



CITY OF OAKLAND

MEMORANDUM

TO: Honorable Mayor &
City Council

FROM: Erin Roseman
Director of Finance

SUBJECT: Fiscal, Economic and Administrative
Impacts from Proposed Changes to
Business Tax Structure

DATE: May 25, 2022

City Administrator Approval

Date: May 26, 2022

INFORMATIONAL REPORT

Staff Recommends That The City Council Receive An Informational Report Regarding The Possible Fiscal, Economic And Administrative Impacts From The Proposed Ballot Measure By Councilmembers Fortunato Bas, Fife, Thao, and Kalb (“Proposal”) That Would Change The Business License Tax Structure.

EXECUTIVE SUMMARY

This report provides the possible fiscal, economic, and administrative impacts to the Business License Tax (BLT) structure that are projected to result from the ballot measure proposed by Councilmembers Fortunato Bas, Fife, Thao, and Kalb released on May 19th, 2022. It also addresses in detail the Finance Department’s ability to implement the Proposal in the proposed timeline.

The Proposal maintains the current \$60 minimum tax and includes tiered or progressive rates with five rate tiers. The proposal reduces or maintains current rates for businesses with less than \$1 million in gross receipts. The largest percent increases for business tax rates would occur for businesses with more than \$50 million in gross receipts and classified as Admin Headquarters, Grocers, or “Miscellaneous.”

The Proposal reduces taxes on some small businesses, with 23% of businesses in the affected sectors receiving an average reduction of \$111 in annual tax obligations. Most of the businesses (67%) in the affected sectors would have no change to their business taxes, while 10% of the affected businesses would have an average increase of approximately \$9,400 per business. After accounting for business reactions, the tax reductions would lower revenues by approximately \$600,000 and the increases would generate an additional \$21.9 million, for a net increase of \$21.3 million per year.

Staff has provided alternatives for the implementation of the Proposal, with each alternative carrying its own advantages and disadvantages but all with the goal of a successful implementation that minimizes public confusion and weighs the resources of the City.

The key factors to a successful implementation of the approved ballot measure would include rewriting tax forms, notices, reprogramming and testing of existing software and online portal, coordinating with banking vendors, revision of internal guidelines, policies, and procedures, staffing resources for change management, staff training and substantial community outreach and public education.

Nonetheless, the Finance Department stands ready to implement either of the options with the understanding that there are consequences to each of them. We will work diligently to meet the needs of the residents and taxpayers of the City of Oakland and seek to mitigate any issues, negative outcomes, and ensure equity in our endeavors.

BACKGROUND / LEGISLATIVE HISTORY

On June 18, 2020, Councilmembers Fortunato Bas, Kalb and Thao brought forth a progressive tax ballot measure to revise the City’s business license tax structure.

On July 14, 2020, City Council adopted Resolution No. 88227 C.M.S., to: 1) place the measure on the November 8, 2022 ballot in the City’s General Municipal Election, and 2) create an 11-member Blue Ribbon Equitable Business Tax Task Force to gather extensive community and stakeholder engagement and input, and deliver to the Council by October 31, 2021 “a comprehensive recommendation for a modernized progressive business tax structure that achieves the City’s goals for revenue enhancement, reduction of race and equity disparities, tax code modernization, equitable economic development, and living wage job creation.”

On October 21, 2021, the Blue Ribbon Equitable Business Tax Task Force completed its work and issued a report titled, City of Oakland Blue Ribbon Equitable Business Tax Task Force Analyses and Recommendation (“Task Force Report”).

On January 4, 2022, staff issued an informational report providing additional analysis of information in the Task Force Report and suggested other factors to consider when making changes to the Business License Tax structure.

On January 18, 2022, the City Council received and filed the Task Force Report.

On February 23, 2022, The City Clerk’s office issued a City Attorney title and summary to proponents of a voter proposed ballot initiative, titled “Proposed Ordinance Repealing and Replacing the Business Tax Ordinance, Allocating the Revenue Increases for Restricted Purposes and Creating an Oakland Business Tax Commission.

On March 1, 2022, the City Clerk’s office issued a City Attorney title and summary to proponents of a voter proposed ballot initiative titled “Proposed Ordinance Repealing and Replacing the Business Tax Ordinance, Imposing Progressive Increases in the Tax Rates for Businesses Based on the Amount of their Gross Receipts, and Eliminating the Five-Year Exemption from Taxes for Construction or Major Renovation of Property Leased for Commercial or Industrial Use.

