




DISTRIBUTION DATE:

MEMORANDUM

TO: HONORABLE MAYOR & CITY COUNCIL **FROM:** Erin Roseman
Director of Finance

SUBJECT: SUPPLEMENTAL – Fiscal Year 2024-25 Midcycle Budget General Purpose Fund Deficit **DATE:** April 11, 2024

City Administrator
Approval


[Justin Johnson \(Apr 15, 2024 19:19 PDT\)](#)

Date: Apr 15, 2024

INFORMATION

RECOMMENDATION

Staff Recommends That City Council Receive An Informational Report That Provides An Overview Of The Financial And Structural Challenges Facing The City During And After The Fiscal Year (FY) 2024-25 Midcycle Budget.

REASON FOR SUPPLEMENTAL INFORMATIONAL MEMORANDUM

Staff recommends that City Council receive responses to questions raised during the March 26, 2024, Finance & Management Committee meeting related to the informational report that provides an overview of the financial and structural challenges facing the City during and after the Fiscal Year (FY) 2024-25 Midcycle Budget. Specifically, the committee directed staff to report on the following questions:

STAFF RESPONSES

Question 1: What is the number of businesses that have not paid taxes for Fiscal Year 2023 -24? How much of those taxes did the City end up collecting in Fiscal Year 2022 -23?

As of April 4, 2024, the total number of businesses that have not paid taxes for Fiscal Year 2023-24 are 6,960.

Currently, we do not have the amount of taxes the city ended up collecting in Fiscal Year 2022-23, from the 6,960 currently delinquent businesses. We would need to contract this work out to our software vendor who would perform a detailed review of each business account currently delinquent, and determine how much, if any, revenue the City collected in Fiscal Year 2022-23.

Note: Some businesses may be closed and or no longer operating in Oakland and have not provided notice to the city.

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Question 2: Provide information on a chart showing what taxes were paid or unpaid year-by-year, by business category, and whether the delinquency notices were sent.

Table(s) 1, 2 and 3 below show the paid and unpaid business taxes by fiscal years, by business category for FY2021-22, FY2022-23, and FY2023-24, respectively.

Delinquency notices are scheduled to be sent for FY2023-24 after all accounts have been validated by the Business Tax Unit as paid or not paid for the current renewal period and amounts have been assessed by the Tax Compliance Unit for each delinquent account. We estimate to have the amounts populated on each account by July 2024 and will shortly begin sending out Notices of Delinquency during the months of July/August 2024.

Delinquency notices were sent on October 21, 2023, October 28, 2023, November 18, 2023, and December 9, 2023, for FY2022-23. Note, there was a 2-month delay in starting and ending this phase of work due to the ransom attack, which impacted systems and computers throughout the Revenue Bureau.

Mailing dates for delinquency notices sent during FY2021-22, are being compiled by the city’s software vendor and staff. The actual mailing dates will be available late.

TABLE 1				
Details by Category Fiscal Year 2021-22				
Business Tax Category	No. of Accounts Paid	Total Paid	No. of Accounts Unpaid as of April 4 2024	Potential Unpaid Amount
A - RETAIL SALES	4,591	\$ 4,889,930	958	\$ 951,254
B - GROCERS	209	\$ 690,087	16	\$ 42,302
C - AUTOMOBILE SALES	83	\$ 658,266	28	\$ 278,455
D - WHOLESALE SALES	613	\$ 3,536,072	65	\$ 197,555
E - BUSINESS/PERSONAL SVCS	5,723	\$ 5,661,882	1,089	\$ 932,205
F - PROFESSIONAL/SEMI-PROFESSIONAL	7,279	\$ 20,358,205	853	\$ 2,826,444
G - RECREATION/ENTERTAINMENT	407	\$ 1,009,201	79	\$ 54,098
H - CONTRACTORS	4,928	\$ 4,957,026	837	\$ 358,793
I - MANUFACTURING	573	\$ 841,863	87	\$ 111,429
J - HOTEL/MOTEL	155	\$ 275,563	25	\$ 14,416
K - ADMIN HEADQUARTERS	94	\$ 1,139,490	8	\$ 25,995
L - MEDIA FIRMS	84	\$ 351,061	18	\$ 401,268
M - UTILITY COMPANIES	175	\$ 932,650	24	\$ 29,344
N - MISCELLANEOUS	19	\$ 37,165	1	\$ 145
O - COMMERCIAL RENTAL	26,602	\$ 42,552,884	1,829	\$ 2,190,017
P - CANNABIS	317	\$ 12,198,202	28	\$ 2,322,514
R - AMBULANCES	8	\$ 2,788	1	\$ 168
R - LIMOUSINES	19	\$ 2,275	4	\$ 1,027
R - TAXICABS	60	\$ 17,919	6	\$ 11,924
S - TRUCKING/TRANSPORTATION	253	\$ 61,176	56	\$ 12,857
Total	52,192	\$ 100,173,705	6,012	\$ 10,762,210

