

CITY OF OAKLAND

AGENDA REPORT

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OFFICE OF THE CITY CLERK
OAKLAND

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TO: Office of the City Administrator
ATTN: Dan Lindheim
FROM: Community and Economic Development Agency
DATE: June 23, 2009

RE: **A Report and Possible Action on a Jobs and Tax Base Expansion Initiative**

SUMMARY

The national economic downturn is having a significant impact on Oakland's local economy and hampering the City's ability to retain and attract businesses. Job losses have mounted and revenue generation has declined for the past two years. In order create more job opportunities for its residents and rebuild the City's tax base, a stronger competitive edge is needed. Instead of waiting for the eventual economic rebound to fix its problems, the City of Oakland needs a strategy to boost its business attraction, retention and expansion efforts.

Economic incentives represent a common approach among cities to create a competitive edge that stimulates business growth and job creation. Coupled with existing local and state incentives, a more aggressive local incentives program will assist Oakland in attracting targeted business sectors and large employers, and help retain and grow existing Oakland businesses.

Economic and business incentives should be applied strategically, based upon policies and goals, and under circumstances of limited risk to public resources. The incentives described in this report are consistent with the following economic development objectives:

- Improve the City's business climate with a focus on attracting large companies and supporting the growth of existing small- and medium-size businesses.
- Promote policies that create opportunities for Oakland residents to secure living-wage jobs.
- Rebuild and grow the City's tax base.
- Target desired sectors in desired geographic areas in the city.
- Provide business incentives only if the risk of a negative fiscal impact is low and the potential for a positive fiscal benefit is high.

FISCAL IMPACT

Except for the Business Tax Incentive Program (BTIP), which was analyzed by staff in preparation for the Economic Development Operational Framework report last year, staff has not conducted fiscal analyses for the other incentives recommended for consideration. Based on direction from Council, the proposed incentive programs would be brought back to Council and will include detailed cost/benefit analyses.

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The fiscal impact of the BTIP is difficult to estimate because of staff's inability to predict what percentage of the businesses that will use the BTIP would have chosen to locate in a different city had the incentive not been offered. However, the fiscal impact is expected to be positive because direct and indirect fiscal benefits derived from successful medium-large business attractions will exceed the amount of business taxes that would be abated for eligible businesses under the program. For example, the 108 (22 per year) businesses with 20 or more employees that relocated to Oakland each year between 2003-2007 paid an average of \$4,350 annually in businesses taxes to the City of Oakland¹. However, prototypical companies in Oakland with at least 20 employees generate an annual average of \$254,888 in sales, property, utility and other local taxes when all direct and indirect tax revenues are added up (*Attachment A*).²

In addition to the direct employment they provide, companies locating in Oakland also generate jobs within the City indirectly, through their demand for supplies and services. Examples of this effect are included in *Attachment B*.

Therefore, even if a large percentage of businesses use the BTIP when opting to locate in Oakland, without additional incentives, the BTIP would still have a positive fiscal impact on the General Fund and Redevelopment Agency.

BACKGROUND

Oakland Partnership

On May 2, 2007, Oakland Mayor Ronald V. Dellums launched an innovative public-private economic development effort, called the Oakland Partnership, to facilitate the creation of a thriving, innovative, equitable, globally competitive regional economy that creates 10,000 new Oakland jobs between 2007 and 2012. One of the over-arching objectives that emerged from this effort was to "increase investment in Oakland in a way that contributes to the prosperity of businesses, the City, and all its residents."

Following a business-led strategic process, the Oakland Partnership developed strategies and action initiatives to grow Oakland's economy and improve the City's business climate. One initiative identified as having great potential was a business incentive program to enhance the City's ability to attract investment and new jobs.

Incentive Programs in Other California Cities

As a result of the economic downturn, other local governments have begun exploring efforts to assist existing businesses and induce new businesses to relocate to their jurisdictions. Many cities already have business, sales and/or utility tax incentive programs in place, including San Francisco, San Leandro, Pittsburg, Sacramento, Los Angeles and San Diego. Other California and Bay Area Cities offer economic incentives, but not through a formal program.

