

City of Oakland Blue Ribbon Equitable Business Tax Force



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Presentation on proposed changes to the Oakland Business License Tax

Purpose: Support Small Businesses by providing Tax Relief while providing Equity in how Business Pays

Describe existing Oakland Employment Profile &
Real Estate Market Conditions

Examine the Pros and Cons of Proposal

Discuss Unintended Consequences

Questions: Will this proposal achieve its Goal?

Will this proposal attract or discourage Business Coming to Oakland?

COVID is impacting Small Business Negatively, Will the Gross Receipts Tax

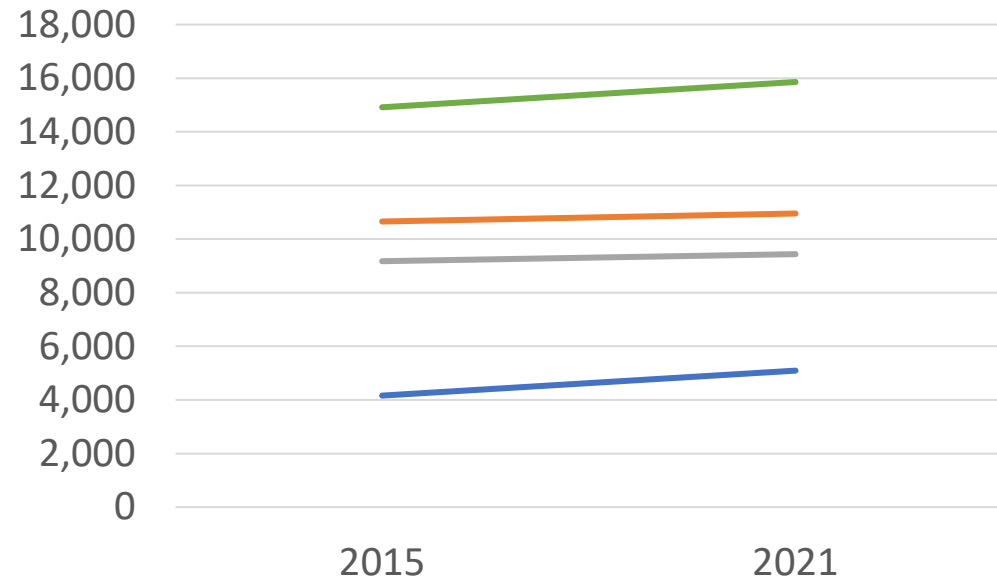
City of Oakland Economic Profile Mid Year 2021

- **Current Employees in Oakland Approx. 207,000**
- **Current Oakland Unemployment Rate 7.6%**
- **Number of Businesses in Oakland: ± 53,000 all types**
- **Businesses with 0 to 49 Employees = Approx. 48.7% per EDD**
- **Business with 50 plus employees = Approx. 51.3% per EDD**
- **±45 % of Employees make less than \$50,000 per year full and part time**
- **±55% of Employees earn above \$50,000 per year**
- **Current Oakland Unemployment Rate as of June is 7.6% compared to 6.7 % in the Oakland Hayward Berkley MD**
- **The Unemployment Rate is 7.7% in California compared to 5.9% nationally**

- Sources: EDD, ESRI, Data USA, Oakland Chamber of Commerce , Beacons Economics, Bureau of Labor Statistics

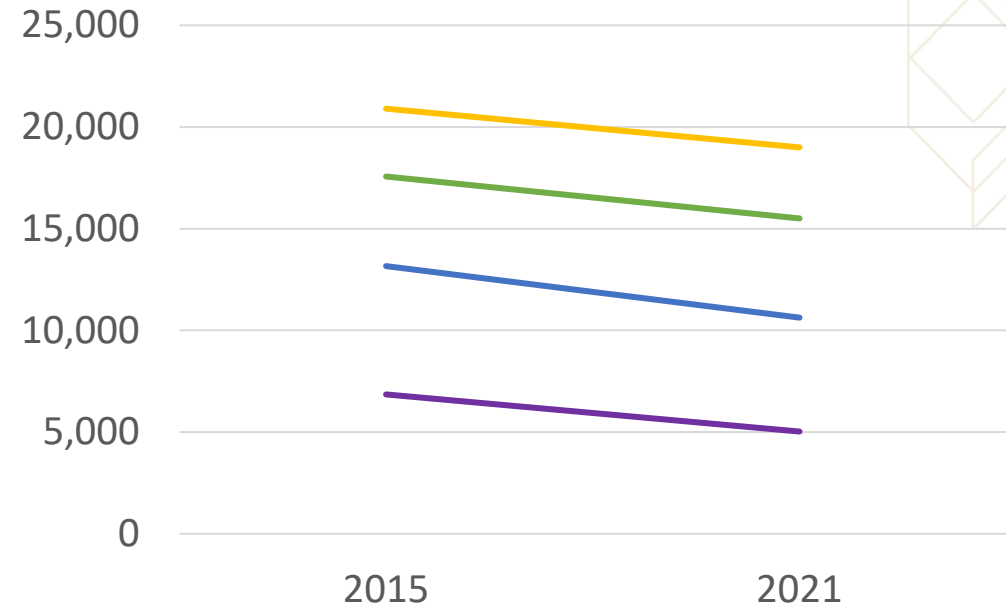
Industry Change by Number of Employees

Largest Industry Sector Category Increase Oakland – New Winners



- Transport/Material Moving
- Life/Physical/Social Science
- Computer and Mathematical
- Healthcare Practitioner/Technologists/Technicians

