CITY OF OAKLAND

AGENDA REPORT

TO:	Edward D. Reiskin City Administrator	**FROM:**	Adam Benson Director of Finance
SUBJECT:	Equitable Business Tax Update	**DATE:**	July 8, 2020

City Administrator Approval		Date:	July 10, 2020

RECOMMENDATION

Staff Recommends That The City Council Receive A Supplemental Report Regarding The Proposed Resolution On The City Council's Own Motion Submitting To The Voters At The November 3, 2020 General Municipal Election, An Ordinance Repealing And Replacing Chapter 5.04 Of The Oakland Municipal Code To Create An Progressive, Modern, And Equitable Business Tax Structure; And Directing The City Clerk To Take All Actions Necessary To Prepare For And Conduct A November 3, 2020 General Municipal Election.

REASON FOR SUPPLEMENTAL REPORT

Like many cities across California and the nation, the City of Oakland ("City") finances stabilized following several years of significant staff and service reductions as a result of the Great Recession. However, budget projections as documented in the Five-Year Financial Forecast, published prior to the adoption of the current biennial budget and the negative financial onslaught brought on by the current health crisis, show that "the growth in expenditures outpaces the growth in revenues resulting in operating deficits in all five years of the forecast.[1]" The combination of ongoing structural fiscal deficits coupled with the current health crisis will make it extremely difficult for the City to restore priority services to acceptable levels in areas identified by the public and the City Council. Pursing additional revenue sources to address the City's underlying fiscal challenges and raise revenue to expand City services is a prudent approach.

This report focuses on the proposed changes to the City's business tax structure as put forth by Councilmembers Fortunato-Bas, Kalb, and Thao, the additional exemption

[1] Page 9, https://cao-94612.s3.amazonaws.com/documents/Five-Year-Financial-Forecast-FINAL-FY20-24_vFINAL.PDF

request proposed by Council President Kaplan, and alternative approaches for City Council consideration when deciding whether to place a ballot measure on the November 3, 2020 General Election, seeking voters' approval to update the current business tax structure.

It is important to note that the analysis that has been conducted to date is a static analysis. The fiscal models used to generate all estimates in this report were started prior to the current health crisis. Estimates in this report are based on 2019 business tax data, assumes no loss of businesses due to increased taxes, no changes to the economy generally nor from the impact of the proposed tax rate changes, and does not control for the impact of the spread of the health crisis resulting in the current recession. As the health crisis drags on and the economy remains in a recession, it is likely that estimates for growth in business tax revenue under the proposed progressive tax structure may not be realized until 2023 or later, even assuming no loss of businesses as a result of the new structure.

Given that the estimates included in this report are based on 2019 business tax data and that the actual business tax data that accounts for the impact of the current health crisis will not be fully available until Summer 2021, staff is currently conducting a sensitivity analysis to account for a range of variables, such as the decline of gross receipts generated by all businesses, the possible effects of the change in the tax rates for the top revenue producing businesses, and the impact to other consumer-driven taxes, such as Transient Occupancy Tax, Sales Tax and Utility Users Tax. However, there is insufficient time to produce a full analysis and place it into the public record prior to the Council's deliberations to place this measure on the November 2020 ballot.

Opportunity To Study The Impact Of The Current Health Crisis:

As noted in the mobility report produced by Beacon Economics, "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."

Staff recommends that the City Council maintain the existing tax rates and the City Council directs staff to return in Spring 2022 with a comprehensive recommendation that achieves the City's revenue goals, equity goals, tax code modernization goals, and economic development goals. The dramatic and unprecedented toll of the current health emergency has led to record unemployment that is having a domino-effect in all sectors of the economy. The greatest concerns swirl around the uncertainty of the extended duration of the pandemic and how soon businesses will recover. The necessary data to analyze the impact of the current health crisis on business tax revenues in the City will not be realized until Summer 2021. As such, the timing is not prime for a ballot measure repealing and replacing the existing business tax code even though an approved ballot measure would not become effective until 2022. The current health crisis has created too much economic uncertainty.

Pursuant to the State Constitution, the next opportunity to put forth a general tax (50%+1) ballot measure before voters for approval is during the general election in November 2022 if the City Council decides not to put forth the proposed ordinance in the upcoming election on November 3, 2020. Maintaining the existing tax rates would allow the City to spend the next 18 months with a committee of stakeholders analyzing the business tax data as a result of the current health crisis, conducting community outreach and listening sessions and working with professionals specializing in performing extensive research and analysis of the current tax structure in relation to the make-up of businesses, industries, employment, competitive conditions, investment opportunities, locally and regionally, and return to the City Council in the Spring of 2022 for direction.

The Goal:

The goal of the proposed ballot measure is to update the current business tax structure with the following objectives:

a. Protect small businesses by either exempting small businesses or keeping the tax rates low or unchanged;
b. Broaden the tax base to provide for more equitable taxation;
c. Increase the annual revenues from the tax in a manner that does not unduly influence business location decisions;
d. Clarify various provisions to increase efficiency in the administration and the management of the tax; and
e. Encourage investment in the City either via employment of the City's workforce or by increasing revenue derived from complementary taxes, such as sales or utility user taxes.

The Way It Is Now:

The City imposes a business tax on every person, broadly defined to include individuals and all types of business activities, engaged in business in the City. The current business tax is an annual tax, with the majority of the City's businesses being assessed the tax based on the total gross receipts of the business.

The City's current business tax structure reflects 22 different business tax classifications. Depending on the business activity, tax rates range from a low of 0.06%, or $0.60 per $1,000, of gross receipts for grocers to 1.395%, or $13.95 per $1,000, of gross receipts for owners leasing real property. The current business tax structure includes a number of exemptions, including a small business exemption for business generating $3,300 or less in gross receipts, for owners of affordable housing projects that receives federal and/or state low income housing tax credits in connection with the affordable housing ownership, and for some owner-occupied residential rental properties. **In Fiscal Year 2019-20, the City's business tax revenue accounted for approximately 15.15% of unrestricted General Purpose Fund revenue.**

The majority of the tax rates were last increased in January 1983 (Table 1 on page 9). In the intervening decades, the purchasing power associated with business tax revenues eroded significantly, with cumulative increase in the Consumer Price Index for the Bay Area of 110.60%[2] during that period. For example, a grocer paying the lowest tax rate of $0.60 per $1,000 in 1983 when adjusted for CPI would pay a tax rate of $1.78 per $1,000 today. From the budgetary standpoint, the total business tax revenue generated in FY 2019-20 would have been approximately $261 million versus estimated the $98.00 million collected under the current rate structure.

Councilmembers Fortunato-Bas, Kalb, and Thao's Proposals: (hereinafter referred to as "Proposal 1" or "Proposal 2")**:**

Since the introduction of the original proposal at the Rules and Legislation Committee on June 22, 2020, Councilmembers Fortunato-Bas, Kalb, and Thao amended their proposal following meetings with stakeholders and released an amended proposal for consideration at Rules and Legislation Committee on July 7, 2020. Given the difference between the original and amended proposals is in the tax rates and for the purpose of comparing and contrast between the two, staff includes the analysis herein for both, with the original proposal and amended proposal hereinafter referred to as Proposal 1 and Proposal 2, respectively.