¹ California Economic Development Department & City of Oakland Finance Department (2008)

² Keyser Marston Associates: Economic Impact Analysis of Range of Businesses Relocating to Oakland (2008)

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KEY ISSUES AND IMPACTS

At this report's writing, the City faces an estimated \$83 million shortfall in FY 2009-10 and an \$85 million deficit in FY 2010-11. Business License Tax (12%) and Sales Tax (10%) are the third and fourth major revenue sources for the City's General Fund, behind only Property Tax (32%) and Utility Consumption Tax (13%). Current economic conditions have resulted in companies contracting their leasing demands, resulting in a flood of sub-lease space availability throughout the Bay Area. Staff's efforts to attract new revenues to Oakland to supplement City Tax revenues will require a new approach that effectively uses marketing (communicating the business value of locating in Oakland) and business incentives (lowering the cost of doing business in Oakland).

Oakland: The Challenge of Attracting Larger Businesses

Research by Economic Development staff indicates that while Oakland has a high number of small businesses when compared to 12 American cities with similar populations, Oakland has a relatively low number of medium and large sized businesses.

Small Businesses (0-19 employees)		Medium Businesses (20-99 employees)		Large Businesses (100+ employees)	
1	Seattle 27,717	1	Seattle 2,048	1	Boston 530
2	Portland 23,743	2	Portland 2,038	2	Minneapolis 522
3	Atlanta 22,718	3	Boston 1,979	3	Atlanta 478
4	Oakland 20,370	4	Atlanta 1,970	4	Seattle 429
5	Boston 20,193	5	Minneapolis 1,922	5	St Louis 429
6	Minneapolis 18,832	6	St Louis 1,742	6	Portland 401
7	Sacramento 16,914	7	Cleveland 1,567	7	Sacramento 375
8	Baltimore 14,857	8	Sacramento 1,470	8	Cleveland 373
9	Cleveland 14,838	9	Baltimore 1,392	9	Baltimore 300
10	St Louis 14,726	10	Milwaukee 1,154	10	Milwaukee 284
11	Long Beach 14,347	11	Oakland 1,143	11	Oakland 249
12	Milwaukee 12,274	12	Long Beach 967	12	Long Beach 185

Dunn & Bradstreet (Third Quarter, 2008)³

³ The number of businesses for each city other than Oakland was adjusted proportionally based on its population relative to Oakland's.

Attracting more companies with at least 20 employees would have an enormous positive impact on the City's budget. If Oakland attracted just 10 additional prototypical medium-large companies each year for three years, approximately \$15.3 million would be added to the City's coffers over those three years.⁴

Targeting larger businesses through economic incentives is critical to strengthening Oakland's economy. Medium and large businesses far outpace small businesses as a source of new jobs and revenue generation. Even though small businesses (less than 20 employees) account for 89% of all companies in California, employees of small businesses account for only 23% of all California workers.⁵ In addition, 96% of small businesses go out of business or stay small. Only 4% of small businesses grow into large businesses of more than 20 employees.⁶

Despite the statistics above, small business assistance and staff's efforts to grow existing businesses should be part of Oakland's overall economic development strategy. Oakland's employment landscape is diversified and strengthened by the presence of small and growing businesses. Small businesses also contribute greatly to the character and identity of many Oakland neighborhoods.

Given the diverse needs and different economic and fiscal impacts of businesses, depending on size, a successful incentives program will provide different types of economic incentives, programs and services for smaller versus larger businesses. For example, the Business Assistance Center (BAC), which is set to launch in July 2009, will provide support and guidance aimed at helping small and existing businesses be successful in the City of Oakland.

PROGRAM DESCRIPTION

The strategy behind any business incentive program is to be proactive and have a policy in place to entice businesses that are on the fence over multiple locations in two or more cities. Incentives provide a valuable tool for Economic Development staff to "close the deal" with companies considering multiple locations. At the same time, it is critical that incentive programs be designed with great care to achieve the appropriate purpose of stimulating new and existing business without resulting in a significant decline in short-term tax revenues. In addition, incentive programs need to be crafted so as to avoid a bidding war between neighboring jurisdictions that promotes "a race to the bottom," in which all jurisdictions compete to out-incentive each other.

Over the past few months, Economic Development staff has been conducting outreach to real estate brokers, developers, property owners and business owners to determine what types of local incentives and services would help retain and attract businesses.