On March 17, 2022, Council President Fortunato Bas and Councilmember Fife proposed a new tax measure that amended the 2020 tax measure that the Council had placed on the November 2022 ballot.

On March 31, 2022, the Rules Committee directed the City Administrator to prepare a report on the fiscal and other impacts of the proposed City measures and initiatives if voters were to approve any of them in November.

ANALYSIS AND POLICY ALTERNATIVES

The information presented in the analyses is in comparison to the baseline data presented in Figure 1.

FIGURE 1: NUMBER OF BUSINESSES AND GROSS RECEIPTS BY BUSINESS SIZE

	# of Businesses	% of Total	Gross Receipts (mil \$)	% of Total	Taxes Charged (mil \$)	% of Total
All Businesses’	53,133		\$25,169		\$91.1”	
By Business Size						
\$0 - \$250k	44,766	84.30%	\$2,062	8.20%	\$19.10	21.00%
\$250k - \$1 mil	4,845	9.10%	\$2,414	9.60%	\$11.60	12.70%
\$1 - \$2.5 mil	1,688	3.20%	\$2,639	10.50%	\$10.20	11.10%
\$2.5 – \$25 mil	1,389	2.60%	\$9,344	37.10%	\$31.30	34.30%
\$25 – \$50 mil	71	0.10%	\$2,510	10.00%	\$7.50	8.30%
Over \$50 mil	52	0.10%	\$6,200	24.60%	\$11.40	12.50%
Permit/payroll-based***	322	0.60%	N/A	N/A	\$0.10	0.10%
By Business Location						
Oakland (home-based)	30,838	58.00%	\$2,328	9.20%	\$23.10	25.30%
Oakland (not home-based)	15,132	28.50%	\$17,300	68.70%	\$57.00	62.50%
Outside Oakland	7,163	13.50%	\$5,542	22.00%	\$11.00	12.00%

*Includes all businesses that reported gross receipts or taxable permits or payroll for Tax Year 2020.

**Including fees and penalties, total amounts charged exceed \$90 million.

***Includes all Taxicab, Ambulance/Limousine, and Trucking/Transportation businesses, which pay business taxes based on permits issued or employees on payroll. Firms in these industries officially report \$0 of gross receipts.

In FY 2019-20, more than 53,000 businesses paid taxes to Oakland. Of that total, 49,611 businesses (nearly 94 percent of all firms) reported less than \$1 million in gross receipts. Only 52 firms, (0.10 percent of the total), reported more than \$50 million in gross receipts, but these businesses accounted for 12.5 percent of total revenues, as shown in Figure 1 above.

The Proposed Ballot Measure By Councilmembers Fortunato Bas, Fife, Thao, and Kalb (“Proposal”)

Key Elements

The Proposal maintains the current \$60 minimum tax and includes tiered or progressive rates with five rate tiers (see Figure 2 below). The Proposal reduces or maintains current rates for businesses with less than \$1 million in gross receipts. The largest percent increases of business tax rates would occur for businesses with more than \$50 million in gross receipts and classified as Admin Headquarters, Grocers, or “Miscellaneous” and changes to some transportation related sectors.

