



AGENDA REPORT

TO: Edward D. Reiskin
City Administrator

FROM: Erin Roseman
Director of Finance

SUBJECT: 2022 Measure T Implementation

DATE: January 12, 2023

City Administrator Approval

Date: Jan 13, 2023

RECOMMENDATION

Staff Recommends The City Council Receive An Informational Report From The City Administrator/Finance Department On The Implementation Of The New Progressive Business Tax

EXECUTIVE SUMMARY

The purpose of this informational report is to provide the City Council with an update regarding the implementation of the voters' approved 2022 Measure T that amended the Business License Tax structure.

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 business tax rates to create a progressive rate structure that would 1) impose the highest rates on the highest gross 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."

On November 8, 2022, Oakland voters approved Measure T 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." The approved Measure T was certified by the Alameda County Registrar of Voters, becoming effective 30 days after the date of certification. Pursuant to the approved Measure T, all business license tax renewals will have an initial due date of March 1st, 2023, before any business tax payments are declared delinquent.

FMC
January 23, 2023

IMPLEMENTATION OF THE PROPOSAL:

Beginning in late May 2022, several kickoff meetings took place to review the plan and implement Measure T in accordance with a schedule of activities designed to meet key milestones. These milestones were managed by staff from the Finance Department Revenue Management Bureau in a coordinated effort with city staff from IT, Finance Department Budget Office, City Attorney's Office, the City's software vendor and the City's banking institution.

City staff and the City's software vendor began setting up the rate and fee structure for the new progressive business tax. By early July, the City's software vendor was able to provide a demonstration to the city and transfer data to the City's test environment. During August 2022, several tests were performed by City IT and Revenue Management Bureau (RMB) staff to identify any issues and adjustments needed. Over the following three months, September through November, city staff would continue working with the City's software vendor to fine tune the implementation plan by engaging the City's bank to discuss lockbox changes, designing custom scripts, creating a master certificate, and other necessary updates. There were inherent challenges in the implementation plan as the election would not take place until November 8, 2022, leaving staff with an aggressive timetable to finalize all systems, staff trainings and public outreach efforts once Measure T was passed. Despite this challenge, through a synchronized and diligent effort by staff in the Revenue Management Bureau and other departments many of the milestones in the implementation plan were completed by December 31, 2022.

Currently, there remains a small number of milestones scheduled for completion, primarily associated with onboarding staff who will support the Business Tax Unit, second notices of the public outreach mailings being sent to business taxpayers during the month of February and on-going business community education and workshops.

Of note, several alternatives to the implementation of the proposal were presented in the May 26, 2022, Informational Report. Initially staff moved forward with the proposal which changed the due date of the business taxes from March 1st to January 2nd. However, this date of January 2nd, would later be repealed. On December 6, 2022, a final amendment to the ordinance was introduced changing the due date for the business tax declarations to March 1st before such taxes would be declared delinquent. The recommendation was first heard at the City Council meeting on December 6, 2022, and final passage of the recommendation was adopted at the City Council meeting on December 20, 2022. [Resolution No. 13718 C.M.S.](#)

Outlined below are some of the key tasks which were completed during the months of May through December 2022 to implement Measure T:

City's Software Vendor, Revenue Management Bureau (RMB) , and IT Staff – Software Configuration

Software configuration for the new business tax rates was led by the City's software vendor, Revenue Management Bureau, and IT staff. A beta test environment was setup where City staff would test the new environment, identify issues, provide feedback, and make needed adjustments. Custom scripts were designed in the system as well as renewal certificates and the new master certificates.

City Software Vendor, Revenue Management Bureau (RMB), and IT Staff Software Configuration Milestones
Demonstration of new setup and rate structure, transfer of configuration setup to City's test environment, solicit feedback and training of City staff
Engage the City's banking institution to discuss custom development for lockbox changes
Design of forms, renewal declarations, business license certificates and master certificates
Finalize updates and transfer test environment to live production on 12/27/22

Revenue Management Bureau (RMB) Trainings

Revenue Management Bureau (RMB) senior staff conducted two mandatory trainings for all staff in the Revenue Bureau. The purpose of the trainings was to provide staff with an opportunity to review and familiarize themselves with Measure T, the ordinance repealing and replacing Chapter 5.04 of the Oakland Municipal Code, and to educate staff on key changes.

