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OAKLAND

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AGENDA REPORT

TO: Sabrina B. Landreth
City Administrator

FROM: Katano Kasaine
Director of Finance

SUBJECT: Special Tax on Vacant Properties to
Fund Affordable Housing and Support
Programs for Homeless People

DATE: May 2, 2018

City Administrator Approval

Date:

5/11/18

RECOMMENDATION

Staff Recommends That The City Council Consider Adoption Of A Resolution On The City Council's Own Motion Submitting To The Voters At The Statewide General Election On November 6, 2018, A Proposed Ordinance To Adopt A Special Parcel Tax On Vacant Properties To Fund Solutions For Homelessness, Illegal Dumping Remediation, And Related Programs; And Directing The City Clerk To Take Any And All Actions Necessary Under Law To Prepare For And Conduct The November 6, 2018 Statewide General Election.

EXECUTIVE SUMMARY

The purpose of this report is to provide the City Council with a high-level analysis, including the implementation and the administration, of the proposed special tax introduced by Councilmembers Kaplan, Kalb and Guillen.

BACKGROUND / LEGISLATIVE HISTORY

On April 24, 2018, staff requested continuation of the agendized item, known as the Proposed Ballot Measure to Tax Vacant Properties, placed on the Finance and Management and Community and Economic Development Committee meetings. The request was made to allow additional time for staff to analyze certain proposed tax policies and to create a framework for the implementation and the administration of the special tax should the voters approve the ballot measure allowing the City to impose no sooner than the ad valorem property tax bill for Fiscal Year (FY) 2020-21 for parcels that were vacant in calendar year 2019.

ANALYSIS AND POLICY ALTERNATIVES

On Thursday May 3, 2018, staff was provided an updated version of the proposed ordinance. The analysis is based upon this most recent version.

Item _____
F&MC and CED Committee
May 22, 2018

Tax Rates:

The current proposed tax rates, as outlined in Section 4.56.30.E of the May 3, 2018 version, are as follow:

Property Type	Annual Tax Rate
Parcel of Land, whether undeveloped, residential or non-residential	\$6,000 per parcel
A condominium or townhouse unit under separate ownership	\$3,000 per vacant residential unit

Vacancy:

A property would be considered vacant and subject to the tax under the following circumstances:

- A parcel of land, whether undeveloped, residential, or non-residential, which is in use less than fifty (50) days during a calendar year.
- A condominium or townhouse unit under separate ownership, which is in use less than fifty (50) days during a calendar year.
- For multi-unit parcels, (other than condominium or townhouse unit under separate ownership) the parcel is not vacant if any unit on it is not vacant.

Tax Exemptions:

The latest version of the proposed ballot measure specifies 13 different types of exemptions, including two provisions that would enable additional exemptions for the special tax, either by the procedures and guidelines enacted by the administration or by an ordinance adopted by the City Council.

Staff researched a similar program in Vancouver British Columbia and found that seven months following its Empty Homes Tax that became effective in January 2017, the City of Vancouver, British Columbia, Canada, received over 5,000 interactions¹ with its property owners, 21 percent of which involved requests for exemptions. Requests such as property owners receiving approved building permits but delaying or failing to carry out the actual work due to a variety of reasons, landowner leasing the right to develop properties to another party, contiguous property/parcel, second homes, etc. are examples of the type of exemption requests prevalent in Vancouver that staff will need to devote time and efforts to promulgate rules and regulations to resolve in Oakland should this be adopted.

However, rules and regulations can only be rendered if the requests are not considered subjective or speculative. The proposed exemptions outlined under subsections b, c, and d of Section 4.56.030.l of the proposed ordinance contain phrases, such as "financial hardship due to specific factual circumstances," "demonstrable hardship that is not financial," and "exceptional specific circumstances" could be considered subjective if not clearly defined or speculative as in the duration of the hardship or the circumstances that one may or may not consider as hardship.