FIGURE 2: PROPOSED TAX RATES

	Current Min. Payment	Current Tax per \$1,000	Min Payment	Proposed Tax Rates by Brackets (Gross Receipts, mil \$)				
				\$0 -	\$1M -	\$2.5M -	\$20M -	Above
				\$1M	\$2.5M	\$20M	\$50M	\$50M
Retail Sales	\$60	\$1.20	\$60	\$0.90	\$1.10	\$1.80	\$2.00	\$2.50
Auto Sales	\$60	\$1.20	\$60	\$1.20	\$1.45	\$1.80	\$2.00	\$2.50
Wholesale Sales	\$60	\$1.20	\$60	\$1.10	\$1.20*	\$1.50*	\$1.75*	\$2.00*
Manufacturing	\$60	\$1.20	\$60	\$1.20	\$1.32	\$1.50	\$1.80	\$2.50
Admin Headquarters	\$60	\$1.20	\$60	\$1.20	\$2.00	\$3.75	\$5.00	\$5.50
Media Firms	\$60	\$1.20	\$60	\$1.20	\$1.50	\$2.30	\$4.00	\$4.50
Miscellaneous	\$60	\$1.20	\$60	\$1.20	\$1.50	\$2.40	\$3.90	\$5.50
Grocers	\$60	\$0.60	\$60	\$0.50	\$0.55	\$1.00	\$1.75	\$2.50
Business / Pers Svcs	\$60	\$1.80	\$60	\$1.40	\$2.10	\$2.80	\$4.00	\$4.50
Contractors	\$60	\$1.80	\$60	\$1.80	\$2.10	\$2.80	\$4.00	\$5.00
Hotel, Motel	\$60	\$1.80	\$60	\$1.80	\$2.10	\$2.80	\$3.50	\$4.00
Prof/Semi-prof Svcs	\$60	\$3.60	\$60	\$3.60	\$4.25	\$4.75	\$5.00	\$5.00
Rec & Entertainment	\$60	\$4.50	\$60	\$4.50*	\$4.64*	\$4.73*	\$4.82*	\$5.25
Public Utility	\$60	\$1.00	\$60	\$1.00	\$1.50*	\$2.00*	\$3.75	\$4.00
				<i>Taxi/Limo/Ambulance and Trucking/Transportation Rates are also adjusted (See detail)</i>				
<i>Color Coding for Rate Increases:</i>			Decrease	No Change	1% to 100%	101%-200%	201%-300%	> 300%
(*) Some rates have changed and may reflect a different outcome in additional revenue raised.								

Economic Impact

The impact of the Proposal on local businesses is summarized in Figure 3. The Proposal reduces taxes on some small businesses, with 23% of businesses in the affected sectors receiving an average reduction of \$111. Most (67%) of the businesses in the affected sectors would have no change in their business taxes, while 10% of the affected businesses would have an average increase of approximately \$9,400 per business. Accounting for business reactions, it is likely this proposal could produce 1,150 jobs lost.

FIGURE 3: ECONOMIC IMPACT

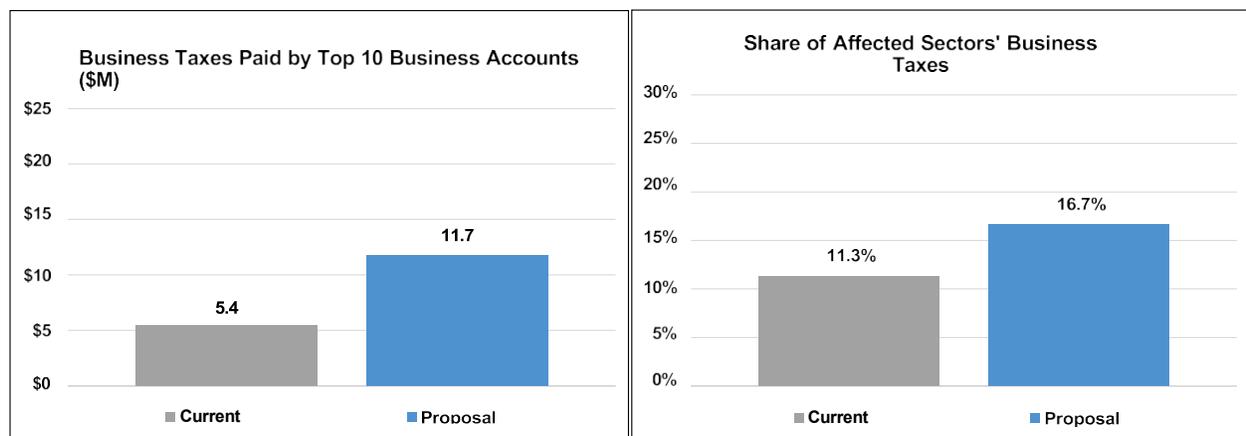
	Change in Business Taxes			Overall
	Decrease	No Change	Increase	
Number of Businesses	5,853	16,890	2,493	25,236
Pct of All Businesses (Affected Sectors)	23.2%	66.9%	9.9%	100.0%
Avg Change per Business (\$)	(\$111)	\$0	\$9,382	\$901
Avg Change per Business (%)	(17%)	0%	58%	51%
Total Dynamic Revenue Change (\$M)	(\$0.6)	\$0.0	\$21.9	\$21.3

Concentration Effect

Staff reviewed the number of businesses affected by the change to the existing Business License Structure, and the concentration effect of the proposed measure on the affected sectors. This analysis looks at the largest payers of business taxes and how they could be affected by the proposed changes.

