



# AGENDA REPORT

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

**FROM:** Erin Roseman  
Director of Finance

**SUBJECT:** 2023 Measure T Implementation –  
Update

**DATE:** November 16, 2023

City Administrator Approval

  
Jestin Johnson (Nov 17, 2023 21:27 PST)

Date: Nov 17, 2023

## **RECOMMENDATION**

**Staff Recommends The City Council Receive An Informational Report Intended To Provide The City Council An Update Regarding The Implementation Of The Voters' Approved 2023 Measure T That Amended Oakland's Business License Tax Structure**

## **EXECUTIVE SUMMARY**

The purpose of this report is to provide an update to City Council regarding the implementation of the voters approved 2023 Measure T that amended Oakland's Business License Tax Structure.

In November 2022, Oakland voters approved Measure T, the Progressive Business Tax Measure ("Measure T"). Measure T created a progressive rate structure that would (1) impose the highest rates on the highest grossing businesses, (2) increase Oakland's annual tax revenue by an estimated \$20,900,000, and (3) generate approximately \$124,000,000 in total annual revenue for municipal services by imposing business tax rates of .05% to .55% of gross receipts.

The approved changes in the tax rates, as captured in Measure T, affected approximately 25,000 businesses, excluding tax rates applicable to property owners and cannabis industry, and resulted in a net increase of \$17.64 million.

This report also highlights the work that the Administration has done to date, including the notification to business owners to ensure they were informed of the potential tax and a summary of the spending associated with the cost to implement Measure T.

## **BACKGROUND / LEGISLATIVE HISTORY**

On July 5, 2022, City Council adopted [Resolution No. 89297 C.M.S.](#) calling and giving notice, on its own motion, for a voter consideration of the ballot measure "amending Oakland's

Finance and Management Committee

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business tax rates to create a progressive rate structure that would 1) impose the highest rates on the highest grossing businesses, 2) increase Oakland's annual tax revenue by an estimated \$20,900,000, and 3) generate approximately \$124,000,000 in total annual revenue for municipal services." Approximately 25,000 businesses were affected by the changes to the business tax structure.

On November 8, 2022, Oakland voters approved Measure T, by a margin of 72%, and authorized the City to amend Oakland's business tax structure "by imposing business tax rates of .05% to .55% of gross receipts, and other rates as stated in the measure."

On December 20, 2022, City Council adopted [Ordinance No. 13718 C.M.S](#) changing the due date from January 2 to March 1 annually.

### **ANALYSIS AND POLICY ALTERNATIVES**

The focus of the analysis section in this report is intended to provide the City Council the financial outcome following the initial imposition of the tax rates approved by the voters and the costs incurred for the implementation of Measure T.

#### **Outcome of Measure T:**

**Table 1** depicts the net revenue collections among the business sectors that were impacted by Measure T. It further shows the amount of tax revenues that would have been collected under the 2022 tax rates and the actual tax collections based on the 2023 Measure T rates. The net result of Measure T is an additional \$17.6 million, which is \$3.3 million, or 15.7%, short of the estimated amount of \$20.9 million included in the official Ballot Measure.

**Table 1: Revenues Per Rate Type Associated with Measure T**

Rate Type	No. of Accounts that Renewed 2023 and were impacted by Measure T	Tax Revenues		Net Measure T Tax Increase
		2022 Tax Rates	2023 Tax Rate (Measure T)	
F - PROFESSIONAL/SEMI-PROFESSIONAL	4,419	\$19,204,522	\$23,830,003	\$4,625,481
E - BUSINESS/PERSONAL SVCS	2,432	\$5,162,572	\$8,257,750	\$3,095,178
K - ADMIN HEADQUARTERS	51	\$963,300	\$3,664,596	\$2,701,296
M - UTILITY COMPANIES	66	\$824,594	\$2,987,048	\$2,162,454
H - CONTRACTORS	2,440	\$4,150,309	\$5,749,849	\$1,599,540
D - WHOLESALE SALES	413	\$2,349,737	\$3,406,168	\$1,056,432
A - RETAIL SALES	2,000	\$4,420,289	\$5,276,720	\$856,431
C - AUTOMOBILE SALES	28	\$897,533	\$1,562,744	\$665,211
B - GROCERS	168	\$475,642	\$852,427	\$376,785
I - MANUFACTURING	287	\$825,226	\$990,263	\$165,037
L - MEDIA FIRMS	31	\$130,806	\$242,475	\$111,669
J - HOTEL/MOTEL	82	\$256,645	\$361,683	\$105,038
G - RECREATION/ENTERTAINMENT	158	\$1,054,795	\$1,156,284	\$101,489
N - MISCELLANEOUS	8	\$24,916	\$39,884	\$14,968
I - MANUFACTURING 2	5	\$2,303	\$2,463	\$160
<b>Totals</b>	<b>12,588</b>	<b>\$40,743,189</b>	<b>\$58,380,357</b>	<b>\$17,637,168</b>