Both proposals would change the existing fixed tax rates to a graduated, progressive tax model that uses marginal tax brackets to calculate the taxes each business owes. Such model is designed to ensure that businesses with lower gross receipts are subject to a lower rate of taxes than businesses with higher gross receipts. The difference between Proposal 1 and Proposal 2 is that Proposal 1 has higher proposed tax rates than Proposal 2.

Both proposals include a flat $100 annual tax for small businesses grossing less than $250,000 (excluding cannabis businesses and the rental of real property) and retain the existing tax rate of $13.95 per $1,000, of gross receipts for owners leasing real property. It should be noted that the small business exemption paying a flat $100 annual tax is a "hard cap" tax, meaning that a business with $250,001 in gross receipts would pay the full applicable tax rate on the entire $250,001 gross receipts.

Depending on the business activity, notwithstanding the aforementioned exemption and retention of the existing tax rate for owner leasing real property, businesses would be assessed at the lowest tax rate of $0.60 per $1,000 to the highest tax rate of $13.40 per $1,000 under Proposal 1 and at the lowest tax rate of $0.60 per $1,000 to the highest tax rate of $7.50 per $1,000 under Proposal 2 of their annual gross receipts from businesses activities attributed to Oakland.

[2] Source: Association of Bay Area Governments: https://abag.ca.gov/tools-resources/data-tools/consumer-price-index

Using 2019 business tax revenue collection, the last year upon which complete data is available for the purpose of estimating the revenue for the proposals, staff estimates that, *with all else being equal (e.g., no changes in the economy generally or resulting from these changes in tax rates, no recession or other COVID impacts, etc.)*, the Proposal 1 would generate an additional $44.68 million, and Proposal 2 would generate an additional $27.57 million annually.

Type	**Current Revenue**	**Estimated Revenue** (based on static analysis)	**Increase/ (Decrease) (in $)**	**Increase/ (Decrease) (in %)**
Proposal 1	$80,055,018	$124,741,774	$44,686,756	55.82%
Proposal 2	$80,055,018	$107,628,853	$27,573,834	36.44%

Given the fundamental purpose of a progressive tax structure is to impose a greater percentage of taxation on large businesses, below is the table showing the average increase for each of the two proposals to the top 23 businesses located in the City:

Key Statistic	**Proposal 1 Average Increase**		**Proposal 2 Average Increase**	
	In $	**In %**	**In $**	**In %**
Top 23 businesses	$1,100,000	330.41%	$592,000	180.87%

These estimates do not reflect the expected decline in business tax revenue collection for the calendar years 2020, 2021 and possibly beyond due to the health crisis resulting from the current recession.

Exempting All Businesses With $50,000 Or Less In Gross Receipts:

Proposal 1 and Proposal 2 put forth by Councilmembers Bas, Kalb, and Thao **do not contemplate changing existing tax rates for rental properties or cannabis businesses or including these businesses in the proposed $100 flat tax paid by businesses grossing $250,000 or less in gross receipts.** In 2019, the City Council already provided tax relief to owner-occupied residential rental properties that meet certain household income thresholds and other requirements.

At the Special Rules and Legislation Committee meeting held on July 7, 2020, Council President Kaplan put forth an amendment to the proposed legislation exempting all businesses that generate $50,000 or less in annual gross receipts. There is insufficient time to fully analyze this additional proposal, its impact on the existing models, and place the results into the public record prior to the July 14, 2020 City Council meeting. **Staff recommends against exempting all businesses grossing less than $50,000, as it will make is significantly harder for the City to weather economic downturns that impact unrestricted revenue in the General Purpose Fund and can only be changed, if necessary, by a vote of the electorate.** If the Council wishes to provide small business relief, that relief should be deliberated as part of a large policy discussion that could be analyzed over the next 18 months.

Analyzing the proposed amendment to exempt all businesses grossing $50,000 or less without the benefit of knowing whether the proposed amendment is meant to 1) replace the $250,000 exemption, or 2) reduce the proposed $100 fee down to $0, or 3) add the exemption to include all businesses, which are not being proposed under the proposals, makes it very difficult to estimate the impact of such amendment. Having said that, the proposed amendment if viewed with 2019 data would indeed eliminate 38,600 accounts, or 63.88% of total business tax accounts, and consequently result in the loss of approximately $8.9 million in General Purpose Fund revenues.

To put the proposed amendment into perspective, a landlord generating $50,000 in annual gross receipts equates to a monthly rent of $4,166 per month. This amount represents $1,316, or 46%, more than the current average monthly rent of $2,850[3] in Oakland.

Exempting nearly two-thirds of businesses paying business taxes to the City will make is significantly harder for the City to weather economic downturns that impact unrestricted revenue in the General Purpose Fund. This exemption, if needed to be reversed due to a severe economic downturn, would only be able to be accomplished by a vote of the electorate.

In addition to the loss of revenue, the proposed exemption of 38,600 accounts (63.88% of existing business tax accounts) would significantly reduce the workload in the Finance Department. The reduction in work would necessitate the reduction of approximately 17-19 full-time equivalent employees in the Finance Department as there will be 38,600 fewer business tax accounts to manage.

The Concerns:

Beacon Economics, LLC, ("Beacon") an independent economic research and consulting firm, conducted a mobility analysis regarding the impacts of changes to the business tax rates, gauging a business' propensity to relocate under a shifted tax burden. *Beacon identified the following: businesses experiencing a 200% to 500% increase in the tax rates (depending upon which tax proposal is placed on the ballot) had a high likelihood to consider relocation, certain industries with smaller concentration in the City would likely relocate because of the higher tax rates*. They also identified the high cost of housing and skilled labor and the effect of current health crisis as factors that could compound the effect of increased taxes compared to other regions and major Metro areas in the country

Staff does not agree with Beacon's finding that Oakland's current tax rates are higher than other major California cities because a) Oakland's current tax rates are in fact lower than that of San Francisco's; b) San Jose's tax rates are employee-based, not gross receipts, and, most importantly c) the finding based on the make-up of the

[3] https://sanjosespotlight.com/bay-area-rental-market-rates-expected-to-drop-due-to-covid-19/

percentage of the business tax revenue in relation to the percentage in the overall budget in each jurisdiction is not an indication whether the tax rates are low or high. The population, with San Francisco and San Jose having twice the size of the population of Oakland, is an important factor in each City's approach on setting its business tax structure.

However, staff agrees that the proposed changes would result in top gross-receipts generating businesses facing increases of more than 100% and that shifting the tax burden to certain industries or top-generating businesses would increase risk of company relocation, especially if the tax rates are set considerably more than those of neighboring cities.

