



# AGENDA REPORT


**TO:** Jestin D. Johnson  
City Administrator

**FROM:** Erin Roseman  
Director of Finance

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

**DATE:** April 24, 2024

City Administrator Approval

  
Jestin Johnson (Apr 26, 2024 08:32 PDT)

Date: Apr 26, 2024

## **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**

Staff recommends that City Council receive responses to questions raised during the March 26, 2024, Finance & Management Committee and April 16, 2024, City Council 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 and requests:

## **QUESTIONS FROM THE MARCH 26, 2024 FINANCE & MANAGEMENT COMMITTEE**

***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 currently delinquent business account 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.

City Council  
April 30, 2024

**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 1) been validated by the Business Tax Unit as paid or unpaid for the current renewal period, and 2) 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 FY 2022-23. 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 at a later date.

<b>Details by Category Fiscal Year 2021-22</b>				
<b>Category</b>	<b>No. of Accounts Paid</b>	<b>Total Paid</b>	<b>No. of Accounts Unpaid as of April 4 2024</b>	<b>Potential Unpaid Amount</b>
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 - RENTALS	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
<b>Total</b>	<b>52,192</b>	<b>100,173,705</b>	<b>6,012</b>	<b>10,762,210</b>

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-PROFESSIONAL	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
<b>Total</b>	<b>48,875</b>	<b>113,742,891</b>	<b>8,662</b>	<b>16,017,265</b>

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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
<b>Total</b>	<b>45,021</b>	<b>110,293,178</b>	<b>6,960</b>	<b>8,023,367</b>

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 must be renewed no later than March 1<sup>st</sup> of the following the year. A business owner may request an extension and if granted, the debt will become delinquent effective March 2<sup>nd</sup> of that year.

**QUESTIONS FROM THE APRIL 6, 2024 CITY COUNCIL MEETING**

**Question 4: The Informational Memo That Was Placed On The City's Website On The Finance Department's Page The PowerPoint Presented To Be Included, And The Answers To Following Questions Be Included In The Supplemental Report: Adding Residential Rental As A Category In The Chart, So That We May See What Has Been Collected And What Is Delinquent Year By Year**

The Informational Memo discussed at the April 16, 2024 City Council meeting is attached to this supplemental report as **Attachment A** and can also be found on the City's website at the following link:

<https://cao-94612.s3.us-west-2.amazonaws.com/documents/Memorandum-Supplemental-FY2024-25-Midcycle-Budget-General-Purpose-Fund-Deficit.pdf>.

The Power Point presentation shown at the April 16, 2024 City Council meeting is attached to this supplemental report as **Attachment B** and can also be found on the City's website at the following link:

<https://cao-94612.s3.us-west-2.amazonaws.com/documents/PPT-4.16.2024-CC-file-id-24-0220-FY24-25-Midcycle-Budget-Deficit.pdf>

The business tax data presented in fiscal year formats, the Fiscal Year 2021-22, Business Tax Year 2022, and prior the Business Tax Classification schedule was as shown below. Residential Rental was a separate classification code "M- Residential Rental".

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Code	Sector	Tax Basis
A	Retail Sales	Gross Receipts
C	Auto Sales	Gross Receipts
D	Wholesale Sales	Gross Receipts
I	Manufacturing	Value Added
J	Manufacturing (2)	Oakland Expenses
K	Admin Headquarters	Gross Payroll
T	Media Firms	Gross Receipts
W	Miscellaneous	Gross Receipts
B	Grocers	Gross Receipts
E	Business & Personal Services	Gross Receipts
H	Contractors	Gross Receipts
O	Commercial Rental - 5-Yr Exempt^	Gross Receipts
P	Hotel, Motel	Gross Receipts
F	Professional & Semi-Prof. Services	Gross Receipts
G	Recreation And Entertainment	Gross Receipts
L	Trucking & Transportation	Employees
M	Residential Rental	Gross Receipts
N	Commercial Rental	Gross Receipts
U	Utility Companies	Gross Receipts
X	Taxicabs	Permits
Y	Ambulances & Limousines	Vehicles
Z	Cannabis	Gross Receipts

