CITY OF OAKLAND

MEMORANDUM

TO:	Edward D. Reiskin City Administrator	**FROM:**	Adam Benson Finance Director
SUBJECT:	Beacon Analysis Regarding Repeal and Replace Chapter 5.04 of the Oakland Municipal Code To Create A Progressive, Modern, And Equitable Business Tax Structure	**DATE:**	July 7, 2020

City Administrator Approval Date: July 9, 2020

PURPOSE

The purpose of this memorandum is to transmit to the full City Council and the public, a report drafted by Beacon Economics regarding the repeal and replace of Chapter 5.04 of the Oakland Municipal Code to create a progressive, modern, and equitable business tax structure.

The City of Oakland retained Beacon Economics to conduct a Business Mobility Assessment – a conscientious approach to gauging a business' propensity to relocate under a shifted tax burden. The analysis performed in this section of the report will synthesize business and demographic data to inform conclusions on the sensitivity of Oakland enterprises to an increased tax incidence. Beacon Economics will assess mobility by income tier, concentrating on the top two with respect to total gross receipts. Supplemental analysis will be performed on the California Schools and Local Communities Funding Act, emphasizing its potential interaction with a new tax rate for Oakland businesses.

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

Respectfully submitted,

ADAM BENSON
Director of Finance

Attachments (1): Beacon Economic Report dated July 3, 2020

TO: Margaret O'Brien
City of Oakland
FROM: Beacon Economics, LLC
RE: 2020 Business Tax Mobility Assessment
DATE: July 3, 2020

EXECUTIVE SUMMMARY

Policymakers in the City of Oakland are looking to provide long term relief to the small business community by restructuring the city's gross receipts business tax. The intended goal is to shift the tax burden from small businesses to large corporations while increasing city revenues in order to reinvest in improving and expanding city services.

Beacon Economics was retained by the City of Oakland to evaluate proposed changes to the Oakland Business Tax Classification and Rate Schedule. This letter presents our findings and concerns as they relate to potential changes:

FINDINGS

- The City of Oakland currently levies higher business taxes than other major California cities.
- Applying the newly proposed rates to Oakland's 2019 gross receipts tax data shows that some business classifications would see a 200% to 500% increase in taxes on a per firm basis.
- It's likely that firms most motivated to relocate because of tax increases will be those who belong to industries with a smaller concentration in the City of Oakland. There is a strong risk of business loss from less agglomerated industry clusters. These firms would prioritize increased taxes over the many other benefits of remaining within the city.
- It's likely that firms least motivated to leave due to tax increases belong to industries with a large footprint in Oakland. These firms will prioritize essential city services, location, and access to labor and land, among other factors, over an increased tax burden.
- Yet, it's important to consider issues posed by labor, real estate, policy, and the current global COVID-19 pandemic. These may compound the effect of increased taxes.
- The Bay Area leads the nation in its large concentration of STEM degree holders, but also leads in terms of its high cost of skilled labor. There are regional workforces outside of California who possess the same mix of skills but demand lower wages.
- Rent for office space is cheaper in areas like Dallas, Texas and Charlotte, North Carolina than it is in the East Bay – and in places like Dallas, there exists a healthy supply of office space. These areas make for attractive prospects with respect to overhead costs.

- The California Schools and Local Communities Funding Act (2020) would effectively increase property taxes on commercial real estate. There is the risk that these increases will be passed through to tenants, increasing rents and making major California cities less attractive for business.
- Many companies have been telecommuting since March of this year, and some of the biggest names in business are letting their employees work from home as long as they choose. Many firms and workers have probably innovated and found success in telecommuting, reducing the demand for maintaining a presence in any particular city.
- The City of San Francisco implemented a progressive tax system, but its business environment continues to face challenges from commercial real estate and policy, labor costs and availability, and housing. This is important for Oakland policymakers to understand as an increased tax burden may compound the effects of existing issues.

