

CITY OF OAKLAND

FILED
OFFICE OF THE CITY CLERK
OAKLAND

2018 NOV 29 PM 3:08

AGENDA REPORT

TO: Sabrina B. Landreth
City Administrator

FROM: Katano Kasaine
Director of Finance

SUBJECT: Sugar-Sweetened Beverage
Distribution Tax Administration and
Management

DATE: November 8, 2018

City Administrator Approval

Date:

11/29/18

RECOMMENDATIONS

Staff Recommends That The City Council Receive An Informational Report On Revenues And Expenditures Of The Sugar-Sweetened Beverage Distribution Tax In Fiscal Year 2017-2018 And For The First Three Months Of Fiscal Year 2018-2019 And The Finance Department's Continuing Outreach Efforts To The Business Community Regarding The Application Of The Tax.

EXECUTIVE SUMMARY

This Informational report provides an overview of the implementation of the Sugar-Sweetened Beverage Distribution Tax ("SSBDT"). The report includes a summary of the SSBT revenues and expenditures for the Fiscal Year ("FY") 2017-2018 and for the first three months of the current FY2018-2019, as compared to FY 2017-2018, and discusses the Finance Department's outreach efforts to the business community regarding the application of the tax.

BACKGROUND / LEGISLATIVE HISTORY

On May 3, 2016, the Oakland City Council adopted Resolution No. 86161 C.M.S calling and giving notice, on its own motion, for a voter consideration of the ballot measure to enact a one cent (\$0.01) per ounce tax on the distribution of sugar-sweetened beverage products. The tax is imposed upon the first non-exempt distribution of a sugar-sweetened beverage product in the City. To the extent that there is a chain of distribution within Oakland involving more than one distributor, the tax is levied on the first distributor subject to the jurisdiction of the City. To the extent the tax is not paid as set forth above for any reason, it shall be payable on subsequent distributions and by subsequent distributors.

On November 8, 2016, Oakland voters approved Measure HH and authorized the City to levy a General Tax of one cent (\$0.01) per fluid ounce on the privilege of distributing sugar-sweetened beverage products in the city. The tax became effective on July 1, 2017.

Item _____
Finance and Management Committee
December 04, 2018

In December 2016, following the passage of Measure HH, the Finance Department released a Request for Qualifications for the Research, Outreach, Communication, Revenue Management and Enhancement services relating to the SSBDT. To ensure a smooth and effective research, outreach and communication campaign and timely implementation and management of the SSBDT, the City Administrator executed an initial one-year agreement, expired on June 30, 2018, with the top-ranked proposer, MuniServices, LLC ("MuniServices").

On April 17, 2018, following the City Council's adoption of Resolution No. 87123 C.M.S, the City Council amended and extended the agreement with MuniServices for an additional five-year term with two one-year options to continue the administration and management of the SSBDT at the same compensation rate of not to exceed two percent (2%) of the revenue collected and remitted to the City. The current five-year agreement began on July 1, 2018 and sets to expire on June 30, 2023.

The Rules and Legislation Committee at its meeting of November 15, 2018, direct staff to prepare this informational report in response to a request from Vice Mayor Campbell Washington. The Vice Mayor's request included nine questions that are addressed in this informational report.

ANALYSIS AND POLICY ALTERNATIVES

The focus of the analysis for this report is intended to provide the City Council a complete look at the administration and management of the SSBDT program.

Tax Education and Collection Program

The Tax Education and Collection Program highlights the key aspects of the ongoing education and collection efforts. These efforts focus on education and revenue compliance through noticing and field-visit programs. The noticing program encompasses the sending of multiple types of notices that are designed to inform taxpayers and, at the same time, enhance revenue collection. The components of the noticing program include:

1. **Registration Packet:** The registration packet is regularly sent to Oakland retailers. The packet provides information to the business owner regarding the procedures and requirements of SSBDT. The packet includes an introductory notice of MuniServices, the brief notice about the history and the basis of the tax, the Frequently Asked Questions (FAQs) pages, and the Registration Form. The Registration Form, as authorized by Measure HH, is designed to require retailers to either register to pay the tax (as self-distributor) or to provide information about the distributors from whom the retailers receive sugar-sweetened beverage products. Through November 5, 2018, MuniServices has sent 2,460 packets to businesses and eliminated 1,724 as being closed or identified as not being subject to the tax. There are 631 businesses that have not responded to the registration packet (see Field-Visit Program regarding the follow-up plan for these businesses).
2. **Remittance Form:** MuniServices sends the tax remittance form monthly and directly to about 200 businesses that regularly remit the tax. The purpose is to ensure businesses receiving physical form that acts as a reminder to remit and pay the tax and to avoid late charges if

delinquent. The sending of the remittance form has resulted in the City receiving consistent tax payments from these businesses since the tax became effective.

