An Analysis of Oakland's Proposed Business Tax Increase

Executive Summary

The City of Oakland is considering a number of alternative ballot measures to increase its business license tax through a gross receipts structure that levies progressively higher taxes on companies with higher levels of revenue. The proposals being considered, and the analyses presented to date regarding the impacts of these tax structures, do not adequately consider the likelihood that such steep and heavily concentrated tax increases will threaten Oakland's near-term economic recovery and its longer-term prospects for job growth.

The city's own analysis concludes that imposing the proposed tax increases of 100-760% on Oakland businesses will drive existing employers to reduce jobs in Oakland. The proposed tax increase also poses risks to the city's budget by undermining future economic growth from employers locating in Oakland and by discouraging in-person returns to Oakland offices. A reduction of Oakland office workers and less demand for office space will cause economic ripple effects. Small downtown businesses will have fewer customers that they rely on to sustain their businesses and a reduction in office development projects will produce a loss of construction jobs – both of which are critical to growing a wide range of quality jobs in Oakland.

The City Council and a Blue Ribbon Task Force set out to create a more progressive business tax structure that would increase city revenue to pay for services and provide tax relief to small businesses. The magnitude of the tax increases being proposed, however, is likely to result in negative consequences that will limit future economic growth while undermining existing and future city tax revenue sources. The proposed business tax changes in Oakland will:

- **Raise taxes on the city's largest employers by as much as 760%** -- The size of this tax increase is unprecedented, particularly in a time of economic uncertainty, and will create a major deterrent for large businesses to remain, expand, or move into Oakland. The proposal comes at a time when central business districts around the country are struggling to get office workers back from remote work and to support local small businesses dependent on office workers. Significant tax increases are counter-productive to supporting downtown recovery and long-term growth.
- **Double the city's reliance on employers whose taxes are increased 760% and add volatility to the city budget –** The proposed tax increases will almost double the city's reliance on the very taxpayers most adversely impacted by the proposed tax increases. Under the proposal, almost 25% of all business taxes will be paid by 52 companies. This makes the city more susceptible to significant tax revenue loss if large employers relocate or more of their workforce's work remotely. By contrast, San Francisco has

approximately eight times as many companies with over $50 million in revenue and each company's share of San Francisco's business tax revenue is less than half of what Oakland is proposing. Thus Oakland will have dramatically greater reliance on a much smaller number of companies. Oakland is already more reliant on business taxes as a percentage of its total budget compared to neighboring cities, and the proposed tax change magnifies the economic and fiscal risks.

- **Make Oakland's business tax the second highest in the region behind San Francisco's,** where recent tax increases have had a significant influence on corporate relocations out of San Francisco, some of which have resulted in business in-migration to Oakland and resulted in increases in Oakland's tax receipts. The proposed tax increase would erase this comparative advantage that has been helping to fuel Oakland's economic, job, and tax revenue growth. The city's own analysis projects that the proposed tax increase will cause companies to shed jobs. If new employers willing to pay San Francisco-level business taxes do not materialize immediately to backfill these job losses, post-pandemic job and revenue recovery is significantly threatened.

- **Jeopardize tax revenue gains achieved from growth achieved during the past decade** – The city auditor reports that Oakland's recent economic growth has led to a 50% increase in city tax revenues from $880 million in fiscal year 2012-13 to $1.318 billion in fiscal year 2019-20, in part fueled by the city's competitive business cost (including business taxes) compared to San Francisco. During this time, tax receipts have increased over $60 million per year from organic growth, or twice what the tax proposal seeks to raise. While revenues are down from the pandemic, proposed tax increases will inhibit future growth. Policies focused on increasing economic growth will be successful in increasing tax revenues, decreasing risk to the budget, broadening the tax base, and increasing job opportunities for Oakland residents and companies while maintaining Oakland's regional competitiveness. A study by Hausrath Economics Group shows that just two office projects in the planning pipeline would generate a combined $26.3 million annually in business and other taxes. If those office projects are not built due to lack of demand, there is a huge opportunity cost for the city.