RECOMMENDATIONS

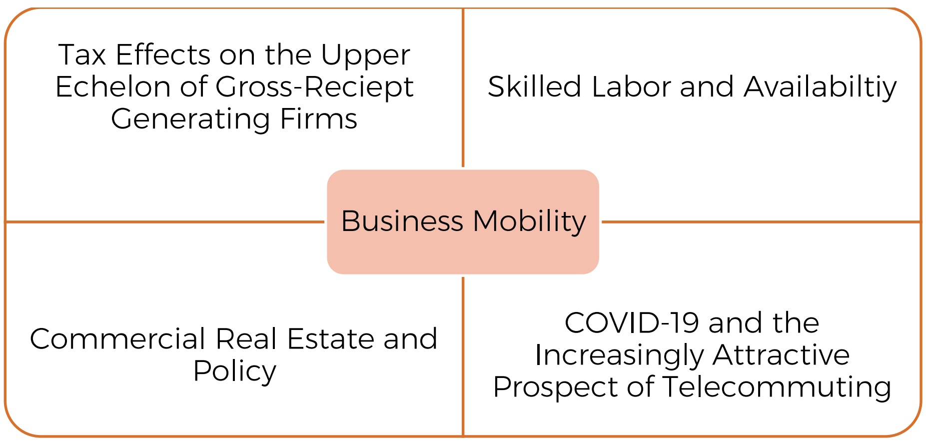
1) Perform robust outreach and establish lines of communication with the city's higher gross receipt generating firms. Communicate that improved investment infrastructure, housing, and homelessness services comes with a price. The proposed rate structure will reduce the burden on many Oakland firms, effectively shrinking the tax base and targeting the higher gross receipts generating firms. Since equity issues may arise, it's crucial to thoroughly articulate the tradeoffs as part of the conversation with the business community.
2) Leverage the city's financial analysts in finding a middle ground between tax rates and revenue goals. A sound methodology should be constructed to find the optimal rates given revenue goals and business tax tolerance thresholds.
3) Many other jurisdictions will be averse to increasing tax burdens in uncertain and unprecedented times. Tax increases aren't generally seen as stimulative economic policy, especially during a recessionary period with an unknown duration. It's important for Oakland policymakers to keep this in mind going forward.
4) Use equity as a guiding principle throughout the proposal and implementation process. It's crucial to establish and maintain fairness and transparency among the business community, relevant stakeholders, and voters.

INTRODUCTION

In the wake of the first round of business, school, and other closures around the globe , it's clear that economists, financial analysts, and governments have lived lifetimes and never seen the kind of rapid economic damage brought on by the COVID-19 pandemic. For local governments, many peripheral pre-pandemic objectives, such as raising funds for improved infrastructure investment and essential city services, have been pushed to the front of the queue in this time of need. Funding that supports city services delivers significant benefits to businesses, especially small businesses, which need the most help during arduous times. In a tax incidence context, supporting those in need oftentimes means distributing the burden to those who are best equipped to bear it.

This report attempts to gauge the propensity of businesses to relocate out of the City of Oakland under a shifted tax burden. Beacon Economics concludes that, given an increased tax liability, a firm is at risk of relocation if it belongs to an industry with a small footprint in Oakland. Elsewhere, these firms could find relief from taxes despite what Oakland has to offer: prestige location, skilled workforce, and a robust and reliable public transportation system, among other strong public benefits. However, even among those firms that would be willing to withstand the tax, an increased share of burden can compound existing headwinds, effectively amplifying the effect of the tax. The variables that may drive relocation decisions under an increased tax burden are organized in the chart below.

Figure 1: Driving Variables



Beacon Economics acknowledges that there are variables that will effectively counteract the effects of those identified in the Driving Variables chart. These may include moving costs, real estate availability, and the many benefits of remaining in Oakland specifically, such as robust and reliable public transportation. While these are compelling arguments for a business to stay, the broader issues can be cause to leave, which is why the driving variables and recommendations need to be contemplated in earnest. It should be noted that some idiosyncratic, firm-specific variables cannot be captured by this kind of analysis. These variables, often times tantamount to those enumerated in this report, such as address prestige and the "CEO effect"[1], can be better understood through outreach and direct communication between policymakers and the business community.

[1] Multari et al. (2017). Guide to Local Government Finance in California. Point Arena, CA: Solano Press Books.

STATEWIDE AND LOCAL BUSINESS TAX CLIMATE

This section relates business taxes in California's largest cities to those that surround the City of Oakland. Firm mobility is addressed in the context of tax effects, using the presence of business taxes in city budgets as a guiding principle.

