



TAX REVENUE AND OTHER FUNDING BENEFITS FROM NEW DEVELOPMENT IN DOWNTOWN OAKLAND

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Introduction

Downtowns are the economic and fiscal engines for most cities, generating a surplus of public revenue to maintain and improve public services citywide, and Oakland's downtown is no exception. Investment in new high-density development in downtown Oakland supports a growing tax base to fund on-going public services, government operations, and community benefits. New high-density development also generates one-time impact fee revenue that funds affordable housing (new construction and preservation of existing units), transportation improvements, and improvements to other public facilities that benefit the Oakland community.

As part of the Downtown Oakland Specific Plan (DOSP), City decision-makers and the community are seeking to adopt the Zoning Incentive Program or "ZIP". The ZIP is structured to allow higher-intensity development in parts of downtown in exchange for project-specific community benefits focused in the downtown area. More broadly, the DOSP seeks higher-intensity development for the wide range of benefits provided by greater density downtown, including increased housing opportunities, the growth of jobs and local business activity, increased tax base supporting a broad range of city services and other benefits citywide, as well as local and regional transportation and environmental benefits from the concentration of population and business activity in a high-density urban core at the center of the region.

This report focuses on tax revenue and other funding benefits from higher density new development downtown. The Economic Analysis for the ZIP identifies that the success of the program in facilitating higher density development depends on the feasibility of those high-density projects and the strength of the real estate market. The specifics of the ZIP's value capture program for community benefits affect project feasibility and the densities at which projects are actually built, as well as the overall success of the ZIP program over time. This report highlights the substantial benefits at stake for the City's tax base and other funding resources and the importance of balancing the capture of a share of value created by higher density development with the need to maintain project feasibility and provide incentives for developers and landowners to build at high densities.

New High-density Development Downtown Generates Substantial Growth of the City's Tax Base

Annual tax revenues increase with occupancy of new development and continue to be generated each year over the life of the development.

◆ **New Development Projects Generate a Broad Range of Tax Revenues**

- New development increases the value of property generating increased **property tax** revenue.
- Business activity in new office, hotel, and retail space generates **business tax** and **sales tax** revenue.
- Residents of new housing, workers in new commercial space, and visitors staying in new hotels bring increased spending that increases **sales tax** and **business tax** revenue in Oakland.
- Parking operations pay **parking tax**.
- New hotels increase **transient occupancy tax**.
- New development also pays a number of **special taxes, parcel taxes, and other taxes and assessments**.

◆ **Annual Tax Revenue from New Downtown Development is Many Times Larger than Tax Revenue from Existing Uses on Development Sites**

The increases in tax revenue from new development in downtown Oakland are attributable to the larger buildings and higher densities of new development as well as greater occupancy, higher levels of activity, and associated increased property values.

◆ **The Higher the Density of New Development Downtown, the More Annual Tax Revenue Generated per Square Foot of Land Area**

Annual Tax Revenues for Prototypical Downtown Oakland Developments

Analyses of actual development projects in downtown Oakland quantify the substantial tax revenues generated by new high-density downtown development. Prototypes representative of residential, office, and hotel development recently built and proposed in downtown Oakland are the basis for estimates of the annual tax revenue benefits expected, in 2020 dollars at stabilized occupancy. These 2020 estimates are based on the most recent detailed analysis of revenue impacts of downtown Oakland development conducted by Hausrath Economics Group. Although the estimates are based on pre-pandemic conditions, they remain illustrative of the longer-term contributions of downtown development to the City's revenue base and are reasonable estimates for the purposes of this analysis, given the fluctuations in the downtown economy over the last three years and uncertainties about the near term recovery. Note also that the recent changes to the Business Tax (effective January 2023) will likely increase the proportion of this revenue source attributable to downtown businesses relative to businesses in the rest of the City.

Table 1 presents the characteristics of prototypical downtown projects and **Figure 1** shows the total annual tax revenue generated and the breakdown of revenue by source for each prototype.