⁴ Keyser Marston Associates: Economic Impact Analysis of Range of Businesses Relocating to Oakland (2008)

⁵ California Economic Development Department, third quarter 2006

⁶ IEDC Economic Development Journal, 2009 (Calculated from 2004 The Statistical Abstract of the U.S. data)

The outreach to businesses and research of other cities' incentive programs indicate that any one incentive or service is unlikely to have a large impact on Oakland's ability to retain or attract businesses. The types of incentives and assistance desired by businesses run the gamut, depending on the size, sector, philosophy and the business model of the companies.

Based on this feedback, the Jobs and Tax Base Expansion Initiative (JTBEI) will feature a spectrum of incentives and services desired by different types of businesses. Because of the current budget reality facing the City, the JTBEI will be crafted to maximize the capture of future revenue without foregoing existing revenue. If City funding becomes available for business attraction subsidies, staff would recommend relocation assistance packages for companies and marketing campaigns for Oakland retail districts.

BUSINESS ATTRACTION INCENTIVES

Economic Development staff's outreach and analysis over the past year indicates that the following two incentives would significantly increase the number of medium-large companies relocating to Oakland and have a positive economic impact on the City's revenue stream:

1. Business Tax Incentive Program

In our experience negotiating with prospective businesses, Economic Development staff often encounters a familiar sticking point: Oakland's high business tax rates. Research supports the contention that Oakland's business taxes are some of the highest in the Bay Area. According to the Kosmont-Rose Institute Cost of Doing Business Survey, Oakland's overall business tax rates are also higher than all other 13 cities in Alameda County, and are higher than Walnut Creek, San Jose and San Ramon.

Business Tax Rankings for Alameda County Cities and Major Competitor Cities (higher ranking = higher business tax rates)

1. San Francisco	10. Hayward
2. Oakland	11. Fremont
3. Livermore	12. Newark
4. Berkeley	13. Union City
5. Emeryville	14. Walnut Creek
6. Richmond	15. San Jose
7. San Leandro	16. San Ramon
8. Alameda	17. Dublin
9. Pleasanton	

2008 Kosmont-Rose Institute Cost of Doing Business Survey

The obstacle of high business tax rates to business attraction is compounded because no policy exists that allows staff to offer companies a business tax incentive package. Often, such an incentive would mean the difference between attracting a desirable company to Oakland or

losing it to a nearby city. In a survey late last year of Oakland real estate brokers, respondents indicated that businesses tax breaks were the most desired local economic incentive.

How important are the following incentives in determining your clients' business location decisions in the Bay Area?

Responses (ranked from most important to least important):	
1	Business tax breaks
2	Reduction of impact fees
3	Permit streamlining (fast tracking)
4	Enterprise Zone Tax Credits
5	Property tax abatement
6	Financial assistance (Industrial Development Bonds, Brownfield loan funds, etc.)
7	Sales tax reimbursement
8	Other*
9	Workforce and training assistance

Survey of 32 Oakland Real Estate Brokers, October 2008

Economic Development staff has been crafting a Business Tax Incentive Program (BTIP) for businesses with 20 or more employees relocating from outside Oakland into Oakland City limits. Qualifying businesses would be eligible to receive a full or partial three year waiver on business taxes. Based on the experiences of other cities that have implemented business tax incentive programs, business tax abatements of less than 100 percent are only occasionally significant enough to influence business location decisions.

New businesses with 20 or more employees will not automatically be granted the incentive. To determine eligibility, new businesses will be objectively assessed based on factors such as:

- Sales tax generation.
- Property tax generation (if company purchases property or negotiates deal with property owner to make land improvements).
- Employee wages and benefits.
- Length of lease.
- Ability and willingness to purchase equipment, machines and services from Oakland businesses.
- Whether business represents a targeted sector in a targeted geographic area (i.e., retail in the Upper Broadway Specific Plan area or industrial in an Industrial Zone).

All eligible business will be required to sign the City's First Source Hiring Agreement, pay the City's Living Wage rate, and either purchase property or sign at least a five year lease.

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The BTIP is a low risk/high reward business attraction program. New businesses in Oakland with 20 or more employees, of which there were approximately 22 each year between 2003-2007, account for approximately 1/500th (\$95,700) of the average annual city business tax revenue (\$50 million). Therefore, the maximum possible negative fiscal impact is very limited, while the potential positive fiscal impact could easily reach the millions of dollars (see *Attachment A*).