For business tax data presented in fiscal year formats, for FY 2022-23, Business Tax Year 2023, business tax accounts that were previously classified as “M-Residential Rental” have been re-classified in Classification O – Residential and Non-Residential Rental. The Classification O was previously described as “Commercial Rental –5 Yr. Exempt”. The **Tables 1, 2 and 3** below, report the data in aggregate according to the newest classifications and will diverge from reports represented prior to the passage of the current Ordinance. Staff has aggregated the data to provide a comparison across fiscal years and differing Ordinance language. The revised tables have been expanded to disaggregate Commercial Rental and Residential Rental.

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	3,457	\$ 18,290,057	54	\$ 212,933
O - RESIDENTIAL RENTAL	23,138	\$ 24,188,875	1,775	\$ 1,977,083
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
<b>Total</b>	<b>52,185</b>	<b>\$ 100,099,753</b>	<b>6,012</b>	<b>\$ 10,762,210</b>

Note- The number of “Accounts Unpaid” and “Potential Unpaid Amounts” depicted in the table represent estimates of amounts due to the city based on a standard practice until the account holder responds to the City and matriculates through prescribed processes for validation and determination and has opportunity to exercise due process. Delinquency as described in the current OMC 5.04.450 is the estimated amount plus penalty and interest, due 20 days after the Notice of Determination is finalized. However, the taxpayer has due process and may petition for Redetermination, Appeal, etc.

Although the overall number of accounts that are shown reflect 6,012, based on a querying of the database as of April 4, the data is not truly reflective of amounts owed or due to the City as each account is in a different stage in the overall collection or compliance process and the amounts shown represent a “point in time” in the overall process and are the upper bounds of estimated collections.

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
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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
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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	3,344	\$ 18,802,101	363	\$ 1,256,660
O - RESIDENTIAL RENTAL	21,835	\$ 26,222,327	1,045	\$ 3,143,763
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
<b>Total</b>	<b>48,875</b>	<b>\$ 113,742,891</b>	<b>8,662</b>	<b>\$ 16,017,264</b>

Note- The number of “Accounts Unpaid” and “Potential Unpaid Amounts” depicted in the table represent estimates of amounts due to the city based on a standard practice until the account holder responds to the City and matriculates through prescribed processes for validation and determination and has opportunity to exercise due process. Delinquency as described in the current OMC 5.04.450 is the estimated amount plus penalty and interest, due 20 days after the Notice of Determination is finalized. However, the taxpayer has due process and may petition for Redetermination, Appeal, etc.

Although the overall number of accounts that are shown reflect 8,662, based on a querying of the database as of April 4, the data is not truly reflective of amounts owed or due to the City as each account is in a different stage in the overall collection or compliance process and the amounts shown represent a “point in time” in the overall process and are the upper bounds of estimated collections.



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	3,199	\$ 17,376,576	214	\$ 837,420
O - RESIDENTIAL RENTAL	19,906	\$ 22,967,161	1,619	\$ 1,621,068
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- The number of “Accounts Unpaid” and “Potential Unpaid Amounts” depicted in the table represent estimates of amounts due to the city based on a standard practice until the account holder responds to the City and matriculates through prescribed processes for validation and determination and has opportunity to exercise due process. Delinquency as described in the current OMC 5.04.450 is the estimated amount plus penalty and interest, due 20 days after the Notice of Determination is finalized. However, the taxpayer has due process and may petition for Redetermination, Appeal, etc.

Although the overall number of accounts that are shown reflect 6,960, based on a querying of the database as of April 4, the data is not truly reflective of amounts owed or due to the City as each account is in a different stage in the overall collection or compliance process and the amounts shown represent a “point in time” in the overall process and are the upper bounds of estimated collections.