- **Threaten Oakland's economy more severely when compared to San Francisco's recent business tax increases.** San Francisco is a world commerce center with a much larger and more diverse economic base, including almost 400 companies with over $50 million in gross receipts compared to only 52 companies in Oakland. Following recent San Francisco tax increases – which raised taxes by nearly 200% for the largest employers – dozens of companies left San Francisco, often citing a high cost of doing business. The Oakland proposal increases business taxes by a far greater amount than the policies enacted in San Francisco. Oakland's smaller economy cannot follow San Francisco's lead on taxes without suffering more severe consequences.

- **Drive out significantly more jobs than projected** – Adverse impacts from job losses will be greater on the very small businesses that the proposed legislation purports to support. The city's own analysis indicates a significant loss of jobs from these proposed tax increases. However, the city's analysis understates the job losses because it does not look at the secondary effects of job losses on other industries. Every job lost has a multiplier effect on demand for other jobs – usually small business jobs – through demand for food and beverage from restaurants, bars, grocery stores, hospitality, and numerous services including fitness, construction, laundry/cleaners, retail sales, deliveries, health and wellness, accounting, tax preparation, and meetings.

The proposals to raise Oakland's business tax ignore these serious long-term consequences to the city and will undermine hoped-for improvements in equity, small business support, and city revenue growth. The city's economy is currently in need of policies that will drive a faster recovery in employment to grow jobs in businesses of all sizes and grow the city's budget accordingly. The proposed increase in the business tax will only do the opposite, and it will be detrimental to the city's ability to attract and retain jobs for Oaklanders well into the future.

Introduction

In the decade following the Great Recession, the Bay Area produced job growth that was faster than nearly all other metropolitan areas in the U.S. Much of that growth, approximately 40%, came from employers in two office-based industries: professional services and information. However, the majority of that office growth was centered in San Francisco, San Jose, and along the Peninsula.

In Oakland, the city's office sector historically has been characterized by slow leasing activity, large number of small tenants, non-profits, and government agencies in central business district offices. It has only been over the last few years that Oakland has seen an influx of major private sector employers; the office building sales, renovations, and new construction that goes with it; and growth in the retail and service sector that supports the office economy. A 2021 City of Oakland Auditor report credited organic economic growth with raising city revenues overall in Oakland as well as funding additional city services:

"The City's revenue per resident related to governmental activities increased by 43 percent from FY 2012-13 to FY 2019-20, while expenses per resident related to governmental activities increased by 26 percent during the same period. The trend in revenues exceeding expenses is in part due to business and property tax growth and a strong local economy."

Numerous factors go into business location decisions for companies large and small – access to talent, proximity to customers, cost of real estate, regional amenities, and local taxes, just to name a few. In recent years, many cities across the Bay Area have enacted new or increased business taxes – some in the form of a tax on gross receipts, others in the form of payroll taxes. Increasing the cost of doing business in some the region's largest employment hubs has been a benefit to Oakland, which has received many corporate relocations and the jobs they bring.

Oakland's budget has grown significantly as a result of this regional shift in tenant locational decisions, which has brought new tenants to Oakland from San Francisco to lease renovated office spaces – thereby raising transfer tax, business license, and other tax revenues. The city's auditor reports that its total revenues from all sources increased from $880 million in fiscal year 2012-13 to $1.318 billion in fiscal year 2019-20.

Now, the Oakland City Council has proposed increases to the city's business tax for the city's largest employers. This analysis seeks to more clearly define the regional and economic contexts that could make any tax increase detrimental to Oakland's future economic prosperity by diminishing the demand for office space in Oakland, which would create a related reduction in demand for restaurants, retail, housing, and other synergistic business activities.

The proposed tax poses a real threat to Oakland's future growth by making the city less desirable for major anchor office tenants and the jobs they produce.