Revenue Management Bureau (RMB) Training Milestones
All hands meeting – Staff training #1 – November 16, 2022, Measure T, key changes to the ordinance, exemptions, master certificates, calculation of the new business license tax
All hands meeting – Staff training #2 – December 8, 2022, Measure T, key changes to the ordinance, exemptions, master certificates, calculation of the new business license tax
Sr. RMB staff design the new physical master certificate and online forms
Sr. RMB staff meetings and trainings on processing renewals associated with the Apprenticeship Program for Construction Contractors

City's Bank Vendor Lockbox Services

Revenue Management Bureau staff, in coordination with the City's software vendor tested the lockbox files and transmission. City staff completed the process of editing the annual renewal notices and declarations, which were modified to educate taxpayers in completing the forms. These modified notices and declarations also served to ensure that staff at the City's banking lockbox service center could continue processing the incoming business tax payments.

City's Bank Vendor Lockbox Services Milestones
Project planning and configuration of the changes
Reviewing and editing existing notices and forms to inform the vendor's system
Testing changes and adjusting parameters in both the City's software vendor environment and the City's banking lockbox environment
Roll-out of lockbox in the new environment

Mailing and Emailing of Public Outreach Letter

Revenue Management Bureau staff prepared an initial public outreach letter (**EXHIBIT A**), which informed business taxpayers that Oakland voters approved Measure T, repealing, and replacing Chapter 5.04 of the Oakland Municipal Code with a new tiered, progressive business tax structure.

City staff engaged, the current mailing service provider and the City's software vendor to send the public outreach letter to all business taxpayers via US mail and email. Translation services were retained to have the public outreach letter translated into the languages of Chinese, Spanish, Vietnamese, Tagalog, Korean, Arabic, and Farsi. Additional languages will be made available upon request.

Mailing and Emailing of Public Outreach Letter Milestones
Prepare the initial public outreach letter pinpointing key changes and due dates
Mailing of the initial public outreach letter to 55,813 business taxpayers
Emailing of the initial public outreach letter to 55,618 business taxpayers
Mailing of hard copy declarations and renewals to business taxpayers*
Mailing of postcards to business taxpayers who have not renewed during Jan 2023*
2 nd email notice to business taxpayers who have not renewed during Jan 2023*

*Future milestones to be accomplished

ANALYSIS AND POLICY ALTERNATIVES

The focus of the analysis section in this report is intended to provide a look at the status of the implementation and the costs associated with implementing the adopted business tax structure.

Tax Education and Outreach Efforts:

The tax education and outreach efforts emphasize the importance of continued customer service, education and outreach through multiple noticing programs. The noticing program encompasses the sending of multiple notices designed to reach all business taxpayers, including non-English speaking business taxpayers. The effort will inform the business taxpayers of the changes and enhance the revenue collection program through voluntary compliance. The components of the tax education and outreach efforts include:

1. Initial Notice: The initial public notice, in the form of physical letters and electronic emails, will be sent to approximately 55,900 registered business taxpayers. The purpose of the letter is to disseminate clear information and available resources including key changes in the tax structure, exemptions and other changes identified in the Measure T ordinance. The three-page notice will be available to business taxpayers in English, Spanish, Chinese, Vietnamese, Tagalog, Korean, Arabic, Farsi. Other languages will be made available upon request to ensure access to this information is widely distributed.

2. Second notice: The second notice will go out during early February, in the form of a postcard, to serve as a reminder to business taxpayers of the changes, which became effective during January 2023. The information on the postcard will be limited due to size and will include our Business Tax website where taxpayers can make payments online and access information about the Measure T ordinance.
3. Electronic Notification: In addition to the physical notices, electronic notifications in the form of emails will be sent to those who subscribed to receive email notifications as their preferred delivery method. Approximately 55,600 business taxpayers have subscribed to this means of communication.
4. Tax Declaration/Remittance Forms: Paper copies of our tax declaration/remittance forms will act as another reminder to business taxpayers of the need to remit and pay the taxes in a timely manner to avoid mandatory late charges. This form will be mailed out during early January 2023.
5. Customer Service: Extended in-person customer service hours will be available during the months of January and February 2023. Additionally, RMB staff will continue providing customer service through other channels, which include emailing via BTWebSupport@oaklandca.gov, live chat on the City's Finance department website at oaklandca.gov/departments/finance-departments and via telephone at 510-238-3704.
6. Community Outreach: In coordination with the Oakland Chambers of Commerce or other community agencies, RMB staff has requested to take part in a small number of business events held throughout Oakland during the month of February. Our goal is to provide awareness and education of the newly adopted ordinance, thereby providing maximum reach to business taxpayers throughout the city.

As of January 12, 2023, our public outreach has contributed to a successful implementation and rollout of the approved ballot Measure T. More than 2,200 business accounts have been renewed, only twelve days after the start of the new year. Second reminder electronic notifications and mailings will go out during the first week of February to all business taxpayers whose account is still pending renewal and in unpaid status.

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. **Exhibit B** (attached) provides a detailed summary and breakdown by category of the costs incurred to date. We estimate the full amount to be expended over the course of implementation and subsequent audit activities to ensure the measure is fully implemented

PUBLIC OUTREACH / INTEREST

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

COORDINATION

This report was prepared in coordination with staff from RMB and the Budget Office.