Greentech/Biotech Bonus: eligible greentech and biotech businesses would receive an additional two years of bonuses, so that business taxes are abated for five years instead of three. These industry sectors are the fastest growing and have the most potential for long term business attraction. An emphasis on these sectors builds off Oakland's strengths in healthcare and its growing number of green tech companies. In addition, Oakland is well situated to accommodate growth in these sectors, given recent re-zoning efforts to preserve industrial lands, sites available for redevelopment, and Oakland's strategic location. Oakland is in the center of the East Bay biotech hub and has the potential to become the East Bay greentech hub. This incentive bonus would allow Oakland to target companies in these sectors.

2. Retail Incentive Program

As recommended in the Oakland Citywide Retail Enhancement Strategy, the City should consider a variety of retailer incentives for targeted infill retail opportunities or the attraction of large retailers, national/credit retailers or retail developments, with significant sales tax potential and job creation opportunities.

Staff is exploring the development of a Retail Incentive Program to target on a case-by-case basis larger retailers with high job creation or retail sales tax potential, as well as highly desirable smaller retailers. This program would authorize staff to develop Retail Incentive Agreements with targeted retailers for grants that equal a percentage of the local sales taxes generated by the retailer. The targeted retailers are defined in the City's Retail Enhancement Strategy report.

Staff anticipates that this program could bring a significant number of desirable retail companies to Oakland – such as One Workplace – that would boost Oakland's tax base and provide quality job opportunities for Oakland residents.

BUSINESS RETENTION AND EXPANSION INCENTIVES

Further research and outreach is required to complete the business retention and expansion element of the JTBEI. What follows are preliminary ideas for retention and expansion incentives:

1. Oakland Business Reinvestment Program

To help existing local companies expand into new technologies and assist in attracting targeted industries like Cleantech, Biotech or Life Sciences, staff is exploring the creation of a tax credit

for local purchase or lease of machinery or equipment. Eligible machinery and equipment guidelines would be similar to the Enterprise Zone Program machine and equipment tax credit eligibility requirements. The tax credit could be applied toward business and/or City of Oakland's share of sales taxes.

2. Small Business Capital Investment Program

The Small Business Capital Investment Program would be a public/private partnership between the City of Oakland and a bank to provide loans with "preferred-rate" terms to local businesses. The City would enter into an MOU wherein the bank would become the "preferred bank" for City of Oakland small businesses referrals. In return, the bank would offer below market-rate interest loans to Oakland small businesses. The bank would be able to make the below market-rate interest loans by taking advantage of the Enterprise Zone lender credits available to banks that make loans to businesses located in Enterprise Zones. Currently, most Oakland banks rarely use this credit.

3. Master Retail Tenant Program

Staff is considering a proposal for Master Lease Agreements in which the City of Oakland would lease ground floor tenant spaces in targeted retail nodes. The City would then control which retailers occupy these retail spaces. Master Lease Agreements would enable the City to implement elements of the City's retail strategy for commercial corridors and or key vacant sites.

4. Grocery Store Incentive Program

To achieve the City of Oakland's policy goal of bringing grocery stores to underserved areas of East and West Oakland, the Grocery Store Incentive Program could provide grants that exceed the current Tenant and Façade Improvement caps for grocery store operators who open locations in East and West Oakland. In addition, the program's existing 50% matching requirement could be reduced to 30-40% for businesses like grocery stores which specifically advance long-standing City objectives.

5. Automobile Dealership Incentive Program

Retention of automobile dealerships has important implications for Oakland's tax base and economy. Staff are strategizing on various options for assisting dealerships both with temporary cash flow problems and with longer term sustainability. Three incentives being considered are:

1. Reducing a percentage of the business taxes paid by a new or existing automobile dealership for a short period in order to help keep dealerships in business and generating sales taxes until the economy rebounds.
2. An Oakland Employee Vehicle Buying Program to encourage employees to purchase vehicles from Oakland auto dealers. Conceptually, the City could use a portion of the reduction in employee mileage allowances to fund the Program. The benefits would assist eligible employees with auto-related job requirements and would stimulate sales by

Oakland auto dealerships. This proposal requires further coordination with other agencies prior to presentation to the City Council.

3. A car dealership incentive program that provides gift cards to customers who purchase cars and trucks in Oakland. Customers who purchase new automobiles could redeem the gift cards at Oakland shops and restaurants. The goal of this program – which has been successfully implemented by the cities of Tracy, Palmdale and Lancaster – is to incentivize prospective buyers to purchase new automobiles while stimulating sales for local small business retailers. This program has the potential to greatly assist Oakland's commercial corridors.