Overview of Oakland Business Tax Proposal

The City of Oakland's current business tax structure is a flat gross receipts tax (GRT) – meaning that companies of all sizes pay the same tax rate based on a percentage of their gross receipts depending on their industry classification. In 2020, the Oakland City Council proposed a progressive business tax structure, in which businesses with higher levels of gross receipts would pay a larger percentage tax. To gain greater input from local stakeholders, the city convened a Blue Ribbon Task Force, which has since issued its own recommendations for a progressive business tax structure that could land on the 2022 ballot.

The chart below highlights the proposed tax rate change recommendations made by the Blue Ribbon Task Force:

Sector	Current Law, Tax per $1,000	Task Force Proposal – Tax Rates by Bracket (Gross Receipts, mil $)						
		$0 - $1.0	$1 - $2.5	$2.5 - $10	$10 - $25	$25 - $50	$50 - $75	Over $75
Retail Sales	$1.20	$0.90	$1.08	$1.25	$1.50	$1.75	$2.00	$2.50
Auto Sales	$1.20	$1.20	$1.25	$1.50	$1.75	$2.00	$2.25	$2.75
Wholesale Sales	$1.20	$1.08	$1.14	$1.25	$1.50	$1.75	$2.00	$2.50
Manufacturing	$1.20	$0.90	$1.20	$2.25	$2.75	$3.00	$3.25	$4.80
Admin Headquarters	$1.20	$3.50	$4.50	$5.00	$5.50	$6.00	$6.50	$7.00
Media Firms	$1.20	$1.80	$2.80	$3.20	$3.80	$4.80	$5.00	$5.50
Miscellaneous	$1.20	$3.50	$4.50	$5.00	$5.50	$6.00	$6.50	$7.00
Grocers	$0.60	$0.45	$0.54	$1.00	$1.35	$1.50	$1.75	$2.00
Business & Pers. Svcs	$1.80	$1.62	$1.71	$3.25	$4.00	$5.00	$5.25	$6.00
Contractors	$1.80	$1.80	$2.75	$4.00	$4.50	$5.00	$5.50	$6.00
Hotel, Motel	$1.80	$1.62	$1.71	$3.80	$4.80	$5.00	$5.25	$5.50
Prof. & Semi-Prof. Svcs	$3.60	$3.24	$3.42	$5.00	$5.00	$5.50	$6.50	$7.50
Recreational & Entertainment	$4.50	$4.50	$4.70	$4.70	$4.70	$4.80	$5.00	$5.50
Utility Companies	$1.00	$4.00	$4.50	$5.00	$5.00	$5.00	$5.00	$5.00

Of note, sectors that are predominantly office-centric, such as administrative headquarters, media, and professional and semi-professional services, experience the largest tax increases under the proposed structure. Administrative headquarters in particular would experience a significant tax bump, as the Blue Ribbon Task Force proposal would create a new administrative headquarters tax for large national firms with administrative functions in Oakland. This tax would apply in lieu of the regular payroll-based administrative headquarters tax for firms with more than 1,000 employees nationally and $1 billion in revenue. The tax rate would be $15 per $1,000 of Oakland based payroll; on average, administrative headquarters firms would see a tax increase of more than 760%.

The Economics of Raising Business Taxes in Oakland

The City Council and Blue Ribbon Task Force set out to create a more progressive business tax structure that would help small businesses through tax relief and that would increase city revenue to pay for needed services. These proposals would not yield the small business benefits they promise because they diminish the health of the overall city economy, cut jobs, choke off future economic growth and construction, and undermine existing and future city revenue sources. The points of analyses that follow detail reasons why the change would be deleterious to the city's economy.