**Highlights:**

- **Revenue Increases:** A net increase of \$17.6 million in Business Tax Revenues that came from 12,588 businesses that were impacted by Measure T and renewed their business tax for CY 2023.
- **Customer Service:** To provide efficient customer service to the public, the Business Tax Unit expanded in-person lobby hours of operation from Monday and Wednesday 9am – 1pm and opened the lobby for five days a week from 8am – 4pm. Notices that were sent to taxpayers were also translated into multiple languages, and staff were available to assist taxpayers who did not speak English. The ransomware event caused many challenges and obstacles, including phone service outages and manual processes and resulting in some processing delays. However, the Business Tax website was consistently available and provided an automated tax calculator to assist taxpayers with understanding the new tax structure. By the end of the fiscal year, the renewals were all processed.
- **Tax Education and Outreach Efforts:** The tax education and outreach efforts emphasized the importance of continued customer service, education and outreach through multiple noticing programs. The noticing program encompassed the sending of multiple notices designed to reach all business taxpayers, including non-English speaking business taxpayers. The effort informed the business taxpayers of the changes and enhanced the revenue collection program through voluntary compliance.

- **Community Outreach:** In coordination with the Oakland Chambers of Commerce or other community agencies, Revenue Bureau staff requested to take part in a small number of business events held throughout Oakland during the month of February. The goal was to provide awareness and education of the newly adopted ordinance, thereby providing maximum reach to business taxpayers throughout the city.
- **Payment Processing:** The Business Tax Unit developed a process to take in and reconcile payments despite the City's financial systems being inaccessible. Although the revenue recordation was delayed, receipts were consistently deposited into the City's bank accounts.

### Challenges:

- **Customer Inquiries:** The changes associated with Measure T caused a significant influx of taxpayers contacting the office for assistance in completing their 2023 renewal declarations. Staff was available in person, over the phone, via online chat, and email to respond to these inquiries.
- **Public Noticing:** The close mailing dates between the informational materials related to the changes of Measure T and the renewal notices caused some confusion, resulting in increased inquiries. To better serve the needs of taxpayers in the future, consideration should be carefully weighed to avoid proximity between mailings.
- **Ransomware Attack:** Due to a ransomware attack that led to a network outage, the due date of business tax was extended by an additional 45 days, from March 1 to April 17, 2023. This resulted in the issuance of business tax certificates being delayed. The network outage also caused some problems with posting payments and reconciliation between internal financial software systems. However, despite this challenge all payments had been posted and certificates were issued by May 2023.

### Implementation Timeline:

#### November 3<sup>rd</sup> – December 30<sup>th</sup>, 2022 (~60 days):

- City staff collaborated with the contracted mail vendor and ensured the notices regarding Measure T and annual renewal notices were ready for mailing.
- City staff worked with the current tax software vendor and updated the entire tax system to reflect the new Business Tax rate structure. In addition, the City's tax software vendor worked with the Finance Department, Treasury Bureau to update taxes and fees and ensure an accurate interface between internal financial systems.
- City staff coordinated with the City's depository and custodial banking service provider to ensure lockbox transactions, exceptions and distribution of funds were processed and completed in a timely manner.
- As part of the \$1.8 million allotted for the implementation, the Business Tax Customer Service Unit began the hiring and training of Exempt Limited Duration Employees (ELDE). These additional ELDE's provided extra support to business tax staff by assisting with new applications, processing mail, answering telephones and responding to chat inquiries.
- The initial Measure T notice was drafted and sent to approximately 60,000 taxpayers informing them of the new Business Tax structure changes. Copies of this same notice were translated into many languages and made available to taxpayers upon request.

- Internal trainings for Revenue Management Bureau staff were conducted on the newly approved Business Tax structure on November 16, 2022, and December 8, 2022.

January- March 1, 2023 (60 Days):

- The Finance Department’s website was updated to reflect changes to the Business Tax structure resulting from the passage of Measure T.
- The Business Tax online calculator was launched to help business owners and Revenue Management Bureau staff calculate estimated tax liability under the new Business Tax rate structure.
- Renewal notices were mailed and emailed to taxpayers with an initial due date of March 1, 2023. Second mailings were sent to taxpayers after the ransomware attack and subsequent network outage, advising of a 45-day extension to pay business taxes by April 17, 2023.
- The HDL online payment portal for taxpayers to renew their Business Tax accounts was opened to the public.
- The City’s financial institution officially opened the Business Tax lockboxes and began accepting payments via the lockboxes.
- City staff began educating and answering taxpayer’s questions and issues associated with the new tax rate structure. This was done in person, via phone, online chat, and email.
- Staff began sending batch files to the mail vendor for printing and mailing.