SUSTAINABLE OPPORTUNITIES

Economic: The additional revenue 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 is forecasted to result in decreases of (\$.6) million for most small businesses while large businesses would account for additional revenue of \$19.72 million. Net revenues from all businesses are projected at \$19.12 million in FY2022-23, based on Q1 FY2022-23 actuals.

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

Race and Equity: Measure T changes 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. Key priorities 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 From The City Administrator/Finance Department On The Implementation Of The New Progressive Business Tax

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

Respectfully submitted,



ERIN ROSEMAN
Director of Finance
Finance Department

Prepared by:
Sherry M. Jackson
Revenue & Tax Administrator

Attachments (2):

Attachment A – Public Outreach Letter
Attachment B – \$1.1815 Million Budget Allocation

CITY OF OAKLAND



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Finance Department, Revenue and Tax Bureau
Business Tax Unit (BTU)

BTU (510) 238-3704
TDD RELAY 711

December 15, 2022

Business Name

Mail Attention

Mailing Address

Mailing City, State, Zip

Dear Business Owner,

This notice is to inform you of key changes which will affect your filing and payment of the annual Business License Tax beginning on January 1, 2023. Initial results indicate that Oakland voters have approved “Measure T” repealing and replacing Chapter 5.04 of the Oakland Municipal Code with a new tiered, progressive business tax structure. Alameda County is expected to certify election results by December 16, 2022.

“Measure T” creates a new set of tiered progressive tax rates along with other key changes that will become effective on January 1, 2023.

KEY CHANGES:

- **Tax Structure:** Beginning on January 1, 2023, the current tax structure will change to a progressive business tax rate structure. A progressive tax structure imposes higher rates on businesses that earn more in gross receipts.
- **Due Date:** The 2023 annual declaration and business tax payments shall be due by or before **March 1, 2023**, for all persons engaging in any business activities, including rental business activities. The business tax payment or portion thereof which is not paid by or before **March 1, 2023***, shall be declared delinquent and be subject to the following mandatory late charges.

FMC
January 23, 2023

- **Penalties:**
Ten percent (**10%**) of the total amount that remains delinquent beginning on **March 2, 2023, plus**

Twenty-five percent (**25%**) of the total amount that remains delinquent beginning on **May 2, 2023**
- **Interest:**
One percent (1%) per month or fraction thereof, on the amount of the non-payment, inclusive of penalties, from the date on which the non-payment first became delinquent until paid.

EXEMPTIONS:

- **No Longer Available – Small Business Exemption**
“Small business enterprises,” shall no longer be exempt from the payment of business tax.
- **No Longer Available – Five-Year Exemption – New or Renovated Buildings**
All new buildings and those buildings on which major renovations are completed after December 31, 2023, will no longer qualify for the exemption.
- **Owner-Occupied Rental Property Exemption**
An Owner of a duplex, triplex, or a single-family house with one or two accessory dwelling unit(s) (ADUs) shall be exempt if:
 - v. the Owner currently lives in one of the dwelling units as their principal place of residence and has received the homeowner property tax exemption on their County property assessment under California Revenue and Taxation Code Section 218; **and**
 - ii. the Owner has owned the property and lived in one of the dwelling units as their principal place of residence for at least one (1) year immediately preceding the application of this exemption; **and**
 - iii. for duplexes and triplexes, the rental unit is a “Covered Unit” as defined in Oakland Municipal Code Section 8.22.020; **and**
 - iv. the Owner’s total household income from all sources is less than or equal to 150% of the Area Median Income (AMI); **and**
 - v. the Owner has no ownership interest in any other residential rental property in the City of Oakland.

OTHER CHANGES:

- **Related Entities & Master Certificate:**
Related entities that engage in the same general line of business activity. All persons and their related entities that generate gross receipts attributable to the City, by engaging in similarly categorized business activities from separate branch establishments or places of business, shall aggregate the applicable annual gross receipts from all persons and related entities, subject to the master certificate, before applying the rates, and file **one** tax declaration.
- **First Year’s Estimated Gross Receipts:**
Newly established businesses in calendar year 2023. Every person applying for a first business tax certificate for a newly established business shall provide a reasonable estimate of their anticipated gross receipts for the period from the initiation of any business activities to the expiration of its first business tax certificate. The applicant shall pay an initial tax payment based on the estimate.
- **Refund of Tax, Penalty or Interest:**

Erroneously collected tax. The change requires a claimant to file a claim within 12 months, as opposed to 15 months, from the date the erroneously collected tax was paid, due solely to a clerical, accounting or mathematical error.