The top ten taxpayers account for \$5.4 million annually of the total BLT revenues from the sectors that would be affected by the Proposal, which is approximately 11.3% of the total BLT revenue. Under the Proposal, the ten taxpayers would account for \$11.3 million of the total BLT revenues which is 16.7% of the total revenue. The \$6.3 million increase from the top ten taxpayers make up 29.6% of the additional revenue generated by the Proposal.

FIGURE 4: CONCENTRATION EFFECT



Revenue Receipt Impact

The Proposal would generate an additional estimated \$21.3 million annually after accounting for local businesses' responses. The Proposal also includes changes to the transportation-related sectors that are estimated to generate \$230,000 in additional annual revenue. After accounting for business reactions, the tax reductions would lower revenues by approximately \$600,000 from the increases of \$21.9 million for a net increase of \$21.3 million per year.

With all proposals, it is important to note several macroeconomic factors which could prevent revenue estimates from being realized. These include important factors that relate to local economic conditions: the increase in inflation, the aftereffects of the COVID-19 pandemic, and the business response to such factors.

Tax Structure Impact

The Proposal changes the tax structure from a static one to a graduated one. That means the current static Business License Tax structure is flat and equally applied, compared to a progressive structure that is a series of graduated taxes applied as the amount increases. The change is inherently more complex and requires a deeper understanding of the configuration, and tax calculation. A tiered, progressive tax structure increases the business' tax obligation as gross receipts increase. Below is a simple example of the difference between the two tax structures:

Example of the tax calculation of the current fixed vs proposed tiered structure:

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	\$3.60	\$1,000,000	\$3,600	
	\$1M+ - \$2.5M	\$4.25	\$1,500,000	\$6,375	
	\$2.5M+ - \$20M	\$4.75	\$7,500,000	\$35,625	
	\$20M+	\$5.00	n/a		
Total			\$10,000,000	\$45,600	
Current	\$3.60			\$36,000	
				Difference (in \$)	\$9,600
				Difference (in %)	26.67%

Service Impact

The Finance Department has analyzed and determined the advantages, disadvantages of the proposed effective date of January 1, 2023, and provided alternatives to the Proposal’s implementation date for the City Council to consider.

IMPLEMENTATION OF THE PROPOSAL:

To fully understand the breadth and scope of the change, it is helpful to understand the current process so that it can be compared.

The Way It is Now:

Currently, there are more than 53,000 businesses that pay taxes in Oakland. Regardless of the size and income, “every person who is conducting usual and customary business activities on January 1st of the current tax year shall pay the annual business tax in full, without proration, and shall, before the business tax become delinquent [on March 2nd] file with the Business Tax section a written statement forth the then applicable factors or factors that constitute the measure of the tax.”¹ The majority of taxpayers, approximately 77%, initiate, file, or renew through an online portal, while the remaining taxpayers are paper filers. The paper tax filers are typically filing renewals for the Business License Tax Categories of M, N, and O.

The Finance Department has many responsibilities during the annual filing season that runs from September through March. The typical timeline in preparation for the filing season is as follows:

September- October (60 days):

- Preparation of the annual filing season: Starting September, City staff will spend four months updating and reviewing the existing taxpayer forms and gathering feedback related to the prior tax renewal cycle. City staff will collaborate with the contracted mail vendor to ensure supplies are available and their internal software is updated to reflect applicable changes.

October- December (60 Days):

- Public communication: This includes sending notices and forms to taxpayers. This takes about a month in conjunction with the preparation of the renewals.
- Educating the taxpayers: This includes assisting taxpayers with tax related issues such as the 2nd/3rd year payment cycle, penalties and interest, taxes due.
- Software updates: work with the current software vendor to update the system to reflect any new changes.
- Lockbox Instruction Updates: City staff will collaborate with the contracted mail vendor to ensure supplies are available and their internal software is updated to reflect applicable changes.

January- March (60 Days):

- Online Filing System Active for Filing- January 1st.
- Educating the taxpayers: This includes assisting taxpayers with tax related issues such as the 2nd/3rd year payment cycle, penalties and interest, taxes due.

¹ Oakland Municipal Code Section 5.04.090

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- Business Tax Customer Service: fields average of 7,350 emails, 837 online live chats, 2,184 phone calls and takes 1344 in person visits.
 - Filing Assistance: how to use the online portal, how to close their account and other tax and payment related questions, walking taxpayers through paper forms, language assistance.
 - Processing payments: Billing charges in the system and processing payments via the cashier. Online acceptance of payments.
 - Bank Lockbox processing: This includes coordination with Union Bank, the City's depository and custodial banking service, to ensure lockbox transactions, exceptions and distribution of funds will continue to be processed and completed timely. This takes 1-2 months.
 - Delinquent Payment Deadline- March 1st.
 - BT certificate processing & issuance: Sending batch files to the City's mail vendor for printing and mailing and querying and sending out of certificates via email for those renewing online. Certificates are either emailed to businesses the next day following the receipt of the online payment or within seven days following the receipt of payments via in-person, mailed payments or through lockbox.