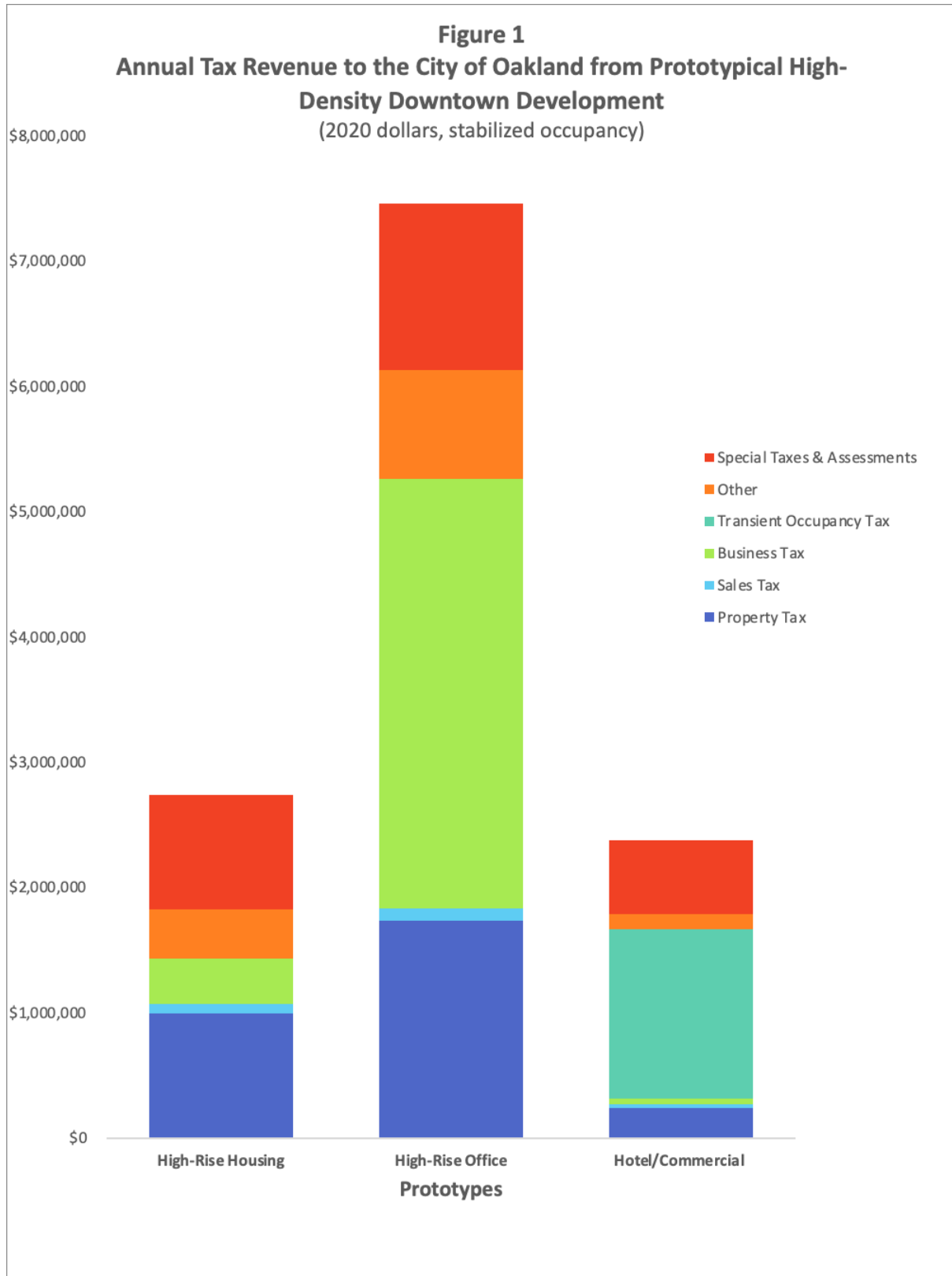
- ◆ High-rise residential development: **\$2.74 million per year** tax revenue from 450-unit project
- ◆ High-rise office development: **\$7.5 million** per year in tax revenue from high-density office project with 780,000 square feet.
- ◆ Mid-rise hotel development: **\$2.4 million** per year tax revenue from 170-room hotel.