1. Proposed Business Tax Structure Limits Diversity of City's Tax Base

From a fiscal perspective, the proposed changes in business tax structure would make Oakland much more reliant on just a few business taxpayers. Under the current tax structure, firms with over $50 million in annual gross receipts account for 12.5% of the city's total business tax revenues. According to the city's analysis, the Blue Ribbon Task Force proposal would raise an additional $32.7 million annually, of which, $21.4 million would come from firms with over $50 million in taxable gross receipts.

The table below shows Bay Area Council Economic Institute projections for how the business tax will be constituted in fiscal year 2023-2024 assuming constant rates of revenue growth. Under the Blue Ribbon Task Force proposal, companies with over $50 million in annual gross receipts will account for nearly one-quarter of the city's future business tax revenue.

Oakland Gross Receipts Tax Future Model

	2019-2020	2020-2021	2021-2022	2022-2023	2023-2024
Total Gross Receipts Tax Current Structure	$ 91.1	$ 97.3	$ 103.9	$ 110.9	$ 118.4
Added Gross Receipts Tax Progressive Structure	$ -	$ -	$ -	$ -	$ 32.7
Firms w/ >$50mm GR	***$ 11.4***	***$ 12.2***	***$ 13.0***	***$ 13.9***	***$ 36.2***
Firms w/ >$50mm GR %	***12.5%***	***12.5%***	***12.5%***	***12.5%***	***24.0%***
Fee and Penalties	$ 6.9	$ 6.9	$ 6.9	$ 6.9	$ 6.9
Total Business Tax and Fee Receipts	$ 98.0	$ 104.2	$ 110.8	$ 117.8	$ 158.0

Analysis: Bay Area Council Economic Institute

According to city analysis, there are 52 businesses operating in Oakland that fall into this category out of 53,000 businesses that reported taxable activity during 2020. City analysis also shows that the top 10 payers of the progressive business tax would contribute roughly 20% of the expected revenue, compared to 11.3% currently. While tax payments by company are not known, Oakland's top 10 for-profit employers are likely to see significantly higher future taxes under the proposed business tax structure. According to the *San Francisco Business Times*, these companies include:

- Pacific Gas & Electric (which is in the process of relocating from San Francisco)
- Southwest Airlines
- UPS
- Allied Universal
- FedEx
- Credit Karma (which will open a new Oakland headquarters in 2022)
- Safeway
- Clorox
- Waste Management Inc.
- Marqeta

It should also be noted that the City of Oakland's overall general fund revenues are more concentrated in business taxes than other large Bay Area cities. In fiscal year 2019-2020, 15.15% of Oakland's general fund revenue was derived from business taxes. That same figure was 9.08% for San Francisco and 5.45% for San Jose during fiscal year 2019-2020 (San Francisco has since passed an increase in business taxes that has moved its percentage to 13%). Thus, any major shift in business tax revenue would also have large repercussions for the city's overall budget.

2. Higher Taxes Will Push More Companies to Locate Jobs Elsewhere

This increased reliance on the largest companies for tax revenue poses a major issue as the companies experiencing the largest tax increases are also the most mobile. The last two years have produced a stream of headquarters relocations and office consolidations across California and in the Bay Area. The administrative functions of headquartered companies are particularly mobile, as the talent to fill those roles can be readily found in many geographies. Recent research by Stanford's Hoover Institution, summarized to the right, shows corporate relocations out of the state accelerated during the first half of 2021. That research also found that Alameda County lost 20 headquartered companies between 2018 and 2021. Bay Area Council conversations with major employers also indicate that many Bay Area companies are making locational decisions based on lowering their overall occupancy costs, including locating to jurisdictions with lower overall tax rates.

Table 1: California Headquarters Losses from Jan. 1, 2018 through June 30, 2021

Year	Total Events	Monthly Average
1/1/2021 to 6/30/2021	75	12.5
2020	62	5.2
2019	78	6.5
2018	57	4.8
Total All Years	272	6.5

Understated because not all headquarters relocations become public knowledge, particularly among smaller companies.