- **Measure “T” Other Changes & Helpful Links:**

Gross Receipts Tax Calculator - www.oaklandca.gov/services/pay-business-taxes-and-fees-online
Oakland Municipal Code Chapter 5.04 - Oakland, CA | Municode Library

We are here to help. If you have questions, please contact us at (510) 238-3704. You may also reach us by live chat at <https://ltss.oaklandnet.com/> or email at BTWebSupport@Oaklandca.gov.

To request this notice in Spanish, Chinese, Vietnamese, or another language, please call (510) 238-3704 or email BtWebSupport@oaklandca.gov. Para solicitar este aviso en español, chino, vietnamita u otro idioma, llame al (510) 238-3704 or BtWebSupport@oaklandca.gov por correo electrónico. 欲索取此文件的西班牙文, 中文, 越南文或其它翻譯本, 請電(510) 238-3704, 或電 BtWebSupport@oaklandca.gov. Để yêu cầu thông báo này bằng tiếng Tây Ban Nha, tiếng Trung Quốc, tiếng Việt hoặc ngôn ngữ khác, vui lòng gọi (510) 238-3704 hoặc email BtWebSupport@oaklandca.gov.

Illustration of the progressive tax rates and amounts due for Class A (Retail Sales) generating \$145,000.00 in gross receipts:

If annual gross receipts are \$145,000	Then the business tax is:	Tax Due
Tax on Gross Receipts not over \$66,666	\$60	\$60.00
Tax on Gross Receipts over \$66,666 but not over \$1,000,000	\$60, plus \$0.90 per \$1,000 of annual gross receipts over \$66,666	\$70.50
Tax on Gross Receipts over \$1,000,000 but not over \$2,500,000	\$900, plus \$1.10 per \$1,000 of annual gross receipts over \$1,000,000	\$0.00
Tax on Gross Receipts over \$2,500,000 but not over \$20,000,000	\$2,550, plus \$1.80 per \$1,000 of annual gross receipts over \$2,500,000	\$0.00
Tax on Gross Receipts over \$20,000,000 but not over \$50,000,000	\$34,050, plus \$2.00 per \$1,000 of annual gross receipts over \$20,000,000	\$0.00
Tax on Gross Receipts over \$50,000,000	\$94,050, plus \$2.50 per \$1,000 of annual gross receipts over \$50,000,000	\$0.00
Total Tax Due		\$130.50

Illustration of the progressive tax rates and amounts due for Class B (Grocers) generating \$51,000,500.00 in gross receipts:

If annual gross receipts are \$51,000,500	Then the business tax is:	Tax Due
Tax on Gross Receipts not over \$120,000	\$60	\$60.00
Tax on Gross Receipts over \$120,000 but not over \$1,000,000	\$60, plus \$0.50 per \$1,000 of annual gross receipts over \$120,000	\$440.00
Tax on Gross Receipts over \$1,000,000 but not over \$2,500,000	\$500, plus \$0.55 per \$1,000 of annual gross receipts over \$1,000,000	\$825.00
Tax on Gross Receipts over \$2,500,000 but not over \$20,000,000	\$1,325, plus \$1.00 per \$1,000 of annual gross receipts over \$2,500,000	\$17,500.00
Tax on Gross Receipts over \$20,000,000 but not over \$50,000,000	\$18,825, plus \$1.75 per \$1,000 of annual gross receipts over \$20,000,000	\$52,500.00
Tax on Gross Receipts over \$50,000,000	\$71,325, plus \$2.50 per \$1,000 of annual gross receipts over \$50,000,000	\$2,501.25
Total Tax Due		\$73,826.25

Attachment B – \$1.1815 Million Budget Allocation

The following is a summary of actual and pending expenditures incurred for the implementation of the approved ballot Measure T.

Category - Staffing	# Approved	# Hired	Expenditures as of Jan 6, 2023	Status as of Jan 6, 2023
Staffing – Limited Duration	6	1	\$0	Interviews Ongoing
Staffing – Acting Role (Rev. Assist to TEOs)	3	3	\$0	Scheduled Jan 2023
Staffing – Overtime	n/a	n/a	\$5,000	Ongoing

Category - Technology	Item(s)	Expenditures as of Jan 6, 2023	Status as of Jan 6, 2023
Technology (Vendor Programing)		\$84,812	Ongoing
Technology (Computers/Laptops/Accessories)	(5) laptops (3) desktops	\$16,310	Pending delivery

Category - Outreach	Quantity	Expenditures as of Jan 6, 2023	Status as of Jan 6, 2023
Initial Mailing of Notices	55,900	\$47,138	Complete
Second Mailing of Notices		\$	Pending
Mailing of Declarations		\$	Pending
Translation Services		\$2,100	Complete
Community Outreach		\$	Pending
Workshops		\$	Pending