**Question 5. A Written Explanation That Answers Why There Is A Gap On Liens In Rental Properties**

The OMC 5.04.420 prescribes that the City Administrator shall turn over to the County Assessor for inclusion in the next property tax assessment the total sum of unpaid delinquent business tax charges consisting of the delinquent business taxes, penalties, and interest. Alameda County set the due date for property tax assessments to be received by the County for inclusion on the property tax assessment roll no later than August 10th of each year.

In complying with the OMC and to ensure due process and appropriateness, accounts are fully vetted, assessed, properly noticed, public hearing provided, approved by Council, and validated by the Citywide Liens Unit for inclusion on the tax roll. At the culmination of this process then a lien is placed on the next property tax assessment, usually the following tax year and fiscal year. During a fiscal year and in the normal day to day operations of the revenue staff, accounts are worked moving them through the required process and the work is continuous.

At any time prior to the next property tax assessment, the Revenue Bureau through The City Administrator will bring to Council a list of delinquent properties as a Notice of Hearing of Lien of accounts that should be included on the next property tax assessment roll. The Revenue staff, through the City Administrator, have had a historical practice of bringing accounts for lien to City Council for public hearing on a quarterly basis, or six-month basis taking into consideration the time impact on a City Council meeting if the volume were to be large. Additionally, there is a historical pattern of a public hearing for liens at City Council in late June. For FY2022-23, the historical pattern diverged and created a perceived gap in business tax liens. On December 6, 2022, a list of delinquent rental properties was brought to Council and approved for liens. There was not another list of accounts that had completed the entire due process to have a public hearing or be heard by City Council for inclusion on the next property tax assessment roll. On August 10, 2023, 172 of the accounts presented in December 2022 were not resolved and subsequently turned over to the County of Alameda for inclusion on the property tax assessment roll.

**Question 6. The Process In Timeline For The Business License Tax, In Terms Of The Deadlines, The Notice Of Delinquency, The Notice Of Liens Etc.**

The OMC 5.04 prescribes dates for the business tax and the Revenue Management Bureau follows them. The timeline below depicts a normal year. Between these finite dates, a number of activities take place depending on taxpayer's response and information provided.

--Note for FY22-23, Business tax year 2023, the dates diverge due to effective dates of the new ballot measure (January 28, 2023), and the ransomware attack, (due date adjusted to April 17, 2023).

<b>All Business License Tax Accounts</b>	
<b>Timeline</b>	
<b>Date</b>	<b>Task</b>
January 1-	Annual Renewal of business tax license commences
March 1-	Annual renewal of business tax license due
March 2 <sup>nd</sup>	Identify Non-Renewing Taxpayers
Mid-March	Renewal reminder notices sent to Non-Renewing Taxpayers
May 1 <sup>st</sup>	Identify Taxpayers Who Did Not Renew to Prepare for Noticing
August 10 <sup>th</sup>	Submit Accounts on the Tax Roll to Alameda County for Lien

**Question 7. The Information For Business License Tax To Be Conveyed By Calendar Year In Addition To Fiscal Year**

Business Tax revenue data by calendar year, and by business tax category on a historical basis is not readily available without significant manipulation. To produce accurate data in short order, we would need to engage the assistance of our software vendor (at cost) to pull and compile this data. An estimation may be provided in future reports using aggregate data given additional time.

**Question 8. Rap Fees That Are Outstanding From Prior Two Fiscal Years**

In the renewal software, the RAP fee is comingled in account data and requires significant manipulation to disaggregate it from business tax, penalty, and interest at the point in which it is delinquent. The data can be retrieved and analyzed for the FY 2021-22 and FY 2020-21; however, it requires additional resources to produce the data in the format requested. This information is at a cost to produce quickly and thus unavailable for this supplemental report.

**Question 9. The Framework For Equity Impacts; If There Is Information That The Department Of Race & Equity Is Using As The Budget Proposal Is Developed For The Equity Framework And Those Impacts**

This information is not readily available for this report. The production of this information will take additional time to respond comprehensively and effectively.