In all downtown prototypes, the tax revenue from new development is many times larger than the tax revenue from existing uses on the sites. Office and hotel developments generate a higher tax base per square foot of development than residential land uses in Oakland. The office developments generate a large amount of business tax revenue, and hotels generate transient occupancy tax (TOT) revenue, both in addition to increases in property taxes and other revenues (see Figure 1).)

Table 1
Characteristics of Prototypical High-Density Development in Downtown Oakland
 (2020 dollars, stabilized occupancy)

	High-Rise Residential	High-Rise Office	Mid-Rise Hotel/Commercial
Construction Type	Type 1	Type I	Type III over podium
Number of stories	40 stories	27 stories	7 stories
Building sq. ft. (gross) without parking	500,000	780,000	95,000
Number of housing units or hotel rooms	450	na	170

Source: Hausrath Economics Group based on data for actual projects built or proposed in downtown Oakland.



Ongoing Tax Revenue Benefits Over Life of the Development

New development generates annual tax revenue each year over the life of the project, producing a large revenue return to the city. **Over 40 years**, the prototypical downtown Oakland developments are estimated to provide tax revenue streams with net present values (2020 dollars) of the following:

- ◆ **\$85 million** for high-rise residential development
- ◆ **\$250 million** for high-rise office development
- ◆ **\$87 million** for mid-rise hotel development

Table 2 summarizes the value of the tax revenue streams generated by the downtown development prototypes over 10, 20, and 40 years.

Table 2
Longer-Term Tax Revenue Benefits to City of Oakland
from Prototypical High-Density Downtown Development
 (net present value of tax revenue stream, 2020 dollars)

Development Prototypes	Net Present Value of Tax Revenue Stream Generated Over:		
	10 years	20 years	40 years
High-Rise Residential	\$24.4 mil.	\$44.9 mil.	\$85.4 mil.
High-Rise Office	\$68.4 mil.	\$129.6 mil.	\$250.3 mil.
Mid-Rise Hotel/Commercial	\$22.5 mil.	\$44.1 mil.	\$87.2 mil.

Note: Net present value (NPV) is a way to measure value of a series of cash flows occurring over time, accounting for the time value of money. Estimates above identify NPV in 2020 dollars at a discount rate of 3%. The estimates include sale of property over time.

Source: Hausrath Economics Group

Additional City Revenue from Real Estate Transfer Tax

In addition to the annual tax revenues described above, downtown development projects contribute periodic real estate transfer tax revenue to the city that can be substantial. Real estate transfer tax revenues are generated from the purchase of real estate upfront in the development process and from sale of the projects over time in the future.

- ◆ Initially, purchase of the downtown project site for development contributes real estate transfer taxes to the city based on the purchase price.
- ◆ When a project is sold in the future, the sale(s) will generate real estate transfer tax revenue based on the sales price of the project at that future time. As turnover of new projects occurs, real estate transfer tax revenues will be in the millions of dollars per sale.

As of January 2019, Oakland has imposed a progressive real estate transfer tax rate; the higher value real estate transfers, most of which are in the downtown, generate the most tax revenue per increment of value.¹ Real estate transfer tax revenue flows to the General Purpose Fund but also supports critical fiscal safety net priorities. Because annual revenue collections can vary significantly from year to year depending on the number and scale of annual real estate transactions, Oakland's fiscal policy allocates "excess real estate transfer tax" (revenue that exceeds a certain threshold) 50% to one-time expenditures, 25% to the Vital Services Stabilization Fund, and 25% to payment of long-term obligations.