Economic Development:

Tax rate policy should be considered in conjunction with an analysis of the impact on fostering economic development within the City. As part of the adopted Oakland Economic Development Strategy, the following eight guiding principles were adopted:

1. <u>Economic Security</u> - Enable all residents to be economically secure, build wealth, and achieve their full potential;
2. <u>Equity and Diversity</u> - Reduce racial and gender gaps in employment, income, and ownership; maintain diversity;
3. <u>Growing Good Jobs</u> - Help businesses to thrive so they can preserve and add living wage jobs;
4. <u>Fiscal Sustainability</u> - Expand the City's revenue base to better fund services and community investment;
5. <u>Efficiency</u> - Optimize public benefits from limited public resources;
6. <u>Shared Responsibility</u> - Recognize that economic development is a City-wide responsibility shared by many departments;
7. <u>Collaboration</u> - Support internal collaboration and external partnerships; and
8. <u>Transparency</u> - Increase community awareness and engagement.

The guiding principles are important to acknowledge as they lay the foundation for the City's desired approach to equitable economic development. The proposed progressive tax proposal would expand the City's revenue base, but it could impact the City's ability to increase quality living wage jobs within multiple tax classifications. Notably, seven business classifications that target quality living wage jobs include: 1) Auto Sales, 2) Business/Professional Services, 3) Contractors, 4) Manufacturers, 5) Administrative HQ, 6) Media Firms, and 7) Utility Companies, and they would experience a high percentage tax rate increase based on the proposed progressive tax model.

From an economic development perspective, retention, attraction, and expansion of businesses that create jobs and revenue are core functions. Taxes are a factor in the ability for the City to attract, expand and retain businesses. It should be acknowledged that business tax is just one type of tax that is levied, but others are also collected that bring revenue for City services, such as sales tax, transient occupancy tax, and utility user tax. There is a balance that is necessary to be established as higher business taxes on revenue generating businesses could have displacement impacts or make Oakland less competitive to attract a revenue-generating business. The relocation of a large revenue-generating business like a franchise auto dealer or large manufacturer that has direct sales is significant to Oakland as jobs, sales tax revenue, and business tax revenue would be lost and difficult to replace.

Equally important to economic development activities is the attraction, expansion and retention of companies that create quality jobs. The City has targeted and achieved the investment and development of significant housing and office square footage within the downtown and has spurred major business attractions and expansions including Blue Shield, Square, Pandora, Roof Stock, Marqeta, Fivetran, and most recently Pacific Gas and Electric. The business attractions and expansions add to Kaiser Permanente, Clorox, Waste Management, Metler-Toledo Rainen, and Port of Oakland airport and seaport businesses as major employers within Oakland providing quality living wage jobs and business opportunities for smaller Oakland businesses.

These companies represent just a small selection of Oakland’s business community, but the loss of a major employer who occupy large blocks of space within the City are difficult to replace as they are highly sought after by other communities. Retaining positive business relationships and transparency of process are vital in our retention, and attraction efforts. Outreach to the business community and particularly companies that would see significantly increased taxes needs to be completed as part of the engagement process prior to any business tax proposal going to the ballot. The feedback on their willingness to support higher taxes and remain in Oakland should be incorporated into Council’s decision-making process.

Conclusion:

A progressive taxation structure would improve the purchasing power for lower revenue-generating business and stimulate the economy. However, Proposal 1 would increase tax rates substantially, resulting in Oakland having one of the highest business tax rates compared to other Bay Area jurisdictions, including San Francisco. As a result, the City Council should give considerable weight to this factor. Proposal 2, Alternative 2 and Alternative 3 would set the tax rates comparable to that of San Francisco’s and leave the location decision to be based on other factors. On the other hand, any tax increases may adversely impact economic development and make Oakland less competitive to attract a revenue generating business.

BACKGROUND AND LEGISLATIVE HISTORY

With the exception of the business tax rates applicable to cannabis businesses, the majority of the City's current business tax rates were last updated in July 1982 and became effective in January 1983[4]. The following Table 1 summarizes the current tax rates and the effective dates:

Table 1: Historical Tax Rates

Tax Classification	Ordinance No.	Tax Rate per $1,000	Adopted	Effective
Retail Sales	10241 C.M.S	$1.20	July 20, 1982	January 1, 1983
Grocer	10241 C.M.S	$0.60	July 20, 1982	August 1, 1982
Automobile Sales	10241 C.M.S	$1.20	July 20, 1982	August 1, 1982
Wholesale	10241 C.M.S	$1.20	July 20, 1982	August 1, 1982
Business & Personal Services	10241 C.M.S	$1.80	July 20, 1982	August 1, 1982
Professional & Semi-Professional	10241 C.M.S	$3.60	July 20, 1982	January 1, 1983
Recreation & Entertainment	10241 C.M.S	$4.50	July 20, 1982	August 1, 1982
Construction Contractors	10241 C.M.S	$1.80	July 20, 1982	January 1, 1983
Manufacturing	10241 C.M.S	$1.20	July 20, 1982	August 1, 1982
Administrative Headquarters	9623 C.M.S	$1.20	June 29, 1978	January 1, 1979
Transportation	9623 C.M.S	Employee	June 29, 1978	January 1, 1979
Rental of Res./Comm. Property	10241 C.M.S	$13.95	July 20, 1982	January 1, 1983
Cannabis	13573 C.M.S	Varies	Dec 10, 2019	January 1, 2020

In addition to State or Federal mandated exemptions or exclusions, such as non-profit organizations, banks, insurance companies, etc., the current business tax structure provides an exemption to small businesses grossing less than $3,300 and owners of affordable housing projects that received federal and/or state low income housing tax credits in connection with affordable housing projects. There is also a five-year commercial/industrial/exemption applicable to new or renovated buildings completed after July 1, 1981.

[4] Ordinance No. 12838, adopted on December 4, 2007, was to amend and clarify various sections of the Oakland Municipal Code for administrative purposes.

Table 2: 2019 Distribution of Business Tax Accounts Based on current Classifications*:

Tax Classification	No. of Accounts
A - Retail Sales	5,477
B – Grocer	342
C - Automobile Sales	116
D – Wholesale	784
E- Business & Personal Services	7,933
F - Professional & Semi-Professional	8,593
G - Recreation & Entertainment	522
H - Construction Contractors	5,608
I - Manufacturing 1	870
J - Manufacturing 2	9
K - Administrative Headquarters	110
L – Transportation	348
M - Residential Rental Property	25,367
N -Commercial Rental Property	3,561
O -Commercial Rental	4
P - Hotel/Motel	203
T - Media Firms	67
U - Utility Companies	179
W – Miscellaneous	26
X – Taxicabs	90
Y - Ambulances & Limousines	27
Total	**60,236**

*Excluding cannabis businesses.

In the last few years, the Administration held multiple internal discussions regarding pursuing amendments to the business tax structure for the purpose of closing various “loopholes,” such as exempting gross receipts generated by independent but subsidiary business entities, or removing the five-year exemption for new or renovated buildings, and raising a small amount of revenue for the City given the business tax rates have not had any adjustments in decades.