Largest Industry Category Decrease Oakland



- Personal Care/Service
- Office/Administrative Support
- Sales/Related
- Food Preparation/Serving Related

City of Oakland Real Estate Profile Mid Year 2021

- **Office Vacancy Rate now 13.4% vs 7.6% 2019 PreCOVID**
 - This difference in vacancy rate represents $\pm 4,227,104$ vacant square feet currently versus $\pm 2,313,348$ vacant Square Feet
 - We need $\pm 14,000$ new employees to fill that space
 - **Retail Vacancy Rate now 4.9% vs 3.2% 2019 PreCOVID**
 - This difference in vacancy rate represents $\pm 938,102$ vacant sf. versus $\pm 600,339$ vacant square feet: that represents over 300-350 potential new small businesses.
 - *Add this new cost to the parcel tax already in place on vacant ground floor space...*
 - **Industrial Vacancy Rate now 6.9% vs 5.4% 2019 PreCOVID**
 - This difference in vacancy rate represents $\pm 2,385,976$ vacant SF versus $\pm 1,946,548$ vacant square feet in 2019
 - That represents 80 to 120 possible new Warehouse and Manufacturing Companies employing over 2,500 to 3,000 people possibly coming to Oakland
- What is the City Doing to Attract More Business to come to Oakland???**

The Gross Receipt Tax Creates a Progressive Tax Structure Raising the Cost of Doing Business in Oakland

- The BLT proposal Supporters project \$27 - \$40 Million additional revenues for general fund
- But is this the right way to raise revenues if new construction and business are discouraged from coming to Oakland if the city raises the comparative costs to other cities and or metros?
- **What will the impacts be on Employment, Retaining and Attracting Large Employers?**
- **How does the City of Oakland attract new businesses to fill the increasing amount of commercial vacant space by raising direct business costs?**
- Retailers making \$250,000 to \$1 million in annual revenue would pay a 0.075% tax vs. 0.12 %
- Administrative Headquarters taxes would rise from 0.12% to between 0.525% and 1.34% a dramatic increase.
- **How is a HQ Administrative office defined? Why would a company not just shift its HQ designation to a nearby city?**
- **Some studies suggest that the direct relief would only average \pm \$100 per small business while 67 % of operating existing businesses will pay a much higher tax raising direct business costs??**
- **How will the tax be applied to a restaurant with three locations with no HQ and over 50 employees?**

What will be the impact on Commercial Real Estate?

- **Future of Office Space Post COVID/REMOTE Workplace Trends**
- **If Remote Work Trends settle at 30% for office space the amount of vacant office space increases**
- **Commercial Office Space has been Impacted so we should be incentivizing companies to come to Oakland.**
- **Just in Time Delivery , Online Purchases (point of origin for sales) will impact Small Business and Retail. There will be 25 to 35 % less retail brick and mortar locations over the next 10 years**
- **A 2019 study by economists such as Bartik and Geerolf show a job creation multiplier of 1.6 to 2 plus jobs for every large business/manufacturing company that moves in.**
- **The Converse is that the negative job multiplier is also 1.6 to 2 plus jobs lost for every major employer who leaves and relocates to a different city or metro**
- **Think of all the small businesses that are in the ecosystem of a large employer: restaurants, printers, stationary, florists, repair companies, personal services, maintenance companies.**
- ***Note Businesses that stay will merely pass on the taxes to all customers and employees as business usually does with all costs associated with doing business***
- ***Oakland needs to maintain and enact policies that retain a diverse business community and not follow the San Francisco***

The Impacts of Raising the Cost of Business

- City Officials should take into consideration the Cost of Business in Oakland
- vs San Francisco vs Fremont vs Tri Valley
- vs Emeryville vs Sacramento vs Austin, Texas
- *Expect some professional service firms such as financial, legal and accounting firms to relocate to neighboring Cities just a few miles away
- *Consider the Multiplier affect of a large business coming into the city vs The Negative Multiplier affect of a large employer leaving the city*
- Consider the Negative impact on new start up companies with high gross revenues but little or no profits till they mature
- Consider the Impact of Covid has had on Business and Commercial Real Estate

Recommendations

- Conduct a comprehensive survey of 100 plus small and large businesses in Oakland as to their views on this proposal
- What is Oakland doing to create a revenue model that attracts business in order to be competitive & make Oakland attractive & grows revenues?
- Create a two-tier gross receipts tax
 - a) One for businesses less than 100 employees
 - b) One for business of more than 100 employees at a reasonably higher rate, not a 300 to 500 % increase
- * Dedicate any net increase in general revenue funds to investment In Infrastructure & Work Force Education that will attract new business