IMPLEMENTATION OF THE PROPOSAL:

Taking into consideration that the Proposal does not change the categories that are mostly filed by paper, the implementation focuses more heavily on preparing for the online portal readiness.

Alternative 1 - Effective January 1, 2023: This alternative would keep the existing filing season unchanged. This means that businesses are required to file and pay their taxes in full based on the **new** set of tax rates, no later than March 1, 2023.

Preparation Period:

November 3rd – December 1st (~30 days):

- Preparation of the annual filing season: Starting November 3rd, a day after election, City staff will spend about one month updating and reviewing the existing taxpayer forms and gathering feedback related to the prior tax renewal cycle. City staff will collaborate with the contracted mail vendor to ensure supplies are available and their internal software is updated to reflect applicable changes.

December (~30 Days):

- Software updates: work with the current software vendor to update the system to reflect any new changes.
- Public communication: This includes sending notices and forms to taxpayers. This takes about a month in conjunction with the preparation of the renewals.
- Educating the taxpayers: This includes assisting taxpayers with tax related issues such as the 2nd/3rd year payment cycle, penalties and interest, taxes due.

January- March 1st (60 Days):

- Online Filing System Active for Filing- January 1st.
- Educating the taxpayers: This includes assisting taxpayers with tax related issues such as the 2nd/3rd year payment cycle, penalties and interest, taxes due.
- Business Tax Customer Service: Staff fields a monthly average of 7,350 emails, 837 online live chats, 2,184 phone calls and takes 1,344 in person visits.
- Filing Assistance: how to use the online portal, how to close their account and other tax and payment related questions, walking taxpayers through paper forms, language assistance.
- Processing payments: Billing charges in the system and processing payments via the cashier. Online acceptance of payments.
- Bank Lockbox processing: This includes coordination with Union Bank, the City's depository and custodial banking service, to ensure lockbox transactions, exceptions and distribution of funds will continue to be processed and completed timely. This takes 1-2 months.
- Delinquent Payment Deadline- March 1st.
- BT certificate processing & issuance: Sending batch files to the City's mail vendor for printing and mailing and querying and sending out of certificates via email for those renewing online. Certificates are either emailed to businesses the next day following the receipt of the online payment or within seven days following the receipt of payments via in-person, mailed payment or through lockbox.

Advantage(s):

Revenue Collection: The additional revenue could be realized beginning in Fiscal Year 2022-23. If the projected increase is realized, the City could bring in an additional \$21M in business License Tax Revenue for a total projected amount of \$124M.

Disadvantage(s):

Staffing Resources: The Business License Tax Unit in the Revenue Management Bureau of the Finance Department has 11 FTEs assigned; there are currently five vacant positions ranging from cashiering to tax enforcement positions specifically assigned to the support of the business tax program.

Temporary staffing would be needed to facilitate educating the taxpayers and providing filing assistance. The department would seek additional temporary staff; however, there is nationwide labor shortage that is well-documented. Temporary employment agencies, such as Robert Half Talent Solutions and AppleOne, have indicated that temporary resources are scarce in the highly competitive job market and could not commit to fulfill the help on a consistent basis.

Reassigning existing staff from other units, such as Audit and Compliance to help during a transition period for up to six months, understanding that other revenue collections could be compromised or delayed due to the reassignment. Existing assignments that could be compromised or delayed are concentrated in compliance activities, such as the auditing of those who filed taxes based on estimated gross receipts or the delay in sending required notices intended to encourage compliance prior to the filing of legal action or the notice of intent to lien. The lack of these compliance efforts due to reassignment could result in the City's inability to place liens on delinquent properties, totaling approximately \$2 million per lien cycle or to recover millions of dollars in audit activities. The temporary reassignment of staff will also require training but not as extensive as training new or temporary employees.

Vendor's Ability to Perform: There are three key vendors that make the renewal processing seamless. The software vendor, the mailing vendor, and the lockbox vendor. Ideally, each vendor needs a minimum of two to three months to completely prepare for the renewal.