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TABLE 2				
Details by Category Fiscal Year 2022-23				
Business Tax Category	No. of Accounts Paid	Total Paid	No. of Accounts Unpaid as of April 4 2024	Potential Unpaid Amount
A - RETAIL SALES	4,292	\$ 5,793,909	1,591	\$ 1,329,056
B - GROCERS	206	\$ 993,154	29	\$ 59,477
C - AUTOMOBILE SALES	73	\$ 1,713,429	47	\$ 702,779
D - WHOLESALE SALES	574	\$ 3,508,599	79	\$ 228,276
E - BUSINESS/PERSONAL SVCS	5,243	\$ 8,832,176	1,705	\$ 1,351,023
F - PROFESSIONAL/SEMI-PROFESSION	6,694	\$ 25,439,371	1,332	\$ 4,443,030
G - RECREATION/ENTERTAINMENT	349	\$ 666,796	124	\$ 104,127
H - CONTRACTORS	4,708	\$ 6,912,373	1,996	\$ 886,283
I - MANUFACTURING	521	\$ 1,111,980	116	\$ 178,902
J - HOTEL/MOTEL	151	\$ 366,167	30	\$ 45,236
K - ADMIN HEADQUARTERS	77	\$ 3,372,278	15	\$ 134,064
L - MEDIA FIRMS	77	\$ 247,972	29	\$ 1,511,738
M - UTILITY COMPANIES	163	\$ 2,987,230	37	\$ 108,187
N - MISCELLANEOUS	17	\$ 39,215	1	\$ 142
O - COMMERCIAL RENTAL	25,179	\$ 45,024,428	1,408	\$ 4,400,423
P - CANNABIS	266	\$ 6,516,462	14	\$ 488,692
R - AMBULANCES	8	\$ 5,805	3	\$ 1,401
R - LIMOUSINES	18	\$ 3,865	9	\$ 3,110
R - TAXICABS	63	\$ 19,952	7	\$ 11,558
S - TRUCKING/TRANSPORTATION	196	\$ 187,728	90	\$ 29,761
Total	48,875	\$ 113,742,891	8,662	\$ 16,017,265

