businesses qualify for the incentive, the amount of the incentive would have to be monitored and adjusted regularly for each business based on how many employees are hired and retained after the initial expansion.
- Calculating the incentive has the potential to be confusing for staff as well as business owners. For example, if a business qualifies for the incentive by expanding by 23 employees, and then grows by an additional 37 employees over the subsequent year, calculating the amount of the incentive can become a point of dispute between staff and the business owner.

Recommendation for a Future Businesses Incentive to Assist in the Retention and Expansion of Oakland Businesses

When national economic conditions improve and/or the General Fund grows and stabilizes, a Business Tax Credit Program (BTCP) could be considered as an alternative to expanding the BIP to include existing businesses.

Under the BTCP – which was presented and received favorably by the Business Development Committee – Oakland businesses would generate a business tax credit when they purchase eligible machines and equipment from other Oakland businesses. The credit would equal, say five percent of the purchase price (excluding sales taxes) and could be applied toward companies' business tax payments.

The buy-local requirement of the BTCP would be a catalyst for business activity in Oakland. By requiring companies to buy from other Oakland businesses in order to qualify for the tax credit, the BTCP will drive up demand for products that are manufactured and distributed by Oakland-based companies. Therefore, many Oakland businesses that do not use the tax credit will indirectly benefit from the program. The BTCP would help stimulate Oakland's economy and be instrumental in assisting many individual businesses wishing to modernize or grow their operations.

The fiscal impact of the BTCP would depend on the program's eligibility requirements. For example, a minimum annual investment in eligible machines and equipment could be required for individual businesses to qualify for the tax credit. In addition, total eligible purchases could be capped for individual businesses.

Item: _____
CED Committee
June 8, 2010

SUSTAINABLE OPPORTUNITIES

Economic: Strengthening and marketing Oakland's existing business incentives and services will support Oakland businesses and promote the growth of Oakland's economy.

Environmental: Enhancing and growing businesses in a dense urban center such as Oakland means more residents can work closer to home, reducing vehicle miles travelled.

Social Equity: Retaining and growing Oakland businesses creates sustainable jobs and business opportunities for Oakland residents. In addition, more businesses and jobs in Oakland will generate more revenue for city services.

DISABILITY AND SENIOR CITIZEN ACCESS

This report does not provide specific benefits or programs for disabled or senior citizens.

RECOMMENDATION(S) AND RATIONALE

Staff recommends that the City Council not take action to create a new financial incentive at this time. Instead, staff recommends the strengthening of existing services to businesses and improved outreach to Oakland businesses which can avail themselves of these services.

ACTION REQUESTED OF THE CITY COUNCIL

Staff requests that the City Council accept this report.

Respectfully submitted,



Walter S. Cohen, Director
Community and Economic Development Agency

Reviewed by:

Gregory Hunter, Deputy Director
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Aliza Gallo, Coordinator
Economic Development

Prepared by:

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APPROVED AND FORWARDED TO THE
COMMUNITY AND ECONOMIC DEVELOPMENT COMMITTEE



Office of the City Administrator

Attachment A: Requirements and Considerations Table Business Incentive Program

Item: _____
CED Committee
June 8, 2010

Attachment A:
Requirements and Considerations Table for the Business Incentive Program

Requirements
New business with minimum 20 full-time equivalent jobs or existing Oakland business that expands by 20 or more employees and by at least 20 percent of its workforce ¹
Pay the City of Oakland Living Wage
Sign the City Of Oakland First Source Hiring Agreement
Provide City with annual information on number of jobs created with salaries and benefits (submit State Wage and Withholding Report) ²

Considerations
Local direct tax revenue generation (sales, property, business, utility, user)
Multiplier effects (indirect and induced tax revenue)
Employee wages and benefits
Business would fill need for specific sector in targeted geographic area
Length of lease
Purchase of equipment and services from other Oakland businesses
Purchase of building/renovation of existing building/site improvements
Remediation of contaminated land
Environmentally sustainable building upgrades (LEED, Greenpoints)
Miscellaneous community benefits
Cumulative fiscal effect of all incentives granted to date
Additional Sales Tax Incentive Program Considerations
Consistent with adopted Citywide Retail Enhancement Strategy
Brings a type of retail needed in a particular community

¹Excluding businesses in Targeted Growth Sectors

²State of California Form DE 6