Quality of Service: An important component of effective change is communication. Communication with businesses seeking assistance in understanding the requirements to file and effectively articulating these changes is significant to the success. An approved ballot measure having the effective date of less than 30 days could result in staff not being well versed in the changes and having sufficient knowledge to relay full and accurate information to taxpayers. Consequently, the lack of time to fully prepare could increase the wait-time for those who seek assistance in filing and paying their taxes by the deadline of March 1st. Those taxpayers especially not well versed in local taxation, lack internet access, language limitations or older adults who prefer to receive in-person service are of great concern. Staff considers the possible inequity to taxpayers in these categories.

Businesses Ability to Pay: Staff considers a businesses' ability to pay as a concern as businesses will typically escrow funds throughout the year in anticipation of a tax payment based on known tax rates. An approved ballot measure having the effective date of less than 30 days could jeopardize the ability of taxpayers to fulfil their tax obligations because of the lack of funds allocated for tax purposes. The inability to pay on the part of businesses could result in increased delinquencies and increased demand for payment plans; thus, reducing revenue collections expected for the fiscal year. Additionally, the steps involved in coordinating and getting payment plans executed will further consume time and resources of staff in the renewal period.

Legal Challenges: Staff considers the possibility of legal challenges: a rise in the number of businesses unable to fulfil their tax obligations, inability to understand the changes or customer service backlog could generate delinquent charges. Consequently, the Business Tax Board of Review would experience an increase of businesses seeking abatement of additional charges or even challenging the validity of the additional charges. This is due to the City's inability to notice taxpayers in a timely manner that would allow businesses to set aside funds that satisfy the additional tax obligations.

Summary Costs:

Staff has identified a summary level of costs that this implementation plan would need to implement this option. These costs would be netted against the projected revenues received from the Proposal.

Category	FY 22-23	FY 23-24	FY 24-25	Total
Staffing – Limited Duration	\$750,000	\$750,000		\$1,500,000
Staffing – Permanent		\$450,000	\$450,000	\$900,000
Technology & Supplies	\$200,000	\$200,000	\$50,000	\$450,000
Total	\$950,000	\$1,400,000	\$500,000	\$2,850,000
See Administrative Expenses section for explanation				

Alternative 2 - Effective January 1, 2023 with Delay of Payment: This alternative would keep the existing filing season unchanged. This means businesses are required to file and declare their gross receipts subject to the tax by March 1st and pay only the amount of the taxes due based on the existing tax rates. Staff would then issue a supplemental invoice at a later date (e.g. after July 1, 2023) requiring payment for the difference between the existing tax rates and the new tax rates. This effectively creates two renewal periods in one calendar year. Renewal Period 1 (January through April) based on previous tax rates and Renewal Period 2 (July through November) a true-up based on the new tax rates.

Preparation Period:

Renewal Period 1

September- October (60 days):

- Preparation of the annual filing season: Starting September, City staff will spend four months updating and reviewing the existing taxpayer forms and gathering feedback related to the prior tax renewal cycle. City staff will collaborate with the contracted mail vendor to ensure supplies are available and their internal software is updated to reflect applicable changes.

October- December (60 Days):

- Public communication: This includes sending notices and forms to taxpayers. This takes about a month in conjunction with the preparation of the renewals.
- Educating the taxpayers: This includes assisting taxpayers with tax related issues such as the 2nd/3rd year payment cycle, penalties and interest, taxes due.
- Software updates: work with the current software vendor to update the system to reflect any new changes.

January- March 1st (60 Days):

- Online Filing System Active for Filing- January 1st.
- Educating the taxpayers: This includes assisting taxpayers with tax related issues such as the 2nd/3rd year payment cycle, penalties and interest, taxes due.
- Business Tax Customer Service: Staff fielded a monthly average of 7,350 emails, 837 online live chats, 2,184 phone calls and takes 1,344 in person visits.
- Filing Assistance: how to use the online portal, how to close their account and other tax and payment related questions, walking taxpayers through paper forms, language assistance.
- Processing payments: Billing charges in the system and processing payments via the cashier. Online acceptance of payments.
- Bank Lockbox processing: This includes coordination with Union Bank, the City’s depository and custodial banking service, to ensure lockbox transactions, exceptions and distribution of funds will continue to be processed and completed timely. This takes 1-2 months.
- Delinquent Payment Deadline- March 1st.
- BT certificate processing & issuance: Sending batch files to the City’s mail vendor for printing and mailing and querying and sending out of certificates via email for those renewing online. Certificates are either emailed to businesses the next day following the receipt of the online payment or within seven days following the receipt of payment via in-person, mailed payments or through lockbox.