6. Film Incentive Program

The Film Incentive Program would waive or discount the fees for temporary permits for film production shots. This incentive is successfully used by the City of San Francisco to attract television and movie productions, which bring well-paying union jobs, promote tourism and such hefty multiplier effects as film productions order food, lumber, temporary canopies and rental cars locally.

SUSTAINABLE OPPORTUNITIES

Economic: This purpose of the JTBEI is to implement new business incentives and programs to create and support a robust economy in Oakland.

Environmental: Enhancing and growing green business in Oakland is one of the key principles of the JTBEI.

Social Equity: Creating sustainable jobs and business opportunities for Oakland residents is a guiding principle of the JTBEI.

DISABILITY AND SENIOR CITIZEN ACCESS

There are no ADA or senior citizen access issues contained in this report.

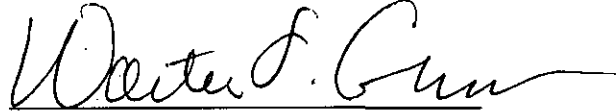
RECOMMENDATION(S) AND RATIONALE

Staff requests that Council provide direction for developing an implementation plan for the business attraction element of the JTBEI.

ACTION REQUESTED OF THE CITY COUNCIL

Provide direction for implementing a business attraction element (Business Tax Incentive Program and Retail Incentive Program) of the JTBEI.

Respectfully submitted,



Walter S. Cohen, Director
Community and Economic Development Agency

Reviewed by:
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APPROVED AND FORWARDED TO THE
COMMUNITY AND ECONOMIC DEVELOPMENT COMMITTEE



Office of the City Administrator

Attachment A: Annual Fiscal Benefits of a Range of Existing Oakland Business (Keyser Marston Associates)
Attachment B: Annual Jobs Generated by a Range of Existing Oakland Business (Keyser Marston Associates)

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Attachment A: Annual Fiscal Benefits of a Range of Existing Oakland Business

Source: Keyser Marston Associates: Economic Impact Analysis of Range of Businesses Relocating to Oakland (2008)

Business (business names not provided to protect financial privacy)	Business A	Business B	Business C	Business D	Business E	Business F	Business G	Business H	
City of Oakland Business Tax Classification	Professional Office		Administrative Headquarters Office		Manufacturing		Retail		
Type of business	Computers & Data	Engineering & Office	Food Production	Manufacturing	Printing	Medical	Restaurant	General Merchandise	
Square footage of business	9,000	50,100	100,000	445,000	64,400	275,700	6,000	140,000	
Workers employed by subject business	22	187	342	1286	55	170	20	245	
Direct and indirect revenue generated for the City of Oakland (excluding business taxes that would be abated by proposed program)*	\$15,100	\$154,300	\$130,200	\$486,900	\$139,800	\$323,400	\$27,600	\$761,800	Average: \$254,888

*Revenue sources include property, sales, utility and business taxes. Business taxes for businesses A-H are not included in this total because the incentive program proposes to abate these taxes; however, business taxes generated by indirect economic activity have been included. Indirect economic activity (a.k.a. multiplier effects) includes expenditures on materials, supplies, and services by businesses A-H as well as retail purchases by employees.

Attachment B: Annual Jobs Generated by a Range of Existing Oakland Business

Source: Keyser Marston Associates: Economic Impact Analysis of Range of Businesses Relocating to Oakland (2008)

Business (business names not provided to protect financial privacy)	Business A	Business B	Business C	Business D	Business E	Business F	Business G	Business H	
City of Oakland Business Tax Classification	Professional Office		Administrative Headquarters Office		Manufacturing		Retail		
Type of business	Computers & Data	Engineering & Office	Food Production	Manufacturing	Printing	Medical	Restaurant	General Merchandise	
Square footage of business	9,000	50,100	100,000	445,000	64,400	275,700	6,000	140,000	
Employees	22	187	342	1,286	55	170	20	245	
Total direct and indirect jobs generated by business*	58	417	1,021	3,839	91	431	28	384	Average: 784

*Includes workers employed by the business as well as indirect jobs generated by the businesses' expenditures on materials, supplies, and services.