Tax Revenues Support Broad Range of City Services and Other Public Benefits Citywide

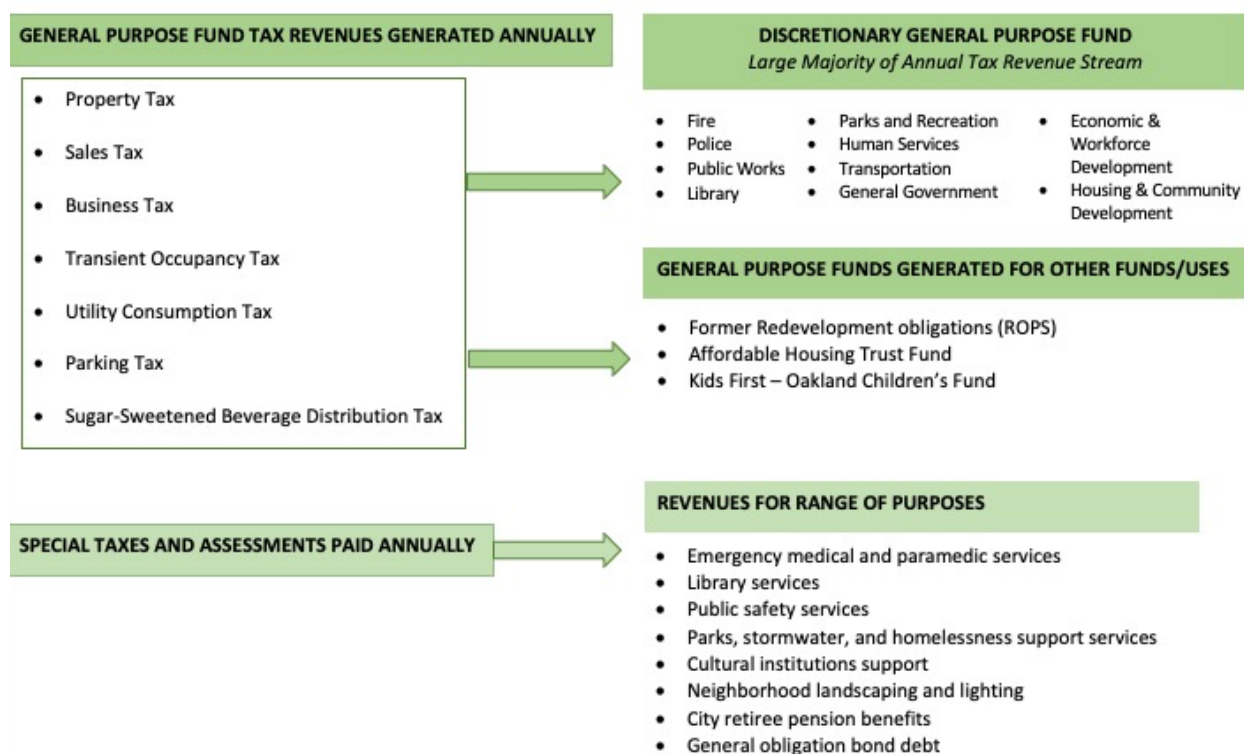
New Development Generates Tax Revenue for a Broad Range of Public Services and Benefits

Most of the tax revenue stream from new development provides funding for government operations and for the broad range of city services that residents and businesses rely on. Shares of the tax revenue also are dedicated to paying for former Redevelopment obligations, contributing to the development and preservation of affordable housing in Oakland, and contributing to the Kids First Oakland Children's Fund. The additional tax revenues also contribute funding for city obligations related to retiree pension benefits, and voter-approved general obligations bonds. The chart in *Figure 2* outlines the broad range of public services and other benefits supported by the additional tax revenues.

- ◆ Higher tax revenues from high-density downtown development are important for increasing the City's revenue base to meet public service funding and staffing needs.
- ◆ Higher tax revenues from new development will enhance the city's ability to meet existing obligations and to fund other public benefits (affordable housing, children's needs, housing/homeless services, and equity goals) including those that improve equity outcomes.
- ◆ A growing tax base from new development is increasingly important for Oakland in light of both revenue declines as a result of the pandemic and longer-term structural deficits.