Renewal Period 2

April- May (60 Days):

- Configure existing software to accommodate the new tax rates.
- Bringing on Staff to support the second renewal cycle.
- Educating the taxpayers: Extensive Campaign notifying taxpayers, offering tutorials, in person appointments.
- This includes assisting taxpayers with tax related issues such as the 2nd/3rd year payment cycle, penalties and interest, taxes due.
- Public communication: This includes sending notices and forms to taxpayers. This takes about a month in conjunction with the preparation of the renewals.

June- July (60 Days)

- Internal Reconciliations of Tax accounts.
- Prepare and send out invoices for the remaining balance (due date of 30 days from the date of invoice) or informing taxpayers of credit because of new charges based on the new tax rates.
- Supplemental Notice Mailed of Recalculations.
- Additional Customer Service Windows.

Advantage(s):

Staffing Resources: The Business License Tax Unit in the Revenue Bureau of the Finance Department has 11 FTEs assigned; there are currently five vacant positions ranging from cashiering to tax enforcement positions specifically assigned to the support of the business tax program.

Temporary Staffing would be needed to facilitate educating the taxpayers and providing filing assistance. Likely Temporary Staffing would only be needed in the second renewal period. The timing allows for an elongated period in which to staff up and put a lower demand on the staffing agencies considering the highly competitive job market and the agencies inability to commit to fulfill the help on a consistent basis.

Alternative Staffing or reassigning existing staff from other units, such as Audit and Compliance to help during a transition period for up to six months, could still occur but not compromising other revenues collections or delays due to the reassignment.

The temporary staff and the reassignment of staff will also require extensive training but the timing allows for that opportunity.

Vendor's Ability to Perform: There are 3 key vendors that make the renewal processing seamless. The software vendor, the mailing vendor, and the lockbox vendor. Ideally, each vendor needs a minimum of two to three months to completely prepare for the renewal.

Quality of Service: One of the most important responsibilities is communication with businesses seeking assistance in understanding the requirements to file and pay taxes by the deadline. An implementation process with a true-up period provides for staff to gain sufficient knowledge to relay full and accurate information to taxpayers. It provides time to fully prepare and deliver service for those who seek assistance in filing their taxes, especially those are not well versed in local taxation, lack of internet access, language limitation or older adults who prefer to receive in-person service.

Disadvantage(s):

Revenue Collection: Most, if not all, additional revenue would not be realized until Fiscal Year 2023-24.

Customer Service Challenges: This option would result in the Finance Department having to handle an additional round of taxpayers inquires, most likely due to the true up process and the rate changes. The true-up would require reconciliations of additional amounts due and credits owed based on tax structure change. Communicating these changes and explaining the progressive structure compared to the flat structure, in conjunction with supplemental invoices would increase customer interactions with the goal of gaining acceptance and understanding.

Legal Challenges: An increase in the number of businesses unable to understand their tax obligations due to the double renewal cycle. The Business Tax Board of Review would

experience an increase of appealed cases seeking abatement or even challenging the validity of the second taxation period.

Summary Costs:

Staff has provided a cost summary associated with this implementation plan. These costs would be netted against the projected revenues received from the Proposal.

Category	FY 22-23	FY 23-24	FY 24-25	FY 25-26	Total
Staffing – Limited Duration	\$750,000	\$750,000	\$300,000		\$1,800,000
Staffing – Permanent			\$450,000	\$450,000	\$900,000
Technology & Supplies	\$200,000	\$200,000	\$50,000		\$450,000
Total	\$950,000	\$1,400,000	\$800,000		\$3,150,000
See Administrative Expenses section for explanation					

Alternative 3 - Effective January 1, 2024: This alternative would keep the existing BLT structure in place for the 2023 filing season. This means that businesses are required to file and pay their taxes based on the **existing** set of tax rates no later than March 1st 2023. The new set of rates would become effective for the 2024 filing season.

Advantage(s):

Staffing Resources: This option would enable to Finance Department to prepare the necessary staffing levels for the expected increase of workload.

Vendor’s Ability to Perform: All vendors would have a more time to prepare for the changes.

Quality of Service: Staff would have enough time and training to gain sufficient knowledge of the new tax structure to relay full and accurate information to the taxpayers.