3. Delinquent Tax: MuniServices sends multiple delinquent notices once the tax became delinquent.

The field-visit program involves MuniServices' staff conducting "door to door" visit of businesses to determine whether the business is still in operation due to the tax being delinquent or having not responded to the registration packet or to educate by hand-delivering the registration packet and requesting or assisting businesses to respond to questions on the registration form. The program is slated to start during the second half of the current fiscal year, with the focus on visiting 631 businesses that have not responded to the mailed registration packet.

Outreach Efforts

Then: In the spring 2017, the Finance Department held three separate informational sessions known as Tax Education Days. Two sessions were held in the early afternoon and one in the evening. The purpose was to disseminate information and to answer questions related to the rules, regulations and the how-to about the newly taxpayer-approved SSBDT program. There were about 60 attendees for all three sessions, with most attended the evening session.

Prior to the informational sessions, there were 3,257 notices sent to businesses across different segments of various industries, including fast-food and full-service restaurants, cafeterias, coffee shops, Supermarkets, liquor stores, convenient stores, wholesalers, department stores, such as Rite-Aid, Walgreens, bookstores, beverage manufacturing and bottling companies, such as Coca-Cola, Pepsi Company, etc. The one-page notice was structured to precisely answer three questions: Why we are writing you? What this means? And What to do now?

In Between: See Tax Education and Collection Program

Now: In addition to Tax Education and Collection Program mentioned above, the Finance Department, Revenue Management Bureau, sends a tri-fold outreach notice in each of the approximate 8,000 selected businesses in the upcoming Business Tax Renewal Notices going out in late December 2018. The approximate 8,000 selected businesses are those that are in the retail, wholesale, grocery and manufacturing industries. The tri-fold outreach notice is designed to provide information about the SSBDT, including FAQs that are intended to provide clear information regarding the application of the tax and the manner in which the SSBDT can be "passed-on" to the consumer but must be done in a non-misleading fashion. The tri-fold outreach notice is in three languages: English, Chinese, and Spanish.

Revenue and Expenditures

Sugar-Sweetened Beverage Distribution Tax					
FY 2017 - 2018		FY 2018 - 2019		Change YTD (in \$)	Change YTD (in %)
Month	Revenue	Month	Revenue		
Jul-17	\$849,704.35	Jul-18	\$800,917.95	(\$48,786.40)	-5.74%
Aug-17	\$1,013,809.28	Aug-18	\$817,754.25	(\$244,841.43)	-13.14%
Sep-17	\$1,055,069.24	Sep-18	\$749,251.49	(\$550,659.18)	-18.87%
Oct-17	\$949,658.15				
Nov-17	\$927,095.74				
Dec-17	\$1,006,252.60				
Jan-18	\$887,291.05				
Feb-18	\$798,540.86				
Mar-18	\$1,094,726.26				
Apr-18	\$694,110.83				
May-18	\$876,443.48				
Jun-18	\$923,088.43				
Total	\$11,075,790.27				

The total cost to implement the SSBDT for the Fiscal Year 2017-2018 was \$245,092.85, which included 1) a one-time cost of \$23,577.04 for the research, outreach and communication campaign to take place prior to the SSBDT becoming effective on July 1, 2017 and 2) a fixed cost of two-percent (2%) totaling \$221,515.81 for the year, paid to the MuniServices based on the revenue collection of more than \$11 million. The on-going cost, as outlined in the amended and extended agreement with MuniServices, remains at two percent (2%) of the revenue collected and remitted to the City.

FISCAL IMPACT

This is an informational report; there are no budget implications associated with the report.

PUBLIC OUTREACH / INTEREST

No outreach was deemed necessary for this informational report beyond the standard City Council agenda noticing procedures.

COORDINATION

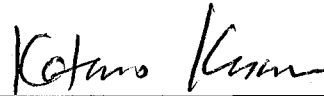
This report has been coordinated with the Office of City Attorney.

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the City Council receive an Informational Report on revenues and expenditures of the Sugar-Sweetened Beverage Distribution Tax in Fiscal Year 2017-2018 and for the first three months of Fiscal Year 2018-2019 and The Finance Department's continuing outreach efforts to the business community regarding the application of the tax.

For questions regarding this report, please contact Margaret O'Brien, Revenue & Tax Administrator, (510) 238-7480.

Respectfully submitted,



Katano Kasaine
Director of Finance
Finance Department

Reviewed by:
Margaret L. O'Brien
Revenue and Tax Administrator
Revenue Management Bureau

Prepared by:
Huey Dang
Revenue Analyst
Revenue Management Bureau