¹ Before 2019, Oakland's share of the real estate transfer tax rate was 1.5% of the value of each transaction. Measure X, in 2018, established this progressive rate structure: transfers up to \$300,000 pay 1%; transfers \$300,001 - \$2,000,000 pay 1.5%; transfers \$2,000,001 - \$5,000,000 pay 1.75%; and transfers above \$5,000,000 pay 2.5%.

Figure 2
LONG-TERM REVENUE BENEFITS CITYWIDE FROM NEW DEVELOPMENT



Net Fiscal Benefits Citywide

The fiscal surplus attributable to high-density downtown development is a well-established principle of urban economics. Large increases in tax base from new development downtown are important throughout the city. The new development and associated growth of population, economic activity, and employment generate tax revenue to cover the cost of services to the new development AND provide funding for services and other public benefits throughout the city.

Fiscal impact analysis prepared for downtown Oakland estimated that about 70 percent of overall tax revenue generated downtown is spent downtown, leaving \$0.30 of every dollar generated to support spending elsewhere in the city.² Since new development generates much higher tax revenues than the average for all existing development, the revenue surpluses will be far greater for the new development.

² Strategic Economics, Memorandum to City of Oakland, “Downtown Oakland Specific Plan: Fiscal Impact Analysis”, September 8, 2017.

Impact Fees and Other One-Time Funding Paid Upfront and During Development

New downtown development pays one-time fees to mitigate the impacts of the growth that is accommodated, and new development contributes other one-time funding for improvements of community benefit. The fees and other funding are paid upfront during the development period. City of Oakland impact fees fund affordable housing (new development and preservation), transportation improvements, and other capital improvements. The bedroom tax paid by new residential development adds to Oakland's General Purpose Fund. Oakland Unified School District impact fees fund school facilities expansion and modernization. New downtown development must also invest in public art of benefit to the Oakland community.

Figure 3 shows the estimated impact fee revenue and other upfront funding paid by the prototypical new developments in downtown Oakland and the breakdown of revenue for each type of fee.

- ◆ High-rise residential development: **\$15.4 million** from 450-unit project
- ◆ High-rise office development: **\$11.4 million** from high-density office project with 780,000 square feet
- ◆ Mid-rise hotel development: **\$590,000** from 170-room hotel.