**Question 10. The Missing Amount Of Approximately \$35 Million Over The Last 3 Years - Perspective Timeline & Methodology For Anticipating Collection Of This Missing Amount**

The data reported in **Tables 1, 2, and 3** indicating “Potential Unpaid Amounts” for FY 21-22, FY 22-23, and FY 23-24, covering business tax years 2022, 2023, 2024, collectively totaling approximately \$35 million, referred to as “Missing Amounts”; is representative of an upward bound approximation of an amount due to the City. These amounts are not considered missing but rather an aggregated estimate of gross receipts, penalties, and interest to compel the taxpayer to respond to the City’s

Ordinance, engage in compliance, and is the starting point for the basis of a potential debt to the City. Per the OMC code, the unpaid amounts meet the definition of delinquency and for the purpose of compelling the taxpayer to action. After the taxpayer’s due process, which can include a Redetermination period and/or appeal (submitted to the Tax Board of Review), the finalized Notice of Determination sets the final debt amount due to the City.

The approximate \$35 million of aggregated amounts are broadly calculated using the taxpayers’ last reported gross receipts and adding 10% to that amount, then including penalty and interest. If no gross receipts were reported by a business, as it may have been the first year, industry medians are used for that business tax classification, then adding penalty and interest.

The overall timeline on an annual basis follows the established guidelines of the [OMC 5.04 – Business Tax Ordinance](#) (BLT Ordinance) and associated Council Resolutions that sets specific dates. The methodology for collecting revenues follows the guidelines in the BLT Ordinance. These statutory guidelines are augmented by the City Administrator’s Administrative Instructions and/or Finance Director’s internal administrative policies, working standard operating procedures, and manuals.

<b><u>All Business License Tax Accounts</u></b>	
<b><u>Timeline</u></b>	
<b><u>Date</u></b>	<b><u>Task</u></b>
January 1-	Annual Renewal of business tax license commences
March 1-	Annual renewal of business tax license due
March 2 <sup>nd</sup>	Identify Non-Renewing Taxpayers
Mid-March	Renewal reminder notices sent to Non-Renewing Taxpayers
May 1 <sup>st</sup>	Identify Taxpayers Who Did Not Renew to Prepare for Noticing
August 10th	Submit Accounts on the Tax Roll to Alameda County for Lien

<b><u>Non-Rental Accounts</u></b>	
<b><u>Timeline</u></b>	
<b><u>No.</u></b>	<b><u>Task</u></b>
1.	Notice of Determination (NOD) Sent to Taxpayer
2.	Taxpayer’s 20-Day Period to Respond
3.	Re-Determination Period
4.	Notice of Violation (NOV) Sent to Taxpayer
5.	Taxpayer’s 5-Day Period to Respond
6.	City Refers Delinquent Tax to Collections

<b><u>Rental Accounts</u></b> <b><u>Timeline</u></b>	
<b><u>No.</u></b>	<b><u>Task</u></b>
1.	Notice of Assessment (NOA) Sent to Taxpayer
2.	Taxpayer’s 20-Day Period to Respond
3.	Re-Determination Period
4.	Notice of Intent to Lien (NOIL) Sent to Taxpayer
5.	Taxpayer’s 10-Day Period to Respond
6.	NOIL Prepared For Submission to City Council
7.	Public Hearing on City’s Intent to Lien (NOIL)
8.	Council Approval
9.	Referral to Citywide Liens Unit for Validation
10.	Referral to Alameda County Tax Collector – By August 10 <sup>th</sup> of the following year after NOA