**Staffing & Resource Costs:**

The change from the existing flat rate tax structure to a graduated, progressive tax structure which would use marginal tax brackets to calculate the taxes, meant additional resources would be needed to fully implement the passage of Measure T. Staffing, software programming, equipment, supplies and resources for taxpayer outreach were the primary costs provided for and included as part of the approved budget of approximately \$1.85 million for the implementation of Measure T.

**Tables 2 - 4** are detailed costs associated with staffing, programming, technology and outreach.

**Table 2:** Staffing Cost:

<b>Category - Staffing</b>	<b>Expenditures as of Nov 14, 2023</b>	<b>Status as of Nov 14, 2023</b>
Staffing – Limited Duration	\$469,837.12	2 positions ongoing 2 positions completed
Staffing – Acting Role		Completed
Staffing – Overtime	\$5,328.02	Completed

**Table 3:** Technology Cost

Category - Technology	Expenditures as of Nov 14, 2023	Status as of Nov 14, 2023
Technology (Vendor Programing)	\$87,297.50	Ongoing
Technology (Computers/Laptops/Accessories)	\$15,102.54	Completed
Online Calculator	\$3,295.00	Completed/ In-use

**Table 4:** Outreach Cost

Category - Outreach	Expenditures as of Nov 14, 2023	Status as of Nov 14, 2023
Initial Mailing of Notices	\$47,271.15	Completed
Second Mailing of Notices	\$42,198.48	Completed
Mailing of Declarations	\$ 46,863.65	Completed
Translation Services	\$ 1,845.99	Completed
Community Outreach	\$0	Completed
Workshops	\$0	Completed

As outlined in **Tables 2 - 4**, the total expenditure to date is approximately \$719,000.00. The remaining budgeted amount totaling \$1.13 million will be used for auditing and tax compliance purposes.

**Secondary Phase of Implementation:**

With the completion of the first phase on implementation, the Revenue Bureau will turn its focus to auditing and compliance. As noted above, 12,588 accounts renewed out of approximately 25,000 expected renewals. Our initial analysis shows that approximately 6,000 accounts did not renew and approximately 6,000 accounts did not experience a tax change.

- **Auditing:** The increase in the number of tax brackets and the variation of tax rates within each category necessitates an increase in the number of tax accounts that need to be audited. Increased audit activity would likely be triggered by businesses apportioning gross receipts generated by telecommuting staff or activity that businesses have historically elected not to apportion because there was no significant variation between the tax rates.
- **Compliance:** Staff will identify non-compliant businesses and non-renewing businesses ensuring they are following the Business Tax Ordinance.

These subsequent functions will occur through the end of the fiscal year resulting in further compliance and likely additional revenue collection.

**PUBLIC OUTREACH / INTEREST**

No outreach is deemed necessary for this informational report beyond the standard posting procedures.

### **FISCAL IMPACT**

As part of the mid-cycle FY 2022-23 budget, City Council approved a budget of approximately \$1.815 million towards the implementation of the ballot measure. The total expenditure to date is approximately \$719,000. The remaining budgeted amount of \$1.13 million will be expended over the course of FY 2023-24 and FY2024-25. Primary activities will include audit and tax compliance activities as well as the hiring of additional staff to support these activities.

### **COORDINATION**

This report was prepared in coordination with the Finance Department, Administration Bureau, Budget Bureau, and Revenue Management Bureau.

### **SUSTAINABLE OPPORTUNITIES**

**Economic:** The additional revenue of \$17.64 million generated from the Measure T tax will enable the City to increase its capacity to provide services from its General Purpose Fund. Implementation of the new progressive business tax rate structure was anticipated to result in decreases of (\$.6) million for most small businesses while large businesses would account for additional revenue of \$21.50 million.

**Environmental:** There are no environmental opportunities associated with this project.

**Race and Equity:** Measure T changed the existing flat tax structure to a progressive tax structure by assessing higher tax rates on businesses with higher revenue, thereby creating a more equitable tax structure. The collection of taxes is necessary to raise revenue which, in turn, supports the City's financial ability to carry out its affairs and priorities that include making critical financial investments aimed at advancing racial and equity opportunities to historically underserved communities.

**ACTION REQUESTED OF THE CITY COUNCIL**

Staff Recommends The City Council Receive An Informational Report Intended To Provide The City Council An Update Regarding The Implementation Of The Voters' Approved 2023 Measure T That Amended Oakland's Business License Tax Structure.

For questions regarding this report, please contact Sherry M. Jackson, Revenue & Tax Administrator, (510) 238-7480.

Respectfully submitted,



[Erin Roseman \(Nov 17, 2023 11:01 PST\)](#)

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