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TABLE 3				
Details by Category Fiscal Year 2023-24				
Business Tax Category	No. of Accounts Paid	Total Paid	No. of Accounts Unpaid as of April 4 2024	Potential Unpaid Amount
A - RETAIL SALES	3,873	\$ 5,405,658	1,067	\$ 569,739
B - GROCERS	203	\$ 1,062,244	41	\$ 190,355
C - AUTOMOBILE SALES	70	\$ 2,118,243	20	\$ 498,377
D - WHOLESALE SALES	535	\$ 3,970,610	79	\$ 413,976
E - BUSINESS/PERSONAL SVCS	4,944	\$ 8,663,519	1,169	\$ 620,891
F - PROFESSIONAL/SEMI-PROFESSIONAL	6,520	\$ 27,579,622	943	\$ 1,663,201
G - RECREATION/ENTERTAINMENT	339	\$ 1,635,361	72	\$ 97,898
H - CONTRACTORS	4,052	\$ 6,047,914	1,408	\$ 1,003,479
I - MANUFACTURING	468	\$ 950,669	92	\$ 74,524
J - HOTEL/MOTEL	134	\$ 475,827	15	\$ 29,594
K - ADMIN HEADQUARTERS	76	\$ 4,224,078	11	\$ 7,283
L - MEDIA FIRMS	73	\$ 231,425	13	\$ 6,528
M - UTILITY COMPANIES	155	\$ 2,373,063	29	\$ 24,523
N - MISCELLANEOUS	14	\$ 38,464	3	\$ 206
O - COMMERCIAL RENTAL	23,105	\$ 40,343,737	1,833	\$ 2,458,488
P - CANNABIS	193	\$ 4,928,434	98	\$ 344,738
R - AMBULANCES	7	\$ 5,994	4	\$ 2,613
R - LIMOUSINES	13	\$ 5,547	7	\$ 1,574
R - TAXICABS	56	\$ 20,471	10	\$ 2,667
S - TRUCKING/TRANSPORTATION	191	\$ 212,301	46	\$ 12,716
Total	45,021	\$ 110,293,178	6,960	\$ 8,023,367

Note: Some businesses may be closed or no longer operating in Oakland and have not provided notice to the city. The unpaid amounts in the tables above are calculated using the last year’s gross receipts reported by a business and increasing that amount by 10% or using industry averages for the business category. The unpaid amount is only an estimate, and the actual unpaid amount cannot be determined until the business reports their gross receipts for the year in question.

Question 3: What are the delinquency timeline and the statute of limitations to collect on the delinquencies?

The delinquency timeline and statute of limitations to collect on delinquent business license taxes is 3 years. The clock starts to run when the creditor is required to maintain an action. Business licenses have an expiration date of 12/31/XX and usually must be renewed no later than March 1st of the following the year, unless an extension is granted; March 2nd is usually when the debt is officially delinquent.

****Questions Not Included in the Motion but Requested by the CAO & Council****

Question 4: Provide more information on corrective action to address the structural deficit including more information about the referenced leaning more on County services.

Any requisite corrective actions to address the structural deficit will be considered as a component of the Midcycle budget process. Specific actions may be proposed by the Mayor and/or added by City Council amendment. Generally, corrections to the structural deficit requires either:

1. A permanent ongoing reduction to expenditures (staff, contracts, etc.) and accompanying reduction to services either by discontinuing the service or with another entity taking responsibility for that service; Or
2. A permanent ongoing increase to City revenues. This would exclude increases from one-time events such as land sales, revenue audit projects, or use of fund balances. Significant increases in revenue generally require increased rates of taxation which under California law must be approved by voters.

Question 5: Identify lost revenues because of businesses lost.

All sources of revenues previously collected from a business are lost when a business closes or moves out of Oakland. Depending on the nature of the business the primary revenues lost includes Business License Tax, Sales Tax, Transient Occupancy Taxes, Utility Consumption Tax and Parking Tax. Other economic impacts to city revenues includes loss of jobs, lost parking citation fees and lost service charges as patrons and employees will not be parking near the business location.

Business Tax

Question 6: What is the status of payments of delinquent business taxes from last year?

Notices of Determination (NOD) have been sent to all non-rental businesses with delinquent business taxes having an expiration date of December 31, 2023. These notices were sent on October 23, 2023, October 28, 2023, November 18, 2023, and December 9, 2023. A total of 3,020 accounts received this notice.

Notices of Violation (NOV) have been sent to all non-rental businesses with delinquent business taxes having an expiration date of December 31, 2023. These notices were sent on February 15, 2024, February 27, 2024, and March 8, 2024.

All unpaid non-rental business accounts that received NOD's and NOV's having a business license tax expiration date of December 31, 2023, have been referred to the Collections Unit. A total of 1,183 accounts were referred in the amount of \$1.9 million.

Notices of Determination for non-rental business accounts that have multi-year delinquent business taxes, including last year are being populated by the city's software vendor with assessed amounts for each delinquent year. These notices are scheduled to be populated by the City's vendor no later than Friday, April 12, 2024. Notices are scheduled to be mailed out beginning Monday, April 15, 2024.