**Question 11. An Explanation For The Gap In Notices Distributed In 2023**

In February 2023, the city experienced a ransomware attack which impacted the city’s network, servers, and computers. The Revenue Bureau was heavily impacted and noticed the public through website messages linked here ([City of Oakland | City of Oakland Targeted by Ransomware Attack, Work... \(oaklandca.gov\)](#) ). In order to provide Business Tax renewals, tax collection and customer services, the Revenue Bureau provided renewal assistance in person, by paper and through manual processes until an alternate, independent system from the City’s network was established to resume electronic collection of tax renewals and payment processing. The City extended the Business tax renewal due date to April 17, 2023 to accommodate the inaccessibility of the original renewal system. The alternate system had limited capacity and user licenses to accommodate the business tax renewals and collection efforts. Not until July 2023 did the Revenue Bureau switch back to the original system, have access restored to network folders for historical data, and receive replacement hardware and desktop workstations damaged in the attack. At this point, the Tax Compliance Unit, charged with preliminary work of reviewing accounts for delinquency, were able to commence work. The identified accounts were divided amongst 4 staff and grouped by business tax category. The culmination of their work yielded notices that begins a taxpayer’s delinquency and due processes. The gap in timeliness, relative to internal guidelines, of issuing notices is a result of the effect of the ransomware attack and availability of resources to perform the tasks. The 2023 business tax year notices were mailed as work was completed and compiled in batches. The first group of work was completed on October 21, 2023, and the last group was completed on December 9, 2023. Instead of waiting until all work was completed on December 9, 2023, accounts were grouped and mailed out in batches on 4 separate dates.

**Question 12. Comparing Our Rate Of Businesses That Have Not Submitted Their Taxes To Other Bay Area Cities, Comparing The Number Of Businesses Rather Than The Revenue Amount**

For this supplemental report, the information is not readily available to City Staff. The scope of this request requires more definition for staff to effectively pursue. Additionally, a survey of this kind would require several weeks to gather and compile information from other Bay Area cities on the number of accounts that submitted their taxes, timeliness as of a certain date and narrow the number of years of data being requested by each City.

**Question 13a. Regarding The [Informational Memo](#) Published on 4/16/24, Of The Three Years In Tables 1-3, How Many Are Unique Business Accounts?**

While we have access to business account information by year and across multiple years for each business., the data is stored in a fashion in which aggregating this information longitudinally for uniqueness is not readily available. This type of data extraction and analysis requires the assistance of our software vendor. The vendor considers this a custom query, and it would be at a cost to pull this data. Conversely, if staff were to pull data manually, it would take months to compile and analyze. What we can infer from sampling the data sets available and considering the limitations of the electronic system, is that it is highly likely that there are many redundant accounts across the various years in the categories. We feel confident in that inference due to the system limiting electronic renewals for a single year when there are previous outstanding years. Additionally, in smaller data sets of tax collections, where we also issue notices such as Excess Litter Fee, where we manually consolidate, we experience the multiyear delinquency by account. Please see an example in **Attachment C**.

**Q 13b. How Many Businesses That Did Not Pay For Multiple Years?**

While we have access to business account information by year and across multiple years for each business., the data is stored in a fashion in which aggregating this information longitudinally for uniqueness is not readily available. This type of data extraction and analysis requires the assistance of our software vendor. The vendor considers this a custom query, and it would be at a cost to pull this data. Conversely, if staff were to pull data manually, it would take months to compile and analyze. What we can infer from sampling the data sets available and considering the limitations of the electronic system, is that it is highly likely that there are many redundant accounts across the various years in the categories. We feel confident in that inference due to the system limiting electronic renewals for a single year when there are previous outstanding years. Additionally, in smaller data sets of tax collections, where we also issue notices such as Excess Litter Fee, where we manually consolidate, we experience the multiyear delinquency by account. Please see an example in **Attachment C**.

***Q 13c. How Many Businesses Were Delinquent In The Two Prior Years?***

The question states “in the Two Prior Years”, assuming that the question is referring to FY 2020-21, business tax year 2021 and FY 2019-20, business tax year 2020. As we were unclear on the specific prior years, we have not pulled the data in the formats similar to **Tables 1, 2, and 3** and could provide the information at a later date upon clarification of the tax of fiscal years.

***Q 13d. How Much Did We Collect In Delinquent Taxes In Those Years?***

For any tax year the amount collected, that was at any point considered delinquent, is not recorded in the renewal system in a way that can be tracked. The renewal system, as currently designed, records the revenue collected as the accounts are updated with amounts paid. Final collection activity outside of the renewal system related to revenue captured by lien, or judgment, or litigation to business licenses accounts, that data can be provided, upon clarification of the intent of the question. Staff has that data available and can be compiled manually in a future response.