CALIFORNIA'S LARGEST CITIES

Los Angeles and San Francisco, two of the 10 most populous cities in the state, levy business taxes based largely on gross receipts, while the other eight tie taxes to business licenses or certificates. Business taxes in San Francisco constituted 18% of local tax revenue in fiscal year 2015-16 and are projected to make up almost a quarter through 2023-24. Meanwhile, business certificate/license taxes constitute less than 3% total tax or general fund revenue in Anaheim, Bakersfield, Long Beach, Sacramento, and San Diego[2]. Oakland's business taxes mirror San Francisco's the most, with license taxes having accounted for 14.6% of general-purpose fund revenue in 2017-18. For comparison, Los Angeles budgeted business taxes to make up about 10% of general fund revenue in 2019-20, and business taxes in San Jose made up 4.6% in total general fund revenue 2017-18.

NEIGHBORING CITIES

Business taxes have smaller budget effects in neighboring cities. Concord taxes businesses similarly to Oakland, according to their classification, but the taxes made up 3.8% of the city's general fund revenues in fiscal year 2017-18. Antioch (7.7% of general fund revenues in 2017-18), Pleasanton (3.3% of general fund revenues in 2015-16) and Fremont (5.0% of general fund revenues in 2018-19) impose taxes based mostly on either gross receipts or payroll, with Fremont offering five-year exemptions to biotechnology and clean technology firms. Dublin (less that 1% of general fund revenues in 2016-17) requires only a business license registration of $92 and an annual renewal of $26.

RELOCATION COMPETITION

Business taxes make up a small portion of general revenue in many California cities but are principal sources in Oakland and San Francisco. When business taxes constitute a small share of operating revenue, it may indicate less need for such taxes to cover essential services, given existing revenue mainstays. For example, transient occupancy taxes play a bigger role in tourist destinations like Anaheim and Avalon. Therefore, it is reasonable to assume that an Oakland firm may move across city limits to a neighboring jurisdiction with a lower tax rate and perhaps a simpler system. It's likely, however, that a firm that moves may also be considering commercial real estate and policy, labor costs and availability, and even housing.

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[2] From budget documents an open data: business license/certificate taxes made up 2.0% of tax revenues for Anaheim in FY2018-19, 2.4% of total general fund taxes for Bakersfield in FY2017-18, 2.6% of general fund revenues for Long Beach in FY2017-18, 2.3% of governmental funds taxes for Sacramento in FY2017-18, and less than 1.9% of general fund revenues for San Diego in FY2018-19.

One study[3] suggests that a lower tax rate may have less of an effect, given that there is an agglomeration in the home city and not in the destination city. Relative to the nation, Oakland is heavily concentrated in the Transportation and Warehousing, Utilities, Public Administration[4], and Health Care industries. Therefore, unless the destination city is concentrated in any of those industries, it's unlikely that lower tax rates will be a major catalyst for a firm to move.

Pacific Gas & Electric's recently announced relocation to Oakland[5] bolsters this theory. Although reducing overhead costs may have driven the decision to leave San Francisco, the move may also have been influenced by Oakland's high concentration of utility-related jobs. By the same token, given that Oakland is less concentrated in Computer and Mathematical occupations, an information security firm might find it appealing to move to a metro area like Charlotte, N.C., where labor and real estate costs are considerably lower. It then follows that the firm may also appreciate lower taxes because of Charlotte's higher concentration of information security analysts.

CASE STUDY: SAN FRANCISCO

This section discusses San Francisco's experience in shifting to a graduated tax rate scheme. Firm mobility is addressed in the context of tax effects, with greater emphasis given to various drivers of mobility such as commercial real estate and policy, labor costs and availability, and housing.

THE TRANSITION TO A NEW BUSINESS TAX SYSTEM

Before 2000, the City and County of San Francisco imposed a hybrid gross receipts/payroll tax on its businesses.[6] By 2001, after a lawsuit in California declared a related system unconstitutional, the City and County retained only a payroll expense tax and a business registration fee as methods to generate revenue from its businesses. The payroll expense tax, from 2001 to 2012, was a flat 1.5% levy on businesses with more than $250,000 in payroll. This tax effectively involved only 10% of San Francisco businesses and was scrutinized for its regressive nature. The Controller's Office of Economic Analysis concluded that the payroll expense tax, generally, increased labor costs and impeded hiring by extension.