Notices of Assessment (NOA) for all rental businesses with delinquent business taxes, having an expiration date of December 31, 2023, are being populated by the city's software vendor with the

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assessed amounts. These notices are scheduled to be populated by the City’s vendor no later than Friday, April 12, 2024. Notices are scheduled to be mailed out beginning April 15, 2024.

Question 7: How many businesses are currently delinquent in each industry category?

As of April 4, 2024, 6,960 accounts are estimated to be delinquent. **Table 3** below shows the estimated number of delinquent businesses by industry category.

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Note: Some businesses may be closed or no longer operating in Oakland and have not provided notice to the city. The unpaid amounts in the table are calculated using the last year’s gross receipts reported by a business and increasing that amount by 10% or using industry averages for the business category. The unpaid amount is only an estimate, and the actual unpaid amount cannot be determined until the business reports their gross receipts for the year in question.

Question 8: How many businesses in each industry category were considered delinquent last year, but have now paid in full? What is the total revenue collected from these businesses?

Table 2 below reflects the total number of 48,875 businesses that have paid in full as of April 4, 2024. The total revenue collected from these businesses is \$113,742,891. We would need the City’s software vendor to review which of these accounts were delinquent after April 17, 2023, the extension date, which was granted due to the ransom attack, and compare that with those accounts that now reflect paid in full.

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S - TRUCKING/TRANSPORTATION	196	\$ 187,728	90	\$ 29,761
Total	48,875	\$ 113,742,891	8,662	\$ 16,017,265

Question 9: What is the total estimated amount of delinquent/late business tax payments from last year that is still outstanding?

The estimated assessed amount of revenue for delinquent business taxes is \$16,017,265.

Note: These amounts are only estimates based on prior year reported gross receipts. Some businesses may be closed, no longer operating in Oakland or have a reduction in gross receipts. Staff determines the current unpaid amount by adding 10% to the last reported gross receipts. In the absence of last reported gross receipts, staff determines the assessment amount by adding 10% to the respective business category.

Question 10: When will the city send notices to business that they are delinquent this fiscal year?

Notices of Determination are scheduled to be sent beginning July 2024, after all accounts have been validated as paid or unpaid or closed and amounts have been assessed for each unpaid account.

Question 11: On what date were delinquency notices sent out in prior fiscal years?

Notice Type	Date Notices Mailed
NOLH	11/5/2013
NOLH	5/6/2014, 11/4/2014
NOLH	5/6/2015
NOLH	5/11/2016
NOLH	5/9/2017
NOLH	4/27/2018, 6/27/2018, 10/5/2018, 12/17/18
NOLH	1/25/2019, 5/10/2019, 10/4/2019
NOLH	2/7/2020, 10/5/2020
NOLH NOA & NOIL	NOHL 2/19/2021, NOA 7/29/2021, NOIL 9/3/2021
NOA & NOIL	NOA 10/7/2022, NOIL 11/14/2022
NOD	10/21/23, 10/28/23, 11/18/23, 12/9/23
Cannabis Reminder	2/6/2024
Cannabis Delinquent	3/26/2024

Note: NOLH “Notice of Lien Hearing” was replaced by NOIL “Notice of Intent to Lien”

Additional dates of delinquency notices that were mailed in prior years (2022 and prior) are being pulled by the City’s software vendor and staff and will be available later.

Question 12: The business tax ordinance called for a notice of all liens to be brought to city council (5.04.415 Notice of hearing on lien). When will the department produce a report to council listing liens against businesses with delinquent business taxes?

Staff intends to produce a report for City Council to approve during the month of June 2024. All unpaid business taxes subject to a Notice of Intent to Lien (NOIL) will be included on the August 10, 2024, Alameda County Property Tax Roll, if such taxes remain unpaid as of that date.

Question 13: How many businesses were not timely in paying business taxes last year, but were given amnesty, had interest or late fees forgiven, or received another type of refund from last year's collections process? What’s the total amount of revenue? What industry categories are these businesses in?