In early 2020, prior to the current pandemic, Finance staff begun assisting Councilmember Fortunato-Bas in her consideration of putting forth a ballot measure to the voters seeking to repeal and replace the current business tax rates with a modernized tax rates that reflect the current distribution of businesses and industries. Councilmember Fortunato-Bas, along with Councilmembers Kalb and Thao, formally put forth their proposal on June 18, 2020.

ANALYSIS AND POLICY ALTERNATIVES

Oakland's business tax structure has not been critically re-examined in decades. The City's current business tax structure imposes the same rates on business regardless of the amount of gross receipts earned whereas, neighboring cities, including San Francisco and San Jose, adopted a progressive tax structure that imposes higher rates on business that have a higher gross tax basis.

While analyzing the advantages of a progressive tax proposal, it is equally important to analyze the impact of any tax proposal on the taxpayers, both persons and businesses. It is also important to understand the complexities of raising business taxes before enacting major changes to the business tax structure. This is especially true given the constraints that State law places on local taxation, which make it difficult to make small changes to the tax structure if something does not work as intended.

A progressive, equitable, and modern tax proposal could provide structural reform that could protect and add resources to vital city services, including homelessness services and housing, street and sidewalk maintenance, trash collection, small business assistance, fire safety, and community solutions that keep Oaklanders safe, as well as support struggling small businesses by making the local business tax structure equitable to everyone and most of all, Oaklanders. It is important to make sure any new tax proposals do not unintentionally discourage the economic activity that provides the revenue that supports public services.

Changes in the Tax Rates:

Gross receipts are the most common business tax structure among California's largest cities. Although Oakland's current gross receipts tax rates are set differently for each industry or classification, the tax rates, however, do not differentiate the range of gross receipts within each industry or classification. As a result, a large business with considerable gross receipts is assessed the same tax rate as a small business with less gross receipts, even though both may incur the same expenses, such as per square foot cost in rent or the salary to its employees.

In addition, it should be noted that tax consideration can be an important factor in a business decision to locate or to relocate. Raising business taxes may be risky because higher taxes may "scare away" and depress economic activity from a tax jurisdiction. More now than ever before, corporations and capital are mobile. Economic deregulation, communication, and transportation technologies, and increasing international trade have allowed companies to locate, relocate, and expand wherever they expect to find the highest return on their investment. Increasing "globalization" and the consequent mandate that firms be competitive in a global environment have required that for-profit businesses, seeking to attract investment of capital, should treat locational decisions as an explicit part of their business plans.

Conversely, some argue that local business taxes are too insignificant to be a decisive factor swaying business location decisions unless the tax rates are significantly more than the surrounding jurisdictions and that other cost factors such as labor, rent, commute time, and access to market and suppliers are more significant. In this instance, Oakland's existing tax structure is an advantage when compared to the neighboring cities, including the Bay Area's two largest cities of San Francisco and San Jose.

According to these lines of reasoning, a restructuring of the tax rates to ensure equitable distribution of tax obligation between smaller and larger businesses within the same industry or classification makes sense. However, there needs to be further analysis to ensure proposed tax policy aligns with and complements economic development policy.

<u>The Business Tax Rates in Neighboring Cities</u>:

In recent years, neighboring cities implemented increased or progressive tax structures, in which businesses with more gross receipts are taxed at a higher rate than smaller businesses.

Table 3: Neighboring Cities Business Tax Structure

Jurisdiction	**Primary Tax Structure**	**Tax Rate**	
		Minimum	**Maximum**
Oakland	Gross Receipts	\$0.60 / \$1,000	\$13.95 / \$1,000
Berkeley	Gross Receipts	\$1.20 / \$1,000	\$28.80 / \$1,000
Emeryville	Gross Receipts	\$0.10 / \$1,000	\$0.10 / \$1,000
Hayward	Fixed / Gross Receipts	\$16.00	\$373.35 + \$0.11 / \$1,000
San Francisco	Tiered Gross Receipts	\$0.75 / \$1,000	\$6.50 / \$1,000
San Leandro	Flat Tax Rate & Per Employee	\$141.50 and \$42.50 per Employee	\$709.20 and \$106.50 per Employee

The Proposals:

<u>Tax Calculation</u>: Both Proposal 1 and Proposal 2 would change the existing fixed tax rates regardless of the amount of gross receipts a business may generate to a graduated, progressive tax model that uses marginal tax brackets to calculate what gross receipts range correspond to what percentage of taxes each business owes.

Tables 4 and 5 illustrate the difference in the calculation between a fixed tax rates and a marginal tax rates for a hypothetical business classified under the professional classification, the most common classification, generating \$10 million in gross receipts:

Table 4: Example of the tax calculation under the Proposal **1** (fixed vs marginal):

Tax Structure	Gross Receipts Brackets	Tax Rate (per $1K in GR)	Gross Receipts Subject to Tax	Total Tax Amount
Example: A professional firm grossing $10,000,000 in gross receipts				
Proposed	$0 - $1M	$4.00	$1,000,000	$4,000
	$1M+ - $2.5M	$4.60	$1,500,000	$6,900
	$2.5M+ - $25M	$5.10	$7,500,000	$38,250
	$25M+ - $50M	$5.60	n/a	
	$50M+	$11.60	n/a	
Total			$10,000,000	$49,150
Current	All	$3.60	$10,000,000	$36,000
			Difference (in $)	$13,150
			Difference (in %)	36.53%

Table 5: Example of the tax calculation under the Proposal **2** (fixed vs marginal):

Tax Structure	Gross Receipts Brackets	Tax Rate (per $1K in GR)	Gross Receipts Subject to Tax	Total Tax Amount
Example: A professional firm grossing $10,000,000 in gross receipts				
Proposed	$0 - $1M	$4.00	$1,000,000	$4,000
	$1M+ - $2.5M	$4.50	$1,500,000	$6,750
	$2.5M+ - $25M	$5.00	$7,500,000	$37,500
	$25M+ - $50M	$5.50	n/a	
	$50M+	$7.50	n/a	
Total			$10,000,000	$48,250
Current	All	$3.60	$10,000,000	$36,000
			Difference (in $)	$12,250
			Difference (in %)	34.03%

Tax Classifications: Proposal 1 and Proposal 2 would consolidate the existing tax on 22 different classifications into 12 or 15 different classifications respectively.