Oakland-based companies may be more susceptible to relocation as the city has a concentration of relatively low-margin businesses, such as consumer products and utilities. Because their profitability is more sensitive to small changes in costs, they are the most likely to consider relocation based on geographic cost differences.

Oakland has not been immune to corporate movement. Pandora, one of the city's highest-profile employers, has been rapidly expanding its presence in Atlanta. Pandora explicitly cited the cost of doing business as its key decision factor. With office-based sectors the targets for the largest proposed increases in business tax in Oakland, the city would become more susceptible to corporate flight. Remote work also creates an added wrinkle in business location decisions, as more Oakland-based companies may look to hire remotely in order to apportion a lesser amount of gross receipts to Oakland operations.

In addition to competition from outside of the state itself, other Bay Area geographies would become more competitive relative to Oakland if the envisioned business tax structure is enacted. The Blue Ribbon Task Force proposal places Oakland's highest tax rates for office-based businesses (i.e., professional services) just below the tax rates in San Francisco. This move would effectively eliminate one of Oakland's key advantages in attracting jobs from San Francisco. Oakland has previously been successful in bringing in jobs from San Francisco. PG&E, Twitter, Blue Cross, Good Eggs, Square, Delta Dental, Better Mortgage, and Credit Karma have recently made significant moves across the bay to Oakland. Multiple San Francisco companies have also announced moves or expansions to other states – including Charles Schwab, Digital Realty, and McKesson – where they can hire for middle-wage positions at lower overall costs.

The move to push Oakland's business tax rates toward San Francisco levels also brings with it challenges as the two economies are fundamentally different. San Francisco voters recently approved multiple business tax increases. The first, Proposition C, was passed in 2018 to fund homeless services. It targeted companies with more than $50 million in gross receipts by more than doubling their gross receipts tax rate. At the time, the San Francisco Controller estimated that 67% of all future business tax revenues would come from these large businesses.

Proposition F's passage in San Francisco in 2020 raised taxes further in certain sectors. In particular, the Information sector experienced the largest tax increases. Prior to any tax changes, the largest companies in the Information sector paid $4.75 in business taxes per $1,000 in gross receipts. After the passage of Proposition F, the top-tier rate will increase to $8.79 per $1,000 in gross receipts by 2024. By tacking on the gross receipts tax passed via Proposition C, the largest Information sector companies in San Francisco will pay a total tax of $13.79 per $1,000 in gross receipts – an increase of nearly 200% compared to prior rates.

Oakland's proposed business tax changes would produce far larger percentage tax increases – up to 760% for the city's largest employers – which may result in even more corporate movement than experienced in San Francisco. While San Francisco could absorb corporate relocations as it has nearly 400 companies with gross receipts exceeding $50 million, Oakland has far fewer businesses with over $50 million in gross receipts. This means that each large Oakland company would play a more prevalent role in the Oakland business tax structure as compared to in San Francisco.

City analyses have also provided comparisons of business tax rates to nearby cities, such as Richmond, Berkeley, and Emeryville. However, these comparisons provide little value as these cities are home to few large, office-based employers and they are producing very little new office construction. Better comparisons would be to cities where Oakland-based employers could actually move or expand to, such as San Jose, Walnut Creek, Pleasanton, San Ramon, and Mountain View. The following table shows that business tax structures in those cities are far lower than what is proposed in Oakland:

Bay Area City Business Tax Structures

City	Business Tax Type	Description
Mountain View	Base rate + variable tax based on headcount	1 Employee: $75 2-25 Employees: $75 + $5/employee for each employee over 1 26-50 Employees: $195 + $10/employee for each employee over 25 51-500 Employees: $445 + $75/employee for each employee over 50 employees 501-1,000 Employees: $34,195 + $100/employee for each employee over 500 employees 1,001-5,000 Employees: $84,195 + $125/employee for each employee over 1,000 5,001 Employees and up: $584,195 + $150/employee for each employee over 5,000
Pleasanton	GRT	Fees up to $75 up to $250K annual revenue, above that = $0.30 per $1,000.
San Jose	Primarily number of employees, some exceptions	Base tax of $203.85, most categories then taxed per employee starting at 3rd employee, progressive marginal tax (e.g., $32.70 per employee for 3-35 employees, up to $65.45 for 500+). All capped at $163,745.
San Ramon	Flat rate	Annual fee of $204 for companies with more than 50 employees.
Walnut Creek	Most businesses may choose GRT or a flat rate + headcount	GRT of $2.30 first $10K then decreasing rate up to $0.02 for revenues > $10M; OR flat $416 for 1 owner/partner + Add'l partners $139 then $28 per employee up to 300 then $14 for above 300.

Oakland's proposed business tax changes would move the city's tax rates for medium- and large-sized businesses well above the rates in many of these cities. Only Mountain View can be viewed as a city with comparably high rates to Oakland's proposed structure, though the comparison is difficult as Mountain View bases its taxes on headcount rather than gross receipts. Oakland's proposed rates would be particularly high for administrative headquarters compared to other cities – as of 2019, the city classified 110 businesses as administrative headquarters.

3. *Oakland's Economy Has Struggled to Recover from COVID-19, and Taxing Jobs Only Slows the Recovery*

Lastly, economic recovery in the East Bay is severely lagging, and the city's own analysis shows that the proposed business tax would be a net negative for jobs. While data for individual municipalities does not exist, the Oakland Metropolitan Division (which includes both Alameda and Contra Costa counties) can provide a proxy for Oakland's economic recovery. As shown in the chart below, the East Bay counties combined have lost more than 80,000 jobs compared to pre-pandemic employment levels, and the 58.3% recovery rate is slowest in the Bay Area region.

The slow recovery has also had an impact on Oakland's fiscal situation. A 2021 report from the City Auditor noted that city revenues fell significantly during the pandemic, including a business license tax decline of 25% from 2020 to 2021.

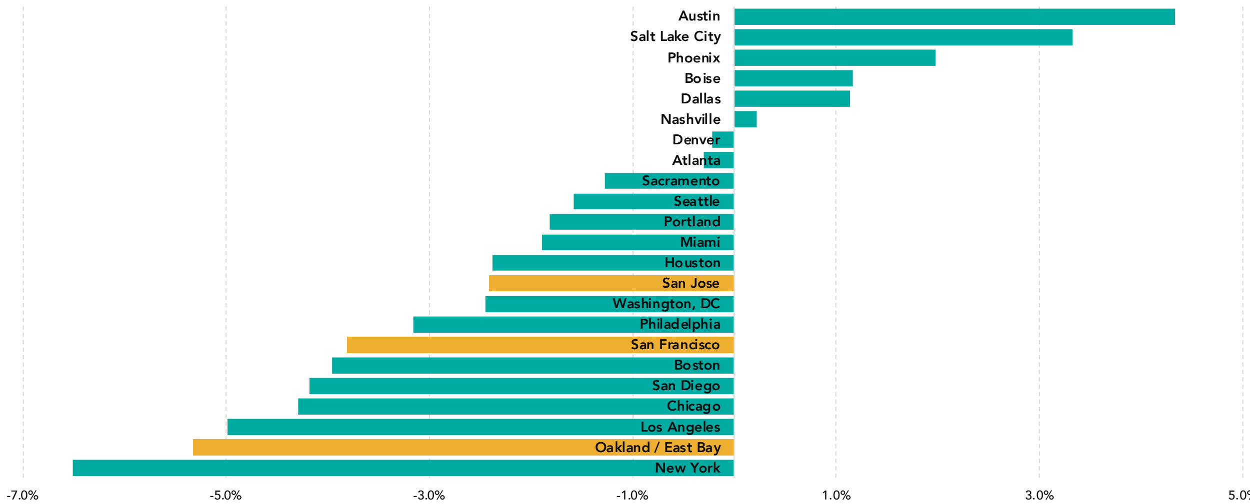
Metro Area Job Trends (Thousands)