So, in November 2012, the City and County phased out the payroll expense tax over a six-year period while phasing in a gross receipts tax using tax schedules stratified by type of business. Under the new system, businesses with more than about $1.1 million to $1.2 million in gross receipts would be subject to the tax, exempting low-revenue businesses and, by virtue of the graduated tax rates, shifting the burden to higher-earning firms.

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[3] Jofre-Monseny et al. (2012). Which communities should be afraid of mobility? The effects of agglomeration economies on the sensitivity of employment location to local taxes. Regional Science and Urban Economics, 42, 257-268.
[4] Note that Public Administration offices are not taxed for doing work in Oakland.
[5] Morris et al. "PG&E will relocate to Oakland after more than 100 years in San Francisco." San Francisco Chronicle. (2020, June 8). Retrieved June, 12, 2020 from https://www.sfchronicle.com/business/article/PG-E-will-relocate-to-Oakland-after-more-than-100-15325849.php
[6] Office of the Controller, Controller's Office of Economic Analysis (2012). Enacting a Gross Receipts Tax, and Phasing-Out the Payroll Expense Tax: Economic Impact Report. City and County of San Francisco. https://sfcontroller.org/sites/default/files/FileCenter/Documents/3426120681_economic_impact_final_corrected.pdf

In 2019, the Office of the Controller and the Office of the Treasurer & Tax Collector in San Francisco found that the new tax system had achieved several of its desired effects.[7] By 2017, more businesses were paying the gross receipts tax annually than those who paid the payroll expense tax, meeting the goal of broadening the tax base. The new tax also exhibited progressivity; firms with more than $50 million in gross receipts paid close to 60% of the gross receipts tax in 2017. It was also found that the distribution of burden among industries took a new shape. Specifically, in 2017, Information; Retail; and Professional, Scientific, and Technical Services paid a lower percentage of gross receipts tax than payroll expense tax. Meanwhile, Finance, Real Estate, and Construction firms paid a greater share of gross receipts tax relative to their payroll expense tax.

San Francisco's experience hasn't been fully successful, however. The goal of the phase-in/phase-out process was to maintain revenue neutrality. This goal was not met by 2018, the year the payroll expense tax was to be fully phased out, because of less-than-anticipated gross receipts tax revenue. As a consequence, the City and County had to carry the payroll expense tax rate into the following year, showing that even administrative caveats can work against transforming tax systems. San Francisco also reported greater administrative costs, especially in the earlier years of implementation, because of the more elaborate nature of the new tax system.

MOBILITY ASSESSMENT

It's difficult to determine how much mobility pressure the new tax system put on businesses, especially because it shifted burden away from many firms that might have relocated under an even more stringent payroll expense system. Aside from an NAICS reclassification in 2013, it's also difficult to parse policy effects from establishment data around the time the new tax system was implemented. The transformation did shift burden to the Financial Services Industry, and incentives to move may have compounded in a substantial way when an additional gross receipts tax for homelessness was approved in 2018. Stripe, a large financial technology firm, was particularly outspoken about the measure[8] and is scheduled to move to South San Francisco in 2021. There, it will pay only a business license tax that makes up only about 1% of the City's general fund revenue.

San Francisco businesses are probably more sensitive to commercial real estate and policy, housing, labor availability, and wage issues than taxes. The office vacancy rate in the San Francisco-San Mateo market was 9.0% in the first quarter of 2020, second only to the New York City metro area. Average asking rent in the region was $65.02 per square foot in the same quarter. Limited availability leads to increased rent, intensifying the high cost of conducting business. Policy can compound this effect, especially in San Francisco, with 1986's Proposition M limiting office development, and March 2020's Proposition E tethering office development to affordable housing goals. Labor force housing also plays a role. The average monthly cost of rent in San Francisco metro area was $3,340 in 2019, with a countywide median income of $112,376

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[7] Office of the Controller, Office of the Treasurer & Tax Collector. (2019). San Francisco Business Tax Reform: Annual Report for 2018. City and County of San Francisco. https://sfcontroller.org/sites/default/files/Documents/Economic%20Analysis/San%20Francisco%20Business%20Tax%20Reform%20Annual%20Report%202018.final_.pdf

[8] Collison, Patrick. "Proposition C." Stripe Newsroom. (2018, October 19). Retrieved June 8, 2020 from https://stripe.com/newsroom/news/prop-c-patrick

the year before. San Francisco's rent burden threshold[9] was 11% higher than its median income in 2018, while in Dallas County, Texas — a recent destination of some San Francisco firms — the rent burden threshold was 21% *less* than median income that year.