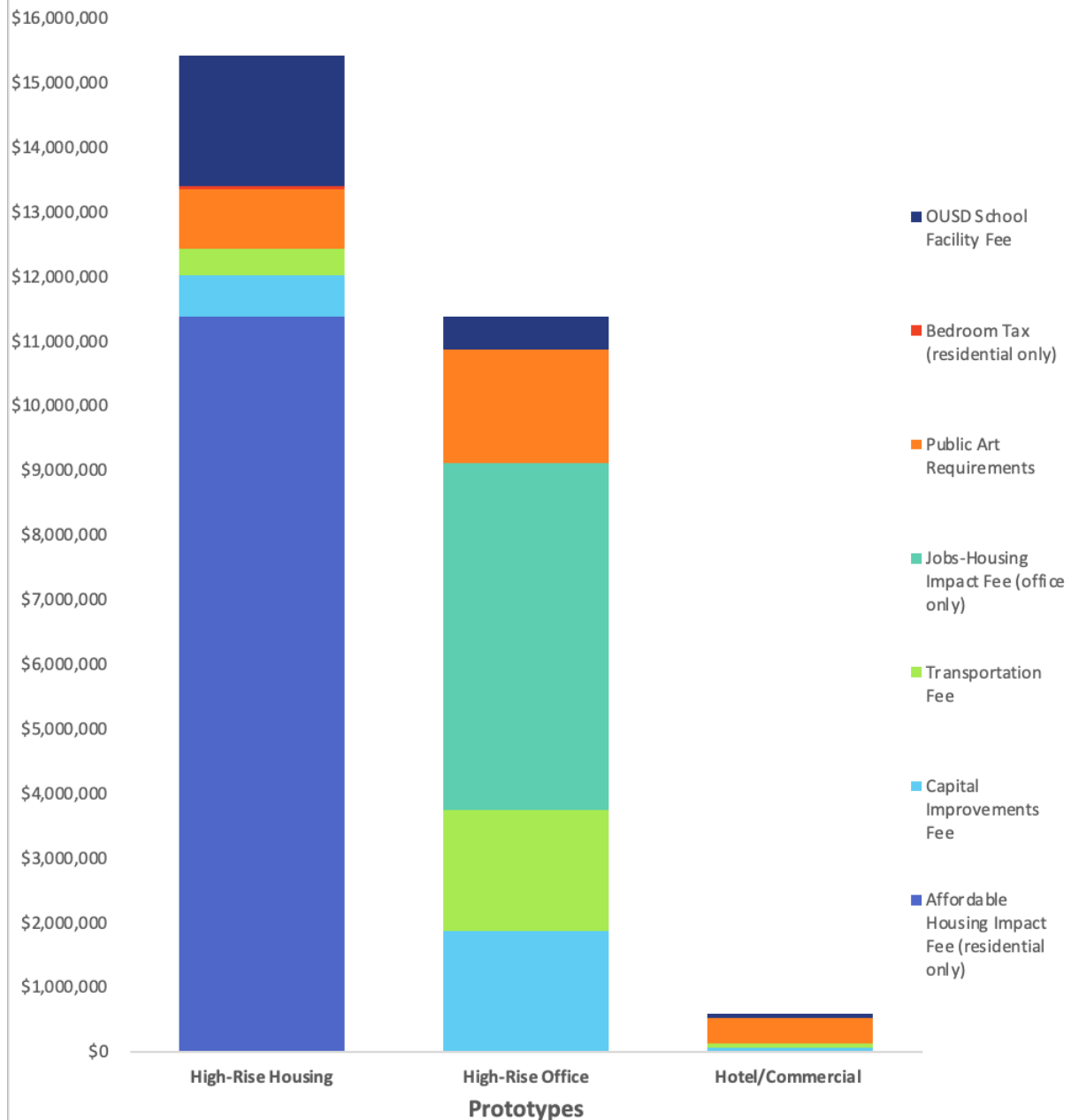
The amount of fees and other upfront funding depends on the size of the project and the type of new development. The estimates are based on City of Oakland fees and policies in effect as of 7/1/2022. The largest amounts of upfront funding are for Affordable Housing Impact Fees that fund new affordable housing development and the preservation of existing affordable units.³

In addition to the fees and other funding quantified in the table, new development also pays the following:

- ◆ Building permit, planning, engineering, and inspection fees to the City of Oakland which support the cost of development services provided by City staff,
- ◆ Sewer mitigation fees to the City of Oakland, and
- ◆ One-time water and wastewater capacity charges to the East Bay Municipal Utility District (EBMUD).

³ Affordable Housing Impact Fees and Jobs-Housing Impact Fees are deposited in Oakland's Affordable Housing Trust Fund for use in the production and preservation of affordable housing. Under the impact fee rules, developers have the option of providing affordable housing on-site or off-site under specific conditions instead of paying the impact fee.

Figure 3
Impact Fees and Other Public Benefits from Prototypical High-Density Downtown Development
 (assuming fees in effect as of 7/1/2022)



Impact Fees and Other Funding Upfront Within the Context of Increased Tax Base from New Downtown Development

Often, community discussion and advocacy regarding the benefits of new development focus primarily on impact fees and other upfront funding. The significance of the on-going tax revenue stream generated by new downtown development and its importance to funding Oakland's public services receive less attention. The charts in **Figure 4** provide examples of the magnitude of one-time, upfront funds (colored orange) compared to the large annual tax revenue stream from new residential and office development downtown prototypes (shown in blue).