***Q 13e. How Much Did We Collect Because They Were Paid Proactively?***

As the question is somewhat unclear on the meaning of “proactively paid”, assuming that the reference is to accounts not paid by March 1 of any tax year but are then paid before culminating in a lien, judgment, or litigation, our renewal system does not track delinquent revenue in this manner.

***Q 13f. How Many Of Those Lost Revenues Have Been Sent To Collections? Once The Amount Is Sent To Collections, Why Is That Amount Smaller Than The Total, and Estimated Unpaid Amount?***

In clarifying the question of “Lost Revenues”, we are assuming that the reference is to amounts that are identified as “Potential Unpaid Revenue” in Tables 1, 2, and 3. The potential unpaid revenue, is based on estimates. As the taxpayers engage in compliance or as other information is uncovered, the potential unpaid amounts are refined to lesser amounts. If there are accounts that are uncovered as closed, then those amounts are reduced. The amounts can be refined to smaller amounts based on removal of fees, payments made, exemptions provided and recalculation occurring etc. The amounts that are ultimately forwarded to collections for judgments are a subset of the delinquency. The accounts that are referred to the lien process is a subset of delinquency. The accounts that are no longer delinquent either by payment or account closed then reduce the Potential Unpaid Amount.

***Q 13h. Additional Information On The Process; Why There Is A Gap On How We're Trying To Recover These Funds?***

Once an account is subject to collection, the Collections Unit within the Revenue Bureau manages the process. Collections staff actively solicit the business to attempt collections including skip tracing, Small Claims Court and FTB Intercepts. 1,183 accounts identified as delinquent for the 2023 renewal period, totaling \$1.9 million, were sent to the Collections Unit in April 2024. These debts remain in collection status until the Judge rules the amount is beyond the statute for collection or the amount is written off as bad debt by the City Council. If the Collections staff becomes aware that a business is no longer active or operating in the city, the account is closed, and the assessed amounts are reversed.

To clarify “why there is a gap on how we’re trying to recover these funds,”

The Collections unit has followed the normal practices for the collection of delinquent taxes. While there was a delay in the collection of delinquent accounts in prior fiscal years, the Revenue Bureau conducted an internal review, identified these accounts, and have begun the collection attempts for the unpaid amounts.

***Question 14. Clarification Of The Field Activities That The Tax Enforcement Officers Have Conducted In The Last Year***

The Finance Department, Revenue Bureau has multiple Tax Enforcement Officers (TEO's) across several units. For the purpose of this question, the response is limited to the Tax Enforcement Officers in the Tax Compliance Unit and not in any of the other units, Audit, Liens, Business Tax Collections, etc. The scope of work for the TEO's in the Tax Compliance Unit is two-fold, (1) bring awareness to the ordinance and provide business outreach to gain compliance and (2) work the accounts once a taxpayer has failed to comply. The work is more heavily focused on pre compliance in certain times of the calendar year and more heavily focused on delinquency resolution in other parts of the calendar year. This approach is being recultivated in a post pandemic environment. During calendar year 2023, there was minimal field activity by the Tax Enforcement Officers II's in the Tax Compliance Unit. Field activity was limited to visual observations as staff expressed concerns about their safety in the field. The department has not established performance metrics or processes that track statistics to determine the number of businesses that came into compliance and how much was collected because of visual field observations.

It's important to note that the ransomware attack had a significant impact on the ability to perform some activities as the City resources were not available. Additionally, the Revenue Bureau, like many other units within the City struggle with full staffing, staff burn-out, health safety concerns around COVID, physical safety concerns with increased crime in the City, all affecting the execution of their daily work. The Tax Compliance Unit, when not in the field, is focused on processing and responding to taxpayers who visit the office in person or who sends communications via email/chat. An example of the in house workload is highlighted by the 6,000 (+) Notices of Determination for multiple years were recently mailed out during April 2024 and 1,400 (+) Notices of Assessments”



that will be going out on May 1, 2024. Responding to these taxpayers will be our priority to collect delinquent revenues for the city.