Labor as an operating cost involves commercial real estate and policy, and housing. The average weekly wage in San Francisco's Professional and Business Services industry was $3,236 ($168,272 annually) in 2019, versus $2,309 ($106,035 annually) in Alameda County and $1,620 ($84,221 annually) in Dallas County. Labor availability also works against San Francisco's favor in this example: Professional and Business Services employment totals more than twice as much in Dallas County than in San Francisco and Alameda counties combined. As noted in the next section, two major Texas regions have an abundance of skilled labor and lower wages.

WHAT TO CONSIDER

This section identifies the two gross-receipts tiers that provide the increased tax revenue, and compares two proposed rate structures to see tax increases in these tiers. The section then identifies possible at-risk industries and details the driving variables beyond rates that may compound the effect of taxes.

TAX EFFECTS

The City of Oakland's current Business Tax Classification and Rate Schedule assigns 22 industry classifications among 12 tax rates.[10] The proposed tax system would condense the industry codes into seven classifications with five tax brackets, mirroring San Francisco's current system.[11] In San Francisco's rate structure, the Retail and Wholesale Trade industries would have the lowest tax rates, and Private Education and Health Services, Administrative Support, and Professional and Business Services would be subject to the highest.

Analysis by Oakland indicates that two particular gross-receipts tiers will shoulder the burden of the new tax system.[12] Because of the intended progressivity of the proposed system, the two tiers are at the top of the distribution: firms generating $25 million to $50 million in gross receipts, and firms generating $50 million or greater. In the $25 million to $50 million tier, five industry classifications generate 57% of the tier's 2019 gross-receipts total: Professional/Semi-Professional Services, Construction Contractors, Grocers, Retail Sales, and Wholesale Sales. In the $50 million and greater tier, five industry classifications generate about 56% of the tier's 2019 gross-receipts total: Business/Personal Services, Construction Contractors, Professional/Semi-Professional, Recreation/Entertainment, and Utilities. The effects of the proposed tax rates are clear when analyzing the top five industries in each tier.

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[9] Rent Burden is defined as spending 30% or more of monthly income on rent.
[10] Finance Department. City of Oakland Business Tax Classification & Rate Schedule. City of Oakland. https://cao-94612.s3.amazonaws.com/documents/Business-Tax-Classification-and-Rate-Tables-2020.pdf
[11] Treasurer and Tax Collector. Gross Receipts Tax (GR). City and County of San Francisco. https://sftreasurer.org/business/taxes-fees/gross-receipts-tax-gr

[12] Finance Department. (2020). City of Oakland.

Figure 2: Gross-Receipts Taxes Per Firm for the Top 5 Industries in the City of Oakland
Using rate structure that generates $44 million
* Based on gross receipts generated in Oakland

Current Classification	Existing Oakland Rates: Taxes/Firm	Proposed Oakland Rates: Taxes/Firm	Increase (%)	Number of Firms
$25 Million to $50 Million in Gross Receipts				
Professional/Semi-Professional	$128,255	$198,611	54.9	16
Construction Contractors*	$61,848	$153,523	148.2	13
Grocers	$20,779	$54,470	162.1	8
Retail Sales	$44,049	$57,679	30.9	7
Wholesale Sales	$43,089	$56,530	31.2	8
$50 Million or More in Gross Receipts				
Business/Personal Services	$233,185	$1,457,842	525.2	7
Construction Contractors*	$174,117	$873,791	401.8	12
Professional/Semi-Professional	$414,247	$1,299,869	213.8	9
Recreation/Entertainment	$1,051,428	$1,856,076	76.5	3
Utilities	$199,712	$1,576,086	689.2	3

Figure 3: Gross-Receipts Taxes Per Firm for the Top 5 Industries in the City of Oakland
Proposed Rates Constructed by City of Oakland Finance Department
Using rate structure that generates $30 million
* Based on gross receipts generated in Oakland