Table 6: Proposed 1 Tax Classifications:

Class	Tax Classification
Class A	Grocers
Class B	Retail sales, wholesale sales
Class C	Automobile sales, manufacturing
Class D	Recreation and entertainment, hotel, motel, media firms, public utility, real estate development, rehabilitation of real estate
Class E	Construction/Contractors
Class F	Business and personal services, professional/semi-professional service
Class G	Administrative headquarters, miscellaneous
Class H	Residential rental, non-residential rental
Class I	Cannabis business
Class J	Firearms ammunition
Class K	Taxi and limousine service
Class L	Transportation, trucking

Table 7: Proposed 2 Tax Classifications:

Class	Tax Classification
Class A	Grocers
Class B	Retail sales, wholesale sales
Class C	Automobile sales, manufacturing
Class D	Recreation and entertainment
Class E	Hotel, Motel, Media firms, Public Utility
Class F	Construction/Contractors
Class G	Business and personal services,
Class H	Professional/Semi-Professional service
Class I	Administrative headquarters (based on payroll)
Class J	Miscellaneous
Class K	Residential rental, non-residential rental
Class L	Cannabis business
Class M	Firearms ammunition
Class N	Taxi and limousine service
Class O	Transportation, trucking

Tax Exemptions: In addition to maintaining the exemptions, such as non-profit organizations, banks, insurance companies, and owner of affordable housing project that has received federal and/or state low income housing tax credits in connection with affordable housing projects, both proposals include a flat $100 annual tax for small businesses grossing less than $250,000 and retains the existing tax rates of $13.95 per $1,000, of gross receipts/rent for owners renting or leasing residential and non-residential properties. It should be noted that the small business exemption paying a flat $100 annual tax is a “hard cap” tax, meaning that a business with $250,001 in gross receipts would pay the full applicable tax rate on the entire $250,001 gross receipts. It should also be noted that for some very small businesses, the flat $100 tax would represent an increase over their current tax obligation.

Both proposals include the removal of the five-year exemption for new or renovated buildings. The current five-year exemption was put in place during the height of the redevelopment efforts, under the guidance of the former Oakland Redevelopment Agency, which used a portion of property tax money to partner with developers to encourage the development or renovation of properties.

Other Proposed Changes: Both proposals include the removal of the provision that would close the “loophole” for business entity with a wholly owned subsidiary or subsidiaries. The current tax structure does not require the gross receipts generated by an independent business entity wholly owned or related to another business entity to be subject to the calculation of the gross receipts. This change is especially relevant with subsidiary or subsidiaries locating in Oakland and generating a sizeable gross receipt while the parent business entity is located outside of Oakland but generating very little of gross receipts of its own. In these proposals, the total amount of gross receipts is subject to apportionment and other factors that do not proportionally account for the gross receipts attributed to the activity in Oakland. The creation of the “master” certificate would ensure that the gross receipts generated by subsidiary or subsidiaries are to be completely accounted for in the calculation of taxes.

<u>Tax Rates</u>: Tables 8 and 9 show the proposed tax rates for each of the two proposals.

Table 8: Proposed Tax Rate Schedule under Proposal **1**

Class	Tax Classification	Current Tax Rates	Proposed Tax Rates				
			$0 - $1M	**$1M+ - $2.5M**	**$2.5M+ - $25M**	**$25M+ - $50M**	**$50M+**
A	Grocers	0.060%	0.060%	0.100%	0.135%	0.160%	0.335%
B	Retail sales, Wholesale sales	0.120%	0.075%	0.100%	0.135%	0.160%	0.335%
C	Automobile Sales, Manufacturing	0.120%	0.125%	0.205%	0.370%	0.425%	0.975%
D	Recreation and entertainment, hotel, motel, media firms, public utility, real estate development, rehabilitation of real estate	0.100% to 0.450%	0.300%	0.325%	0.400%	0.400%	0.825%
E	Construction contractor	0.180%	0.300%	0.350%	0.400%	0.450%	0.925%
F	Business and personal services	0.180%	0.400%	0.460%	0.510%	0.560%	1.160%
	Professional/semi-professional service	0.360%	0.400%	0.460%	0.510%	0.560%	1.160%
G	Administrative headquarters, miscellaneous	0.120%	0.525%	0.550%	0.600%	0.650%	1.340%
H	Residential rental property, Commercial rental property	No Change	Remove “five-year exemption”				
			1.395%				
I	Cannabis business	No Change	Varies (No Change)				
J	Firearms ammunition	No Change	2.400%				
K	Taxi and limousine service	No Change	$75 for each ambulance or limousine and $180 for each taxicab permit				
M	Transportation, trucking	No Change	Tax based on the number employees				

Table 9: Proposed Tax Rate Schedule under Proposal **2:**

Class	Business Classification	Current Tax Rates	Proposed Tax Rates				
			$0 - $1M	$1M+ - $2.5M	$2.5M+ - $25M	$25M+ - $50M	$50M+
A	Retail sales, Wholesale sales	0.120%	0.075%	0.100%	0.125%	0.150%	0.200%
B	Grocers	0.060%	0.060%	0.100%	0.125%	0.150%	0.200%
C	Automobile Sales, Manufacturing	0.120%	0.125%	0.225%	0.325%	0.425%	0.525%
D	Recreation and entertainment,	0.450%	0.450%	0.460%	0.470%	0.480%	0.500%
F	hotel, motel, media firms, public utility	Hotel /Motel: 0.180% Median Firms: 0.120% Utilities:0.100%	0.180%	0.280%	0.380%	0.480%	0.500%
F	Construction/Contractor	0.180%	0.300%	0.350%	0.400%	0.450%	0.500%
G	Business and personal services	0.180%	0.200%	0.300%	0.400%	0.550%	0.600%
H	Professional/semi-professional service	0.360%	0.400%	0.450%	0.500%	0.550%	0.750%
I	Administrative headquarters, miscellaneous (Payroll based)	0.120%	0.350%	0.450%	0.550%	0.650%	0.700%
K	Residential rental property, Commercial rental property	No Change	Remove “five-year exemption” 1.395%				
L	Cannabis business	No Change	Varies (No Change)				
M	Firearms ammunition	No Change	2.400%				
N	Taxi and limousine service	No Change	$75 for each ambulance or limousine and $180 for each taxicab permit				
O	Transportation, trucking	No Change	Tax based on the number employees				

<u>*Estimated Revenue*</u>*:*

Proposal ***1****:* Staff estimates that the proposal would generate additional $44.68 million over and above the recently revised and approved Business License Tax revenue category for FY 2019-20 totaling $80.06 million, based on a static calculation of 2019 tax receipts, not accounting for any current or prospective changes. Table 10 shows the distribution of revenue based on the recently revised and approved business tax revenue for the current FY 2019-20 and the revenue would have received under the Proposal.

Table 10: Estimated Revenue for Proposal **1**:

Gross Receipts Brackets	Current Fixed Model	New Marginal Model	Increase/ (Decrease) (in $)	Increase/ (Decrease) (in %)
$0-$250,000	$19,030,618	$18,274,785	($755,833)	-3.97%
$250,001 - $1M	$10,880,214	$12,090,263	$1,210,049	11.12%
$1M+ - $2.5M	$7,508,862	$9,181,089	$1,672,227	22.27%
$2.5M+ - $25M	$23,568,730	$34,389,731	$10,821,000	45.91%
$25M+ - $50M	$5,177,796	$9,565,211	$4,387,415	84.74%
$50M+	$13,888,799	$41,240,695	$27,351,896	196.93%
	$80,055,018	**$124,741,774**	**$44,686,756**	
Important Note: Potential Adverse Effect Due to High Tax Rates				
If Top 5 businesses leave in Top 7 Business Classifications			**$9,503,531**	
If Top 2 businesses leave in Top 7 Business Classifications			**$20,018,412**	
If 7 Contractors, 4 Professional Firms, 3 Personal Services and 2 Administrative Businesses leave			**$18,245,760**	

Important notes regarding possible adverse effect of high tax rates: It is worth re-stating here that tax consideration can be an important factor in a business decision to locate or to relocate. Raising business taxes is risky because higher taxes may “scare away” economic activity from tax jurisdictions.

