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# AGENDA REPORT

**TO:** Sabrina B. Landreth  
City Administrator

**FROM:** Katano Kasaine  
Director of Finance

**SUBJECT:** Owner-Occupied Exemption From  
Residential Landlord Business Tax

**DATE:** May 7, 2019

City Administrator Approval

Date:

5/16/19

## RECOMMENDATIONS

**Staff Recommends That The City Council Receive This Informational Report Regarding The Proposed Ordinance Amending The Oakland Municipal Code, Chapter 5.04, Section 5.04.420, To Fully or Partially Exempt From The Business Tax On Residential Property Rentals Those Landlords With Personal Income Of 100% Area Median Income Or Less Who Rent Out (1) Two Or Fewer Rooms From Their Single Family Home Of Personal Residence Or (2) A Unit From Their Owner-Occupied Two-Unit Parcel.**

## EXECUTIVE SUMMARY

This informational report provides a fiscal analysis of the proposal to exempt from the business license tax owner occupied rental housing where the landlord (1) has a total income of 100% of the Area Median Income (AMI) or less, (2) have lived in their primary residence for at least five (5) consecutive years immediately preceding application of this exemption, (3) rents no more than two (2) rooms in their primary residence and (4) does not own other rental property in the City of Oakland. The proposal also provides for exempting from 50% of the business license tax owner occupied duplexes or single family homes that include an accessory dwelling unit (ADU), where the owner does not own other rental property in the City of Oakland.

The City does not have nor maintain personal income tax data for businesses. Thus, it is not possible to conduct an analysis of how many owner-occupied dwellings would receive the exemption. The City does not maintain records regarding owner-occupied rental dwellings. However, staff was able to identify 1,720 *possible* owner-occupied single family rental properties and 529 *possible* owner-occupied duplex or two-unit rental properties. **If all possible owner-occupied landlords applied for and received the exemption as proposed, the loss to the General Purpose Fund would be approximately- \$652,500 in Fiscal Year (FY) 2019-20 and -\$685,125 in FY 2020-21 of the FY 2019-21 Proposed Policy Budget.**

	<b>FY 2019-20</b>	<b>FY 2020-21</b>
FY 2019-21 Proposed Budget Revenues	\$820,786	\$861,825
Councilmember Kalb's Proposal	\$168,286	\$176,700
<b>Surplus / (Deficit)</b>	<b>(\$652,500)</b>	<b>(\$672,075)</b>
<b>Equivalent No. of Budgeted FTEs</b>	<b>4.5 FTE</b>	<b>5.0 FTE</b>

## **BACKGROUND / LEGISLATIVE HISTORY**

The Oakland Municipal Code ("OMC") Section 5.04.420 requires that "every person engaged in the business of conducting or letting rooms, and/or any building structure, for dwelling, sleeping or lodging, including, and limited to, a single-family house, duplex, townhouse, condominium or co-operative, shall pay a business tax of thirteen dollars and ninety-five cents (\$13.95)<sup>1</sup> for each one thousand dollars (\$1,000.00) of gross receipts or fractional part thereof."

## **ANALYSIS AND POLICY ALTERNATIVES**

This informational report provides a fiscal analysis of the proposal to exempt from the business license tax owner occupied rental housing where the landlord (1) has a total income of 100% of the Area Median Income (AMI) or less, (2) have lived in their primary residence for at least five (5) years consecutive years preceding application of this exemption, (3) rents no more than two (2) rooms in their primary residence and (4) does not own other rental property in the City of Oakland. The 2019 Area Median Income for the Oakland-Fremont Area is \$111,700. The proposal also provides for exempting 50% of the business license tax owner occupied duplexes or single family homes that include an accessory dwelling unit (ADU), where the owner does not own other rental property in the City of Oakland.

The City does not have nor maintain personal income tax data for businesses. Thus, it is not possible to conduct an analysis of how many owner-occupied dwellings would receive the exemption. The City does not maintain records regarding owner-occupied rental dwellings. However, staff was able to identify 1,720 *possible* owner-occupied single-family residence, duplex, townhouse, or condominium rental properties and 529 *possible* owner-occupied duplex or two-unit rental properties that might apply for these exemptions.

## **FISCAL IMPACT**

Ultimately, approval of a business tax exemption will adversely impact the General Purpose Fund ("GPF"), as business tax is a significant component of the unrestricted revenues that support city programs.

Staff identified 1,720 *possible* owner-occupied single family, townhouse, or condominium rental properties. In 2019, these rental properties in total paid approximately \$560,000 of business

<sup>1</sup> Ordinance No. 9625 C.M.S. adopted by Emergency Ordinance on June 29, 1978.

taxes in FY 2018-19. Staff identified 529 *possible* owner-occupied duplexes of two-unit rental properties. In 2019, these rental properties in total paid approximately \$185,000 of business taxes on FY 2018-19. If 50% of the identified accounts apply for and receive the exemption the fiscal impact would be approximately \$326,250 of ongoing revenue. If 25% of the identified accounts apply for and receive the exemption the fiscal impact would be approximately \$163,125 of ongoing revenue.

If all 2,249 possible accounts apply for and receive the applicable exemption the loss to the General Purpose Fund would be approximately \$652,500 ( $\$560,000 + (\$185,000 * 50\%)$ ) in FY 2019-20 and \$685,125 ( $\$576,800 + (\$190,550 * 50\%)$ ) in FY 2020-21. This would result in a budgetary impact of approximately 4.50 FTE and 5.00 FTE in FY 2019-20 and FY 2020-21, respectively.

	FY 2019-20	FY 2020-21
FY 2019-21 Proposed Budget Revenues	\$820,786	\$861,825
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<b>Surplus / (Deficit)</b>	<b>(\$652,500)</b>	<b>(\$672,075)</b>
<b>Equivalent No. of Budgeted FTEs</b>	<b>4.5 FTE</b>	<b>5.0 FTE</b>

### PUBLIC OUTREACH / INTEREST

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

### COORDINATION

This report has been coordinated with the Budget Bureau.

### SUSTAINABLE OPPORTUNITIES

**Economic:** Private residential property owners who rent rooms in their owner-occupied dwelling receive direct economic benefit in the form of the tax exemption.

**Environmental:** There are no environmental opportunities.

**Social Equity:** Owners who rent rooms in their primary residence or a second unit at their primary residence may receive a greater benefit than owners of units located in other multi-family dwellings, such as apartment complexes, and triplexes.

**ACTION REQUESTED OF THE CITY COUNCIL**

Staff recommends that the City Council receive this informational report regarding the proposed Ordinance amending Oakland Municipal Code 5.04, section 5.04.420, to fully or partially exempt from the business tax on residential property rentals those landlords with personal income of 100% Area Median Income or less who rent out (1) two or fewer rooms from their single family home of personal residence or (2) a unit from their owner-occupied two-unit parcel.

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

Respectfully submitted,



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Finance Department

Prepared by:  
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