Current Classification	Existing Oakland Rates: Taxes/Firm	Proposed Oakland Rates: Taxes/Firm	Increase (%)	Number of Firms
$25 Million to $50 Million in Gross Receipts				
Professional/Semi-Professional	$128,255	$195,054	52.1	16
Construction Contractors*	$61,848	$153,523	148.2	13
Grocers	$20,779	$51,038	145.6	8
Retail Sales	$44,049	$54,044	22.7	7
Wholesale Sales	$43,089	$52,971	22.9	8
$50 Million or More in Gross Receipts				
Business/Personal Services	$233,185	$771,677	230.9	7
Construction Contractors*	$174,117	$480,389	175.9	12
Professional/Semi-Professional	$414,247	$850,320	105.3	9
Recreation/Entertainment	$1,051,428	$1,147,128	9.1	3
Utilities	$199,712	$977,437	389.4	3

Figure 4: Gross-Receipts Taxes Per Firm for the Top 5 Industries in the City of Oakland
Using rate structure that generates $27 million
* Based on gross receipts generated in Oakland

Current Classification	Existing Oakland Rates: Taxes/Firm	Proposed Oakland Rates: Taxes/Firm	Increase (%)	Number of Firms
$25 Million to $50 Million in Gross Receipts				
Professional/Semi-Professional	$128,255	$195,054	52.1	16
Construction Contractors*	$61,848	$153,523	148.2	13
Grocers	$20,779	$51,038	145.6	8
Retail Sales	$44,049	$54,044	22.7	7
Wholesale Sales	$43,089	$52,971	22.9	8
$50 Million or More in Gross Receipts				
Business/Personal Services	$233,185	$767,855	229.3	7
Construction Contractors*	$174,117	$480,389	175.9	12
Professional/Semi-Professional	$414,247	$850,320	105.3	9
Recreation/Entertainment	$1,051,428	$1,163,970	10.7	3
Utilities	$199,712	$985,729	393.6	3

The tables above show total taxes calculated by tier and by the five industry classifications, not accounting for additional taxes, deductions, exemptions, or other adjustments. The first table uses progressive rates that generate $44 million in revenue, while the second and third tables use rates that generate $30 million and $27 million in revenue, respectively. The second and third set of rates are smaller, but generate enough revenue to address city priorities.

The taxes are first calculated on the volume of gross receipts in each industry according to the current Oakland Business Tax Classification & Rate Schedule, then calculated in the same manner according to the proposed rate structure, matching Oakland's existing classifications with the proposed condensed classifications. The range of impacts is wide. Using whichever proposed rate structure, all industries would have a tax increase. Retail and Wholesale Sales would see increases of around 30% per firm, and Professional/Semi-Professional Services would see more than a 52.1% increase. Grocers, Construction Contractors, Business/Personal Services, and Utilities would all have increases of over 100%.

The $44 million rate structure sees revenue contributions from the top gross receipts tier increase from 17% to 33% of total business tax revenue. The $44 million in new business tax revenue is driven by large rate jumps in the top brackets of the proposed rate structure. The $30 million and $27 million rate structures see contributions in the top gross receipts tier increase from 17% to 25% and 26% of total business tax revenue, respectively. The $30 million and $27 million rate structures adhere to a slower and scalable rate across brackets, yielding less additional revenue by avoiding large jumps in rates. The $30 million and $27 million rate structures differ notably in that the $27 million rate structure: (1) disaggregates Recreation/Entertainment from Hotel/Motel, Media Firms, and Utility Companies, and (2) introduces separate tax rates for each of the two classes. A result of the $27 million rate structure is that the intermediate gross receipts tier, $2.5 million to $25 million, increases its share of total business tax revenue by a percentage point. All three of the proposed rate structures reduce the business tax burden on firms generating gross receipts up to $2.5 million.

The relocation outlook varies among types of firms but is underpinned by industry concentration. Firms most likely to move would be in industries with less of a footprint in Oakland relative to the nation: Construction, Retail Trade, Wholesale Trade, and Financial Services. What's particularly concerning is the effect on construction contractors. The higher-earning contracting firms are based outside Oakland and pay taxes only for work in the City. Because these firms are large contributors to the tax base, it would be disadvantageous to raise the price of doing business in Oakland. Also, lower taxes on construction give Oakland a competitive edge over neighbors including San Francisco, where supply constraints on both commercial and residential real estate are costing businesses and workers more and more every year. Ostensibly, taxes on construction firms may be lower in Oakland than in San Francisco with the proposed rates. This bodes well for Oakland, but it would be best to consider keeping these rates competitive with other neighboring jurisdictions as well.