Priority for Fees and Benefits Upfront Can Put at Risk the Substantial Tax Base and Benefits It Supports Over the Life of the Development

Additional fees and exactions upfront add to the costs of project development and can impact project feasibility. It is important to recognize that "front-end" fees and exactions can cost the City and its residents millions of dollars on the "back-end" if they impact project feasibility and projects are not built. Both existing levels and potential increases in fees and exactions should be carefully evaluated. This concern applies to the Zoning Incentive Program (ZIP) currently under evaluation.

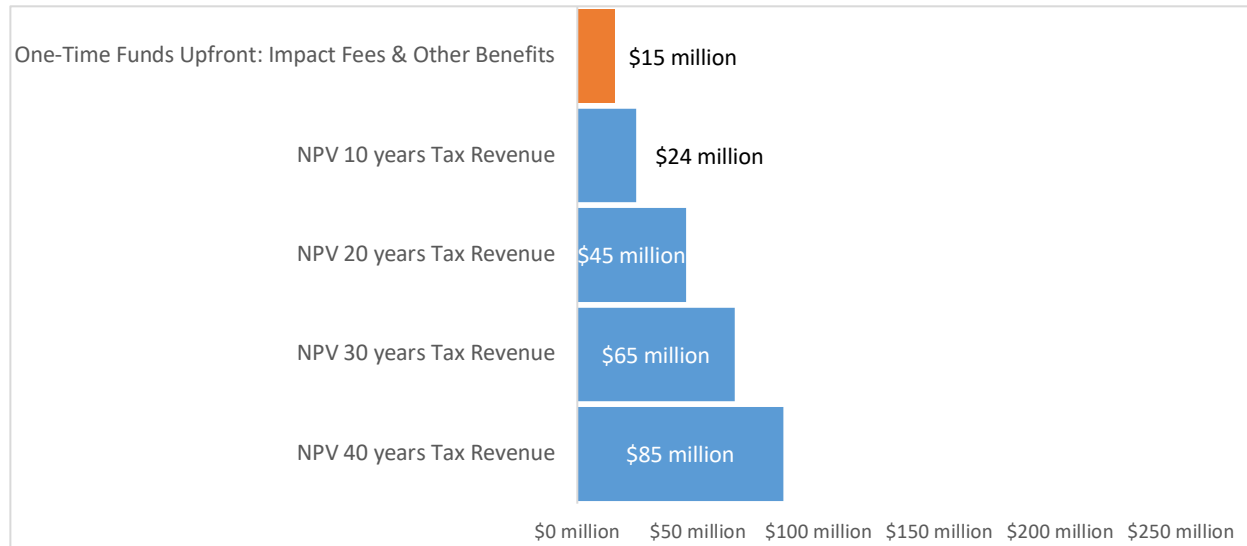
Oakland's Fiscal, Economic Development, and Equity Goals Require a Robust and Growing Tax Base, and High-density Downtown Development is Critical to that Outcome

Oakland's Fiscal Year 2022-2023 Adopted Budget sets forth a spending plan for \$1.9 billion (before accounting for transfers of fund balance) and the General Purpose Fund (GPF) budget for discretionary spending amounts to \$760 million (40%) of that total.

The revenue sources generated by high-density downtown development and associated population and employment growth are the foundation of Oakland's budget, accounting for 35% of all funds revenue and 82% of GPF revenue, on average over the last four fiscal years. These sources provide the reliable on-going funding for City operations and the services residents and businesses depend on, as well as the revenue for the special purpose funds providing supplemental funding for high-priority public services such as public safety, libraries, parks and recreation, programs for children and youth, affordable housing, and homelessness support.

Figure 4
One-Time Upfront Funds Compared to Value of Annual Tax Revenue Stream
for Selected Time Periods: Prototypical High- Rise Residential and Office Development
(2020/2022 dollars)

High-Rise Residential



High-Rise Office