Included in Table 10 are hypothetical scenarios if some of the businesses decide to leave and the resulting effects from such action to the estimated revenue under the Proposal 1, which consists of the set of tax rates that exceed the current tax rates currently being imposed in San Francisco. Therefore, staff highly recommends that the City should give considerable weight to having the highest tax rates in the Bay Area.

Proposal ***2****:* Staff estimates that the proposal would generate additional $27.53 million over and above the recently revised and approved Business License Tax revenue category for FY 2019-20 totaling $80.06 million.

Table 11: Estimated Revenue for Proposal **2**

Gross Receipts Brackets	Current Fixed Model	New Marginal Model	Increase/ (Decrease) (in $)	Increase/ (Decrease) (in %)
$0-$250,000	$19,030,618	$18,274,785	$(755,832)	-3.97%
$250,001 - $1M	$10,880,214	$11,353,265	$473,051	4.35%
$1M+ - $2.5M	$7,508,862	$8,505,553	$996,691	13.27%
$2.5M+ - $25M	$23,568,730	$32,390,242	$8,821,512	37.43%
$25M+ - $50M	$5,177,796	$9,191,877	$4,014,081	77.52%
$50M+	$13,888,799	$27,913,129	$14,024,331	100.98%
	$80,055,018	**$107,628,853**	**$27,573,834**	

Business Make-up and Revenue Statistics:

Proposal **1**: Table 12 shows the make-up of current businesses and their respective revenue based on the proposed tax brackets, excluding cannabis businesses and businesses not paying business tax on gross receipts.

Table 12: Tax Brackets Revenue Statistics for Proposal **1**

Gross Receipts Brackets	Number of Businesses	% of Total Businesses	Current Tax Structure (in %)	New Tax Structure (in %)	Increase/ (Decrease) (in %)
$0-$250,000	51,446	85.41%	23.77%	14.65%	-3.97%
$250,001 - $1M	5,113	8.49%	13.59%	9.69%	11.12%
$1M+ - $2.5M	1,707	2.83%	9.38%	7.36%	22.27%
$2.5M+ - $25M	1,379	2.29%	29.44%	27.57%	45.91%
$25M+ - $50M	73	0.12%	6.47%	7.67%	84.74%
$50M+	53	0.09%	17.35%	33.06%	196.93%

Proposal **2**: Table 13 shows the make-up of current businesses and their respective revenue based on the proposed tax brackets, excluding cannabis businesses and businesses not paying business tax on gross receipts.

Table 13: Tax Brackets Revenue Statistics for Proposal **2**

Gross Receipts Brackets	Number of Businesses	% of Total Businesses	Current Tax Structure (in %)	New Tax Structure (in %)	Increase/ (Decrease) (in %)
$0-$250,000	51,446	85.41%	23.77%	16.98%	-3.97%
$250,001 - $1M	5,113	8.49%	13.59%	10.55%	4.35%
$1M+ - $2.5M	1,707	2.83%	9.38%	7.90%	13.27%
$2.5M+ - $25M	1,379	2.29%	29.44%	30.09%	37.43%
$25M+ - $50M	73	0.12%	6.47%	8.54%	77.52%
$50M+	53	0.09%	17.35%	25.93%	100.98%

Table 14 and 15 show the make-up of current businesses and their respective revenue based on the current tax classifications.

Table 14: Current Classification Revenue Statistics for Proposal **1**

Current Tax Classification	No. of Businesses	Current Tax Structure	New Tax Structure	Increase/ (Decrease) (in $)	Increase/ (Decrease) (in %)
A - RETAIL SALES	5,477	$4,452,890	$4,165,785	-$287,105	-6.45%
B - GROCERS	342	$560,558	$1,186,795	$626,237	111.72%
C - AUTOMOBILE SALES	116	$844,755	$3,782,861	$2,938,106	347.81%
D - WHOLESALE SALES	784	$2,824,511	$3,595,128	$770,617	27.28%
E- BUSINESS/PERSONAL SVCS	7,933	$5,433,650	$16,826,635	$11,392,985	209.67%
F - PROFESSIONAL/SEMI-PROF	8,593	$18,742,460	$27,509,545	$8,767,085	46.78%
G - RECREATION/ENTERTAINMENT	522	$3,783,210	$1,829,690	-$1,953,520	-51.64%
H - CONTRACTORS	5,608	$7,319,139	$17,645,501	$10,326,362	141.09%
I - MANUFACTURING	870	$975,186	$2,346,112	$1,370,926	140.58%
J - MANUFACTURING 2	9	$6,183	$9,241	$3,057	49.45%
K - ADMIN HEADQUARTERS	110	$872,319	$4,051,148	$3,178,829	364.41%
L - TRUCKING/TRANSPORTATION	348	$20,880	$0	-$20,880	-100.00%
M - RESIDENTIAL RENTAL PROPERTY	25,367	$18,998,886	$18,998,886	$0	0.00%
N - COMMERCIAL RENTAL PROPERTY	3,561	$13,319,583	$13,319,583	$0	0.00%
O - COMMERCIAL RENTAL	4	$24,921	$192,775	$167,853	673.54%

Current Tax Classification	No. of Businesses	Current Tax Structure	New Tax Structure	Increase/ (Decrease) (in $)	Increase/ (Decrease) (in %)
P - HOTEL/MOTEL	203	$404,819	$820,489	$415,670	102.68%
T - MEDIA FIRMS	67	$560,729	$3,029,745	$2,469,016	440.32%
U - UTILITY COMPANIES	179	$873,870	$5,295,953	$4,422,083	506.03%
W - MISCELLANEOUS	26	$29,449	$135,903	$106,453	361.48%
X - TAXICABS	90	$5,400	$0	-$5,400	-100.00%
Y - AMBULANCES & LIMOUSINES	27	$1,620	$0	-$1,620	-100.00%
	60,236	**$80,055,018**	**$124,741,774**	**$44,686,756**	

<u>Proposal 2</u>: Proposal 2 retains the same 12 tax classifications as Proposal 1. The difference is in only in the proposed tax rates for each set of classification.