Of those taxed the most, Utilities, Transportation, Health Care, Information, Technology and Science-related industries would be less motivated to relocate amid a shifted tax burden. Because of the significant concentration of these industries in Oakland, such firms may choose to absorb the tax, although other factors could enhance its effects and create pressure to leave Oakland.

WAGES AND SKILLED LABOR

Skilled labor and wages can either work for or against keeping businesses in Oakland, in the presence of a shifted tax burden. On the one hand, the Bay Area's large concentration of STEM degrees works in Oakland's favor as far as the Health Care; Information; and Professional, Scientific, and Technical Services industries are concerned. Of the 10 most populous metropolitan statistical areas in the United States, the nine-county San Francisco Bay Area has the largest share of STEM degree holders per resident graduates[13] at 45% in 2018. The East Bay[14] ranks second at 44%. This is in contrast to Atlanta, Phoenix, and New York City metros, where the share is 30% in each area.

On the other hand, the cost of skilled labor is much less in many growing regions outside the Bay Area. For Computer and Mathematical; Life, Physical, and Social Sciences; and Health Care occupations, wages are less in areas where skilled labor is still similarly abundant. In each of these occupation groups, workers are paid less in Houston and Dallas metro areas even though the percentage of STEM degree holders is close to the Bay Area's: 38% and 33% respectively. This is a prime example of what a firm wary of taxes might consider.

[13] Residents who hold a bachelor's degree or greater.
[14] The East Bay, formally known as the Oakland-Hayward-Berkeley Metropolitan Division (MD), comprises Alameda and Contra Costa counties.

Figure 5: Metro Wage Comparisons by Occupation
Selected Regions, May 2019

Metropolitan Statistical Area	Median Hourly Wage	Annual Mean Wage
Computer and Mathematical		
San Francisco-Oakland-Hayward	$57.96	$124,630
Houston-The Woodlands-Sugar Land	$43.84	$96,260
Dallas-Fort Worth-Arlington	$44.12	$94,450
Life, Physical, and Social Sciences		
San Francisco-Oakland-Hayward	$46.15	$100,560
Houston-The Woodlands-Sugar Land	$32.55	$84,210
Dallas-Fort Worth-Arlington	$31.87	$74,280
Health Care and Practitioner		
San Francisco-Oakland-Hayward	$52.33	$116,380
Houston-The Woodlands-Sugar Land	$33.82	$82,530
Dallas-Fort Worth-Arlington	$33.07	$81,760

Source: U.S. Bureau of Labor Statistics; Analysis by Beacon Economics

COMMERCIAL REAL ESTATE AND THE SPLIT ROLL

Large overhead costs such as commercial real estate are also a relocation factor. In the first quarter of 2020, monthly office rent was $35.41 per square foot in the East Bay. It was $26.26 and $26.91 in the Dallas and Charlotte metro areas respectively. The contrast is starker considering Oakland alone, where monthly rent was $51.30 per square foot in the central business district. The growth of office rent in Oakland as well as vacancy rates suggest great cost pressure, which is only partly the case in Dallas. There, although rents have grown at a strong pace, vacancy rates are still above 20%. This indicates the presence of demand, but demand that's being met with a supply of space. This is certainly not the case in many of California's largest cities. To make matters worse, an upcoming state ballot measure would add mobility pressure, threatening to make major cities less competitive.

When Proposition 13 amended the California constitution in 1978, the state put a strict ceiling on the taxes it could collect from property. The original proposition stated that any state tax on property could not exceed 1% of the "full cash value" of such property.[15] This full cash value was tied to a property's assessed value in 1975, and the only way this value could be assessed after 1975 was through a change in ownership or if the property was built after 1975. Moreover, the proposition restricted any tax increase to 2% per year, reflecting the standard rate of inflation and putting forward another strict rule on how the State of California could collect property taxes. Though the economic, political, and sociological ramifications of this 1978 amendment are wide and varied, to this day the strict ceilings remain in place, and polling has shown that most Californians support the measure.