Metro Area	Feb 20	Apr 20	Jan 21	Dec 21	% Recovered
Marin	117.1	92.4	104.4	110.5	73.3%
Santa Clara / San Benito	1,166.7	1,013.1	1,059.3	1,124.7	72.7%
Napa	74.8	57.3	64.5	68.4	63.4%
Sonoma	211.2	173.6	183.4	197.4	63.3%
Solano	144.3	122.8	131.4	136.3	62.8%
San Francisco / San Mateo	1,198.2	1,010.7	1,037.5	1,125.4	61.2%
Alameda / Contra Costa	1,201.1	1,004.9	1,082.6	1,119.3	58.3%
Bay Area	**4,113.4**	**3,474.8**	**3,663.1**	**3,882.0**	**63.8%**

Source: State of California Employment Development Department (Seasonally Adjusted).
Analysis: Stephen Levy, Director of the Center for Continuing Study of the California Economy; Bay Area Council Economic Institute

When viewed nationally, the East Bay's slow recovery is even more worrisome, as nearly all other metropolitan areas in the U.S. are recovering jobs at a faster rate or growing their employment base above pre-pandemic levels. When taking into account all job growth excluding the leisure and hospitality industry – which has sustained the greatest job losses in the Bay Area – the nine-county region's metropolitan areas are some of the worst performing locales in the country. In particular, the East Bay finds itself near the bottom nationally in employment recovery.

Employment Change by Metro Area: February 2020 to November 2021
(Non-farm Employment, minus Leisure & Hospitality)



Source: U.S. Bureau of Labor Statistics
Analysis: Bay Area Council Economic Institute
Note: San Francisco data is for the Metropolitan District, which includes San Mateo County. Oakland data includes both Alameda and Contra Costa counties. All other data points are for Metropolitan Statistical Areas.

The envisioned business tax will make companies less likely to place jobs in downtown Oakland in the future – where new jobs and opportunity are needed most. While the business tax structure does not base tax liabilities off headcount, companies that conduct business across many jurisdictions apportion their gross receipts based partially on the number of employees in Oakland. This means an increased business tax is effectively a tax on job creation within large companies at a time when job recovery should be at a premium.

The business tax would also discourage Oakland employers from fully re-occupying Oakland offices, which would reduce the tax revenue they generate, reduce foot traffic, and diminish the number of customers for Oakland-based service companies. Many Bay Area employers are moving to hybrid or fully remote work models. Just as San Francisco companies have relocated or downsized to lower their operating costs, existing Oakland employers can shift employees to other locations or make certain functions fully remote to minimize their tax impact while maintaining an Oakland footprint. This would have the effect of reducing the gross receipts generated by the Oakland workforce.

The cost of not growing the downtown Oakland workforce will also show itself in the restaurants, gyms, florists, barber shops, and dry cleaners that depend on office workers for their revenue. By adjusting the tax structure to disincentive additional office workers, the city is also negatively impacting the small businesses that are such a critical part of downtown's vibrancy.

Conclusion

Urban economies are currently in a state of flux, and Oakland is no different. As remote work changes the way companies think about their real estate footprints and worker attraction, competition for jobs amongst cities will grow fiercer. The geographies that prove most business friendly from a talent attraction and cost perspective will produce the greatest economic opportunity for their residents. Locations that look to add taxes will continue to miss opportunities for new employment growth – limiting opportunities in not only the office sector, but the construction sector that builds new commercial space and the service sector that depends on a thriving central business district. Oakland's proposed business tax changes will further jeopardize the city's near-term economic recovery and create long-term job attraction disadvantages relative to competing cities in the region and outside of it.

By threatening future city revenue and small business growth, the city's tax proposals fail to deliver on their promise of better equity and small business outcomes and jeopardize the economic health of the city.