Table 15: Current Classification Revenue Statistics for Proposal **2**

Current Tax Classifications	No. of Businesses	Current Tax Structure	New Tax Structure	Increase/ (Decrease) (in $)	Increase/ (Decrease) (in %)
A - RETAIL SALES	5,477	$4,452,890	$3,929,580	$(523,310)	-11.75%
B - GROCERS	342	$560,558	$1,075,824	$515,266	91.92%
C - AUTOMOBILE SALES	116	$844,755	$2,763,567	$1,918,812	227.14%
D - WHOLESALE SALES	784	$2,824,511	$3,013,452	$188,942	6.69%
E- BUSINESS/PERSONAL SVCS	7,933	$5,433,650	$10,782,697	$5,349,047	98.44%
F - PROFESSIONAL/SEMI-PROF	8,593	$18,742,460	$24,810,892	$6,068,432	32.38%
G - RECREATION/ENTERTAINMENT	522	$3,783,210	$1,553,584	$(2,229,626)	-58.93%
H - CONTRACTORS	5,608	$7,319,139	$15,262,175	$7,943,036	108.52%
I - MANUFACTURING	870	$975,186	$2,157,120	$1,181,934	121.20%
J - MANUFACTURING 2	9	$6,183	$9,288	$3,105	50.22%
K - ADMIN HEADQUARTERS	110	$872,319	$3,018,999	$2,146,680	246.09%
L - TRUCKING/TRANSPORTATION	348	$20,880	-	$(20,880)	-100.00%
M - RESIDENTIAL RENTAL PROPERTY	25,367	$18,998,886	$18,998,886	-	0.00%
N - COMMERCIAL RENTAL PROPERTY	3,561	$13,319,583	$13,319,583	-	0.00%
O - COMMERCIAL RENTAL	4	$24,921	$192,775	$167,853	673.54%
P - HOTEL/MOTEL	203	$404,819	$740,462	$335,643	82.91%
T - MEDIA FIRMS	67	$560,729	$2,091,810	$1,531,081	273.05%
U - UTILITY COMPANIES	179	$873,870	$3,791,500	$2,917,630	333.87%
W - MISCELLANEOUS	26	$29,449	$116,659	$87,210	296.13%
X - TAXICABS	90	$5,400	-	$(5,400)	-100.00%
Y - AMBULANCES & LIMOUSINES	27	$1,620	-	$(1,620)	-100.00%
	60,236	**$80,055,018**	**$107,628,853**	**$27,573,834**	

<u>Alternative 1, Keeping the current tax rates:</u>

Due to the current public health crisis, the City, like many cities throughout the country, is projecting an unprecedented budget shortfall for FY 2020-21. Business taxes are heavily dependent on purchases and patronage by everyday consumers and travelers alike, are seeing a significant decrease in estimated revenues.

Prior to the current health crisis, the City experienced healthy economic growth over the last several years. However, since March of 2020, the City began experiencing an extreme, negative fiscal impact from current health crisis with FY 2020-21 General Purpose Fund (GPF) revenues forecasted to revert to pre-FY 2018- 19 levels.

GPF revenues are a combination of 15 major revenue categories including Business License Taxes. Business Licenses Tax revenue will be negatively affected by current health crisis, with revenues reverting to FY 2017-18 levels. As businesses throughout the City remain closed due to the shelter-in-place, the gross receipts tax basis will be negatively impacted. Business License Tax is forecasted to be $88 million in the FY 2020-21 Midcycle Budget which is $15.22 million lower than the FY 2020-21 Adopted Budget of $103.22 million for a decrease of more than 14.75%.

This pandemic is just the latest challenge to City's ability to raise business tax revenue due to declining consumer confidence and other economic trends associated with recession and consumer behavior.

The greatest concerns are the uncertainty in how long this pandemic will last and how soon and to what extent businesses will recover. As such, the timing may not be prime for a tax increase ballot measure, even though an approved ballot measure would not become effective until 2022.

Estimated Revenue for Alternative 1:

Keeping the existing tax rates as they current are mean that the business tax revenue would remain as recently revised and approved at $80.06 million for FY 2019-21 and $88 million for FY 2020-21.

<u>Alternative 2, Adopting the exact San Francisco's Business Tax Rates</u>:

The proposal, as outlined above, is modeled after San Francisco's business tax structure, but it is not exactly the same given that the proposed tax rates are higher than those of San Francisco. Alternative 2 differs from the proposal is in the overlay of the exact tax rates as currently exist in San Francisco. As mentioned above in the Executive Summary and the subsection called <u>Changes in the Tax Rates</u>, adopting the exact San Francisco's business tax rates would eliminate an important factor, which is the decision relates to the location whether a business should locate in or relocate to San Francisco or Oakland and let other factors be the deciding factors.

Table 16: Current San Francisco's Business Tax Rates

Business Activity	**Current San Francisco's Tax Rates**				
	$0 - $1M	**$1M+ - $2.5M**	**$2.5M+ - $25M**	**$25M+ - $50M**	**$50M+**
Class A: Retail Trade; Wholesale Trade; and Certain Services	0.075%	0.100%	0.135%	0.160%	0.160%
Class B: Manufacturing; Transportation and Warehousing; Information; Biotechnology; Clean Technology; and Food Services	0.125%	0.205%	0.370%	0.475%	0.475%
Class C: Accommodations; Utilities; and Arts Entertainment and Recreation	0.300%	0.325%	0.325%	0.400%	0.400%
Class D: Construction	0.300%	0.350%	0.400%	0.450%	0.450%
Class E: Financial Services; Insurance; and Professional, Scientific and Technical Services	0.400%	0.460%	0.510%	0.560%	0.560%
Class F: Private Education and Health Services; Administrative and Support Services; and Miscellaneous Business Activities	0.525%	0.550%	0.600%	0.650%	0.650%

Estimated *Revenue for Alternative 2:*

Staff estimates that the Alternative 2 would generate additional $29 million over and above the recently revised and approved business tax revenue category for FY 2019-20 totaling $80.06 million. Table 17 shows the distribution of revenue based on the recently revised and approved business tax revenue for the current FY 2019-20 and the revenue would have received under the Alternative 2.

Table 17: Estimated Revenue for the Alternative 2 (based on a static analysis):

Gross Receipts Brackets	**Current Fixed Model**	**New Marginal Model**	**Increase/ (Decrease) (in $)**	**Increase/ (Decrease) (in %)**
$0-$250,000	$19,030,618	$19,338,942	$308,324	1.62%
$250,001 - $1M	$10,880,214	$12,100,856	$1,220,643	11.22%
$1M+ - $2.5M	$7,508,862	$9,189,939	$1,681,077	22.39%
$2.5M+ - $25M	$23,568,730	$34,029,745	$10,461,015	44.39%
$25M+ - $50M	$5,177,796	$9,448,286	$4,270,490	82.48%
$50M+	$13,888,799	$25,417,682	$11,528,883	83.01%
	$80,055,018	**$109,525,451**	**$29,470,433**	

Note: Alternative 2 retains the existing Oakland tax rates of $13.95 per $1,000, of gross receipts/rent for owners renting or leasing residential and non-residential properties

Alternative 3, Modeling San Francisco’s Business Tax Rates

Alternative 3 is an in-between alternative approach, with the proposed tax rates being less than the proposal rates but slightly more than the proposed tax rates in Alternative 2. The tax rates under this alternative increase at a slower and scalable percent rate across the different tax brackets which would result into a moderate revenue increase on Oakland’s top paying taxpayers while achieving the much-needed revenue increase.