On Election Day 2020, however, Californians will decide whether to amend it. The proposed Schools and Local Communities Funding Act (2020) essentially would lift this strict ceiling on property taxes, tying the value to a property's market value rather than its purchase price. The

[15] Official California Legislative Information, California State Legislature. (1978). California Constitution, Article XIII A [Tax Limitation] [Section 1 – Sec. 7]. State of California. https://leginfo.legislature.ca.gov/faces/codes_displayText.xhtml?lawCode=CONS&division=&title=&part=&chapter=&article=XIII

most important aspect of this proposal is that although Proposition 13 applies to all types of real property, this proposal seeks to lift only the ceiling for commercial and industrial types (except those zoned as commercial agriculture).[16] As such, the ballot measure is commonly referred to as a "split roll" because of how commercial properties would be taxed differently from residential, agricultural, and small-business properties.[17]

The implications of such a change are debatable. Of course, because the value of commercial and industrial real estate in California has skyrocketed over the last four decades, most owners of such property would expect their taxes to rise. The state seeks to first use the increased tax revenue to supplement decreases in the state's personal income and corporation taxes, after which the state would distribute 60% of the remaining funds to local governments and 40% to school districts and community colleges via a Local School and Community College Property Tax Fund. SEIU Local 99 has reported that the initiative would generate up to $12 billion more revenue,[18] and the Evergreen Teachers Association has said that this would increase per-pupil spending nearly 20%.[19]

But there is concern over how businesses might react to the tax increase and how this would affect the actual amount of tax revenue the state can collect. The Legislative Analyst's Office believes it would definitely influence some businesses' decisions about expanding in or moving to California,[20] and the chief executive of the Orange County Taxpayers Association worries the bill could cause a loss of 400,000 jobs in the state.[21] Most businesses leaving California cite high taxes as the main factor (and tend move to lower-tax states, with Texas the top choice[22]). But decades of disinvestment in California's cities could be reversed if businesses decide to move to cheaper neighborhoods in a city as a result of the tax increase, which they could do to reduce their property tax and maintain access to local talent.

COVID-19 AND TELECOMMUTING

The global pandemic will significantly influence mobility, particularly for office-using industries. Since the implementation of stay-at-home and shelter-in-place mandates, many office-based firms have carried out operations remotely. Some may even allow their workforce to work from home perpetually; Twitter is a recent example.[23] Pressures such as an increased tax burden and commercial real estate costs may interact with long-term remote work assumptions, and firms

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may choose to leave Oakland. It's likely that office-using industries rely on much internal face-to-face contact on a daily basis. Because it would be more difficult to practice social distancing in these workplaces, professional and technology-based industries will probably be among the last to return to the office. These same industries rely less on public interaction, meaning that as long these industries succeed in using telecommuting, there won't be much pressure to get back into the workplace. Sunk costs on rental space and businesses taxes will weigh on decisions as firms realize that pre-pandemic luxuries were unnecessary all along.

CLOSING

Shutting down from COVID-19 has had profound effects on the global economy. Accordingly, the pandemic has brought issues of Oakland's current tax system to the forefront. In response, a concerted effort has been coordinated to bolster the small business community in its time of need. Across the Bay Bridge, San Francisco has set a precedent for levying taxes on businesses, which Oakland has proposed to emulate. In typical Bay Area fashion, the region is pioneering a solution to another Goliath problem. The solution isn't without its own set of caveats, however. The plan to shift an even larger share of the tax burden onto big business brings many issues to light. In particular, the most concerning issue involves the fleeing of large, main-player, firms to evade the effect of the tax increase. It's likely this risk will be most salient for firms with high gross receipts in industries that have less of a presence in Oakland. By the same token, Oakland's flagship industries such as Health Care, Transportation, and Utilities may be more deft in their absorption of the tax burden. That being said, tax incidence is not a zero-sum game. While, industries committed to Oakland may have more stamina to withstand the tax, it may be the case that other, compounding, costs work to enhance the effect of the tax. California's high commercial real estate costs and anti-housing policies are a major factor. Another problem is labor costs, as well as the fact that many regions around the nation are building up their supply of skilled work, effectively making tech and information hubs like the Bay Area less competitive. There are a lot of things at play. The best step forward is to proceed with all of the salient knowledge and foresight and engage relevant business stakeholders in any process of business tax revision. The entire business community needs transparent, conscientious, and effective leadership.

Economic and Revenue Forecasting Practice Area
Beacon Economics, LLC

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