No businesses were granted amnesty, had interest or late fees forgiven or received another type of refund from last year’s collections process.

Question 14: Does the department have an estimate of how many businesses are operating, yet have not paid any business tax?

There are 6,960 unpaid business accounts as of April 4, 2024. Some businesses may be closed and or no longer operating in Oakland and have not provided notice to the city.

Question 15: What is the department doing to identify businesses that paid no business tax but are still operating in Oakland, particularly landlords?

Notices of Assessments are being sent to these businesses beginning April 15, 2024, once the assessed amounts have been populated in these accounts by our software vendor. Thereafter, Notices of Intent to Lien (NOIL) will be sent to all accounts that remain unpaid. Staff intends to produce a report for City Council during the month of June 2024. The report will list all unpaid business tax accounts subject to a Notice of Intent to Lien (NOIL), which will be included on the August 10, 2024, Alameda County Property Tax Roll, if such taxes remain unpaid as of that date.

Question 16: How many delinquent businesses were sent to collections and how much revenue is outstanding in collections?

There were 1,183 delinquent business accounts referred to collections. These accounts have an expired license date of December 31, 2023, and assessed revenues are \$1.9 million. Currently, there is \$9.466 million in collections, \$9.353 million of this amount is with the City Attorney’s office. The grand total of revenue in collections as of 2024 is \$11.36 million.

Question 17: Is additional capacity needed to send notices or perform other duties to collect outstanding fees?

During FY2022-23, the Tax Compliance Unit had 5 Tax Enforcement Officers II’s (one was out on leave) and 1 Revenue Assistant. The Revenue Operations Supervisor position, which oversees this Unit was and is currently still frozen. In the past, this unit had as many as eight (8) Tax Enforcement Officers II’s. It is recommended that all unfilled and frozen positions supporting the Revenue Management Bureau be filled.

RAP Fees

Question 18: What amount of RAP fees are outstanding, and from how many property owners of what size, for this year and last year? Have we sent collection notices and how are we prioritizing collecting them?

Below is a summary of accounts with outstanding RAP fees from last year and this year. RAP fees which are outstanding from last year are included in the Notices of Assessments. These fees are typically assessed and collected on the same notice that is sent to rental property owners who have delinquent business taxes. This year’s outstanding RAP fees will be sent beginning July 2024, once we determine the assessed amounts for any outstanding accounts.

RAP Fees Outstanding 2023 and 2024		
License Expiration Date	# of Accounts	Unpaid Amount
12/31/2023	372	294,262.41
12/31/2024	401	199,263.44
Total		\$ 493,525.85

Question 19: Part I of the consolidated financial policy requires the City administrator to come up with a plan to reduce expenses in any department that is exceeding its general fund budgeted expenditures by more than 1% listing steps to bring the department's expenses back in line with budget. What is the status of that plan for OPD? When will this be scheduled to FMC?

The Consolidated Fiscal Policy Requires that such a report return with 60days. We estimate that an informational report on OPD Overspending that lists the actions the Administration is taking to bring the expenditures into alignment with the budget we be heard in conjunction with the Third Quarter Revenue and Expenditure Report at the final FMC in May.

Question 20: Please provide a description of where overspending is occurring in the police department by unit, service area and expenditure type.