Business Ability to Pay: Businesses generally allocate funds in escrow to pay their respective tax obligations. This due date would grant them sufficient time to plan for any additional tax obligations resulting from the proposed increases to the tax.

Legal Challenges: The Business Tax Board of Review would likely not experience an increase of appealed cases due to taxpayers having enough time to allocate funds for the additional tax obligation; taxpayers will be fully informed of the new tax structure as there will be less confusion associated with a double renewal in a single tax year.

Disadvantage(s):

Revenue Collection:

The additional revenue would not be realized until Fiscal Year 2023-24. Consequently, the delay of implementation will result in an opportunity cost of \$21M.

Summary Costs:

Staff has identified a summary level of costs that this implementation plan would need to implement this option. These costs would be netted against the projected revenues received from the Proposal.

Category	FY 23-24	FY 24-25	FY 25-26	Total
Staffing – Limited Duration	\$750,000	\$750,000		\$1,500,000
Staffing – Permanent		\$450,000	\$450,000	\$900,000
Technology & Supplies	\$200,000	\$200,000	\$50,000	\$450,000
Total	\$950,000	\$1,400,000	\$500,000	\$2,850,000
See Administrative Expenses section for explanation				

Administrative Expenses for Costs of Each Implementation Option:

Staffing Needs

Limited Duration Positions:

The staffing needs identified take into consideration the need to accelerate the hiring program, shift existing staff who are better equipped in addressing the most critical issues, such as answering phone calls, emails, chats, and in-person services, while assigning the new staff to work on routine assignments, such as processing lockboxes, registrations, and paper-intensive submissions or notices. The Finance Department anticipates the need for eight (8) limited duration positions for the first two years of implementation to handle this expected increase in work load.

Permanent Positions:

The proposed increase in the number of tax brackets and the variation of tax rates within each category necessitates an increase in the number tax accounts which would be audited. Increased audit activity would likely be triggered by businesses apportioning gross receipts generated by telecommuting staff or activity that businesses have historically elected not to apportion because there was no significant variation between the tax rates.

The Finance Department anticipates the need for three (3) additional Tax Auditors to handle the increased workload, conducts audits and verify taxpayer’s refund requests associated with the new tax structure.

Technology Needs

Staff anticipates returning to the City Council to seek authorization to amend the current agreement with the software provider, HdL Software, LLC., to increase the contract capacity by approximately \$200,000 to account for the programming and testing of the software and other changes associated with the BLT structure. The source of funding is from the Recordation and Technology Fee that the City Council adopted at the start of FY 2016-17.

In addition, to the need to increase the contract capacity for the programming needs of the software and online portal, staff will also need to engage the Information Technology Department to explore, secure, and implement the “customer callback technology,” which would inform callers the anticipated wait time and provide the option to leave a call back number for staff to follow up.

Equipment & Supplies Needs

In addition to staffing needs, staff will also put forth a request for an additional allocation of \$100,000 for each of the two years in the upcoming FY 2023-25 Biennial budget or FY22-23 Midcycle budget process. These non-personnel costs cover office supplies and equipment for staff.

FISCAL IMPACT

Depending on the timing, the fiscal impact would range from \$2.8 million to \$3.15 million. Except for an annual recurring cost of approximately \$450,000 for the three (3) Tax Auditor positions, all other costs are of one-time in nature.

Category	No. of Positions	Frequency	Total One-Time Cost (appx.)	Total Ongoing Cost (appx.)
Staffing – Limited Duration	8	One-Time	\$1.5M - \$1.8M	
Staffing – Permanent	3	On-Going		\$450,000
Technology & Supplies	n/a	One-Time	\$450,000	
Total			\$1.95M - \$2.25M	\$450,000

PUBLIC OUTREACH / INTEREST

Given the importance of the proposed tax structure, enhanced outreach to the business community may be warranted.

COORDINATION

This report was prepared in coordination with the Budget Office.

SUSTAINABLE OPPORTUNITIES

Economic: It has been almost four decades since the majority of business license tax structure was last updated. The business community in Oakland has changed, and significantly increased over the years.

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

Race and Equity: A racial equity impact analysis has not been conducted.

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the City Council receive a Supplemental Report regarding the possible fiscal, economic and administrative impacts from the proposed changes to the Business License Tax structure

For questions regarding this report, please contact Rogers Agaba, Acting Revenue & Tax Administrator, (510) 238-7009.

Respectfully submitted,



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