***Question 15. How The Work Leads To Closing Out Accounts In Terms Of Collections; Any Statistics That Include The Number Of Businesses That Come Into Compliance & The Amount That Comes Into Compliance As A Result Of The Work Of The Field Tax Enforcement Officers.***

Any discussions with a taxpayer can lead to closing out a collection account. Historical data on the number of businesses that come into compliance because of the work of field Tax Enforcement Officers has not been tracked. However, staff has advised that it is very limited. Taxpayers do not cut checks on the spot during field visits, and it is unlikely field visits will lead to a substantial amount of collecting revenue. Revenue is collected by staff working in the office, reviewing databases such as google, the Secretary of State, CoStar, and other software platforms available. Timely responses to taxpayers calling in, sending emails, and coming to the Business Tax Office remains a priority and the most effective way to collect delinquent revenues.

During 2023, there was minimal field activity by the Tax Enforcement Officers II's in the Tax Compliance Unit. Field activity was limited to visual observations as staff expressed concerns about their safety in the field. There are no statistics to determine the number of businesses that came into compliance and how much was collected because of the visual field observations.

***Question 16. The County Services Report; Where We Have Allocated Funding To Services That Are Under The Jurisdiction Of The County That The City's Made Contributions To; And Cost Associated***

This information is not readily available for this report. The production of this information will take additional time to respond comprehensively and effectively. For reference, the FY 2023-2025 Biennial Budget Book contains a webpage dedicated to defining the [City's Role in Service Provision](#).

***Question 17. Data, And Business Tax & Revenues Regarding The City's Corridors***

Historical Sales Tax Revenue Data (**Attachment D**) and Preliminary Property tax revenue data for 2023-2024 (**Attachment E**) can be parsed in the City Council Districts vs City Corridors. Although obtained, the data has to be aggregated in that manner and is not readily available for this report.

In terms of Business Tax revenue data, the city's software does not track and capture business tax revenues by geography or the "City's Corridors". Specialized reports can be requested from our software vendor to group businesses in this manner. However, there is cost associated with custom reports and queries and a time commitment to be responsive to this aggregation of data request.

***Question 18. In Addition, A Request Was Noted To Have An Independent Audit Of The City's Current Financial Status, & Economic Forecast, & Advisement Of What The City's Priorities Are From A Financial Expert(s)***

The City has the financial statements audited on an annual basis and the most current financial audit concluded in December 2023 for the period of July 1, 2022, to June 30, 2023. The Audited Financial Statements are commonly referred to as the [ACFR](#) and were provided to the FMC and to City Council on March 12, 2024, and March 19, 2024, respectively. The Independent Auditor opinion was un-modified, the best and highest rating for financial statements. In every year, if there are findings about how the City operates financially that are lacking in sufficient control the Auditors will provide a list of findings that City should address to make improvements and to come into compliance with GAAP and or other principles. All of the City's audited financial statements are available on the Finance Departments website in Financial Reporting, [linked here](#).

In **Attachments D and E**, the Finance Department is providing additional insight to the current economic environment related to Property Tax and Sales tax revenue in the City of Oakland. Additionally, we will come back to City Council with a robust presentation on the major revenue sources from external experts in the field.

The priorities of the City are defined by the Mayor's Office, the City Council, and residents of the City of Oakland. The City Administrative Staff stand ready to implement those priorities provided to us and look to the elected leadership for guidance and direction.

**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 26, 2024 07:07 PDT)

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Attachments (5):

- A- Informational Memorandum - SUPPLEMENTAL – Fiscal Year 2024-25 Midcycle Budget General Purpose Fund Deficit
- B- Presentation - FY 2024-25 Midcycle Budget Deficit
- C- Excess Litter Fee Multi-year Delinquency Notice Example
- D- Historical Sales Tax Revenue Data by City Council District
- E- Oakland Property Tax Summary 2023-24