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By Bureau and Category	FY 2023-24 Q2 Adjusted Budget	FY 2023-24 Q2 YTD Actuals	FY 2023024 Q2 YE Estimate	YE (Over)/Under Adjusted Budget
Office of the Chief of Police	23,269,209	11,682,252	22,982,761	286,449
Personnel	8,827,978	5,065,360	9,287,592	(459,614)
Overtime	463,887	666,176	1,332,597	(868,710)
Operations & Maintenance	13,977,344	5,950,716	12,362,571	1,614,773
Bureau of Field Operations 1	3,632,946	2,338,939	4,687,928	(1,054,982)
Personnel	2,286,756	2,055,252	3,967,909	(1,681,153)
Overtime	77,311	199,678	400,314	(323,003)
Operations & Maintenance	1,268,879	84,009	319,705	949,174
Bureau of Field Operations 2	15,878,529	12,103,444	24,397,803	(8,519,274)
Personnel	9,780,395	6,151,441	12,007,961	(2,227,566)
Overtime	4,820,942	5,573,698	11,152,360	(6,331,418)
Operations & Maintenance	1,277,192	378,305	1,237,482	39,710
Bureau of Investigations	68,959,433	37,918,760	76,551,643	(7,592,211)
Personnel	59,927,877	30,077,627	59,084,184	843,693
Overtime	1,702,404	5,527,783	11,063,817	(9,361,413)
Operations & Maintenance	7,329,152	2,313,349	6,403,642	925,510
Bureau of Risk Management	36,049,827	15,660,731	34,822,542	1,227,285
Personnel	25,010,833	11,840,760	23,633,060	1,377,773
Overtime	3,126,246	2,258,819	4,520,755	(1,394,509)
Operations & Maintenance	7,912,748	1,561,152	6,668,726	1,244,022
Bureau of Services	44,365,686	14,393,669	36,601,445	7,764,240
Personnel	33,967,903	12,695,163	25,529,529	8,438,374
Overtime	3,811,597	2,373,851	4,793,409	(981,812)
Operations & Maintenance	6,586,186	(675,345)	6,278,507	307,678
Other	1,762	53,040	55,121	(53,359)
Personnel	-	3,535	7,070	(7,070)
Overtime	1,759	23,479	46,958	(45,199)
Operations & Maintenance	3	26,026	1,093	(1,090)
District Area 1	30,265,668	15,591,235	31,045,463	(779,795)
Personnel	26,652,403	11,927,250	23,409,182	3,243,221
Overtime	2,100,378	3,060,692	6,123,394	(4,023,016)
Operations & Maintenance	1,512,887	603,293	1,512,887	0
District Area 2	22,097,441	13,477,643	26,625,593	(4,528,152)
Personnel	19,080,046	11,604,859	22,663,926	(3,583,880)
Overtime	1,913,471	1,428,320	2,857,743	(944,272)
Operations & Maintenance	1,103,924	444,464	1,103,924	0
District Area 3	22,664,373	13,068,890	25,943,665	(3,279,292)
Personnel	19,589,970	10,718,870	20,999,035	(1,409,065)
Overtime	1,859,580	1,863,626	3,729,807	(1,870,227)
Operations & Maintenance	1,214,823	486,394	1,214,823	0
District Area 4	24,516,525	13,696,260	27,121,356	(2,604,830)
Personnel	20,019,076	11,244,374	22,042,381	(2,023,305)
Overtime	2,052,314	1,316,202	2,633,840	(581,526)
Operations & Maintenance	2,445,135	1,135,684	2,445,135	0
District Area 5	23,696,720	13,802,712	27,551,339	(3,854,619)
Personnel	20,214,007	11,323,669	22,303,888	(2,089,881)
Overtime	2,145,698	1,954,509	3,910,437	(1,764,739)
Operations & Maintenance	1,337,015	524,535	1,337,015	0
District Area 6	17,940,488	10,409,176	20,596,649	(2,656,161)
Personnel	17,081,921	8,692,780	17,003,181	78,740
Overtime	-	1,366,995	2,734,901	(2,734,901)
Operations & Maintenance	858,567	349,400	858,567	0
Grand Total	333,338,606	174,196,750	358,983,308	(25,644,701)

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends That City Council Receive An Informational Report That Provides An Overview Of The Financial And Structural Challenges Facing The City During And After The Fiscal Year (FY) 2024-25 Midcycle Budget.

For questions regarding this report, please contact Bradley Johnson, Budget Administrator, at (510) 238-6119 or Sherry Jackson, Revenue and Tax Administrator, at (510) 238-7480.

Respectfully submitted,



[Erin Roseman \(Apr 15, 2024 19:06 PDT\)](#)

ERIN ROSEMAN
Director of Finance
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Reviewed by:
Sherry M. Jackson
Revenue and Tax Administrator

Bradley Johnson
Budget Administrator

Prepared by:
Revenue Management Bureau
Budget Bureau