Table 18, Modeling San Francisco’s Tax Rates

Class	Tax Classifications	Current Tax Rates	Proposed Tax Rates				
			$0 - $1M	**$1M+ - $2.5M**	**$2.5M+ - $25M**	**$25M+ - $50M**	**$50M+**
A	Grocers	0.060%	0.060%	0.100%	0.125%	0.150%	0.200%
B	Retail sales, wholesale sales	0.120%	0.075%	0.100%	0.125%	0.150%	0.200%
C	Automobile sales, manufacturing	0.120%	0.125%	0.225%	0.325%	0.425%	0.525%
D	Recreation and entertainment, hotel, motel, media firms, public utility, real estate development, rehabilitation of real estate	0.100% to 0.450%	-	-	-	-	-
		Rec & Ent real estate development, rehabilitation of real estate: 0.450%	-	-	-	-	-
		Create new category: Hotel/Motel: 0.180%	0.300%	0.325%	0.350%	0.400%	0.500%
		Media Firms: 0.120%	-	-	-	-	-
		Utility Companies: 0.100%	-	-	-	-	-
E	Construction contractor	0.180%	0.300%	0.350%	0.400%	0.450%	0.500%
F	Business and personal services	0.180%	0.400%	0.450%	0.500%	0.550%	0.600%
	Professional/semi-professional service	0.360%	0.400%	0.450%	0.500%	0.550%	0.750%
G	Administrative headquarters, miscellaneous	0.120%	0.500%	0.550%	0.600%	0.650%	0.700%
H	Residential rental property, Commercial rental property	*No Change*	*Removed “five-year exemption”,* 1.395%				
I	Cannabis business	*No Change*	*Varies (No Change)*				
J	Firearms ammunition	*No Change*	2.400%				
K	Taxi and limousine service	*No Change*	$75 for each ambulance or limousine and $180 for each taxicab permit				
M	Transportation, trucking	*No Change*	*Tax based on current employee total*				

Staff estimates that the Alternative 3 would generate additional $30.3 million over and above the recently revised and approved Business License Tax revenue category for FY 2019-20 totaling $80.06 million, based on a static analysis.

Table 19 shows the distribution of revenue based on the recently revised and approved business tax revenue for the current FY 2019-20 and the revenue would have received under Alternative 3.

Table 19: Estimated Revenue for the Alternative 3 (based on a static analysis):

Gross Receipts Brackets	Current Fixed Model	New Marginal Model	Increase/ (Decrease) (in $)	Increase/ (Decrease) (in %)
$0-$250,000	$19,030,618	$18,274,785	($755,833)	-3.97%
$250,001-$1M	$10,880,214	$12,086,644	$1,206,430	11.09%
$1M-$2.5M	$7,508,862	$9,150,389	$1,641,527	21.86%
$2.5M-$25M	$23,568,730	$33,651,018	$10,082,287	42.78%
$25M-$50M	$5,177,796	$9,200,668	$4,022,872	77.69%
$50M+	$13,888,799	$27,993,105	$14,104,306	101.55%
	$80,055,018	**$110,356,608**	**$30,301,590**	

Next Steps:

If the City Council adopts a resolution to submit a business tax ballot measure at the November 3, 2020 election, the deadline to submit the resolution and final ballot language to the Alameda County Registrar of Voters is August 7, 2020.

FISCAL IMPACT

Proposal 1 and Proposal 2 put forth by Councilmembers Bas, Kalb, and Thao do not contemplate changing existing tax rates for rental properties or cannabis businesses or including these businesses in the proposed $100 flat tax paid by businesses grossing $250,000 or less in gross receipts. In 2019, the City Council already provided tax relief to owner-occupied residential rental properties that meet certain household income thresholds and other requirements.

At the Special Rules and Legislation Committee meeting held on July 7, 2020, Council President Kaplan put forth an amendment to the proposed legislation exempting all businesses that generate $50,000 or less in annual gross receipts. There is insufficient time to fully analyze this additional proposal, its impact on the existing models, and place the results into the public record prior to the July 14, 2020 City Council meeting.

Analyzing the proposed amendment to exempt all businesses grossing $50,000 or less without the benefit of knowing whether the proposed amendment is meant to 1) replace the $250,000 exemption, or 2) reduce the proposed $100 fee down to $0, or 3) add the exemption to include all businesses, which are not being proposed under the Proposals, makes it very difficult to estimate the impact of such amendment. Having said that, the proposed amendment if looked at with 2019 data would indeed eliminate 38,600 accounts, or 63.88% of total business tax accounts, and consequently result in the loss of approximately $8.9 million in General Purpose Fund revenues.

In addition to the loss of revenue, the proposed exemption of 38,600 accounts (63.88% of existing business tax accounts) would significantly reduce the workload in the Finance Department. The reduction in work would necessitate the reduction of 17-19 full-time equivalent employees in the Finance Department as there will be 38,600 fewer business tax accounts to manage. This reduction in force will reduce General Purpose Fund payroll expenditures by $2.55 – $2.85 million.

Currently, the City's business tax generates approximately $80 million in annual revenue. The approved FY 2020-21 Midyear Budget includes an estimated collection of approximately $88 million in business tax revenue category. Staff has provided the likely financial impact for the Proposal 1, Proposal 2, and the three Alternatives and summarized them in Table 20 below, based strictly on a static analysis using 2019 data, without any accounting for economic changes.

Table 20: Summary of Financial Impact

Type	**Current Revenue**	**Estimated Revenue** (based on static analysis)	**Increase/Decrease (in $)**	**Increase/(Decrease) (in %)**
Proposal 1	$80,055,018	$124,741,774	$44,686,756	55.82%
Proposal 2	$80,055,018	$107,628,853	$27,573,834	36.44%
Alternative 1	$80,055,018	n/a	n/a	n/a
Alternative 2	$80,055,018	$109,525,451	$29,470,433	36.81%
Alternative 3	$80,055,018	$110,356,608	$30,301,590	37.85%

If the City Council adopts a resolution putting forth a ballot measure seeking voters' approval and receives the approval by the majority of the Oakland Voters, the financial impact would be included as of part of the FY 2021-23 Biennial Budget.

ACTION REQUESTED OF THE CITY COUNCIL

Staff Recommends That The City Council Receive A Supplemental Report Regarding The Proposed Resolution On The City Council's Own Motion Submitting To The Voters At The November 3, 2020 General Municipal Election, An Ordinance Repealing And Replacing Chapter 5.04 Of The Oakland Municipal Code To Create An Progressive, Modern, And Equitable Business Tax Structure; And Directing The City Clerk To Take All Actions Necessary To Prepare For And Conduct A November 3, 2020 General Municipal Election.

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

Respectfully submitted,

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