In summary, the exemption provisions need to be narrow and/or clearly defined to allow for the

¹ <http://council.vancouver.ca/20170628/documents/pspc6.pdf>

tax to be administered fairly and consistency.

Timeline for Implementation of the Special Tax:

Staff is concerned with the aggressive timetable required for the implementation of the tax and appreciates that the authors amended the language to read, "The special tax shall first be imposed no sooner than the ad valorem property tax bill for FY 2020-21 for parcels that were vacant in calendar year 2019." However, Staff is requesting a year to implement the first assessment of the tax, effectively delaying implementation of the tax until calendar 2020.

The two biggest areas of concern regarding the timeline for implementation are:

- *Staffing capacity:* There are approximately 112,025 real property parcels in the City. Initially staff will be able to remove approximately 28,322 parcels that are registered as either residential or commercial rental properties, another approximately 53,726 residential property owners who claim the homeowner's exemption and approximately 3,781 which are government or exempt from property taxes, leaving a total number of 26,196 that will require noticing.

To ensure real property parcel owners are fully informed of the new tax law and the potential tax being assessed if the property/parcel becomes vacant for an aggregate 50 days or more in the year, notice will need to be sent to all property/parcel owners within the first 50 days following the date the special tax becomes effective. Although the notice will have sufficient information, including FAQs, timeline, requirements, etc., to inform the property owners and that owners will not need to respond, the notice will inevitably generate inquiries, either by calling, emailing or visiting the City offices, by those who received the notices. Staggering the mailing of notices will help minimize the surge in property owners seeking assistance.

- *Information technology infrastructure:* A web/public portal connected to the Revenue Management Bureau's existing software will need to be developed to allow the property/parcel owners to self-declare the status of the property each year, file or apply for an exemption on-line, and upload required supporting documentation, and for the Finance Department to carry out the administrative and financial work related to the tax program. The development of such portal, along with configuring and testing, will take at least 12-18 months to complete and deploy.

In addition to the biggest areas of concern, staff anticipates a number of activities that need to occur during the early months of 2019, including creating forms and notices, coordinating with the mailing vendors, the County of Alameda, setting up phone line, holding informational outreach sessions, and staffing for the administration of the tax program, etc.

Based on the foregoing, staff recommends that the City Council could approve the proposed ballot measure to seek voters' approval on the November 6, 2018 Statewide General Election, but set calendar 2020 as the first year in which the tax on vacant or not "in use" property/parcel shall take effect. The tax would then be imposed on the ad valorem property tax bill for FY 2021-22 for the parcels that become vacant or not "in use" in calendar year 2020. The proposed delay of the effective date will not only allow City staff to prepare for the implementation and management of the tax but also give property/parcel owners time to plan for the use of their properties/parcels prior to potentially being taxed for leaving them vacant or not

being "in use."

Administration of the Special Tax

Based upon the experience in Vancouver, British Columbia, if the City notices 26,196 property owners and 21% apply for exemptions this would result in City staff processing 5,500 requests for exemptions annually. However, based upon the non-compliant rental project performed in 2015, staff is aware that there may be a large number of homeowners who reside in their property but do not claim the homeowner's exemption. Thus, it is anticipated that the volume of exemption request could be significantly higher than what was experienced by the City of Vancouver, British Columbia. For the ongoing administration of the special tax, staffing capacity will need to be identified and funded in order to carry out the tasks and responsibilities, which are preliminary identified as follows:

- *Policy Coordination, Implementation and Sustainment:* This is a high-level oversight on the part of the Revenue and Tax Administrator. The day-to-day management of the tax program, staff, and workload.
- *Customer Service:* The volume of inquiries via phone calls and emails are expected to be high during implementation and recede as property owners adapt to the new tax. Some existing resources can be used to support the initial implementation. However, at least two Revenue Assistants will be needed to maintain the program.
- *Enforcement, Audit, and Investigation:* At least one Tax Auditor II will be needed to ensure the tax is being carried out and enforced regularly and consistently, including the coordination of placing the assessments on the tax roll.

Staff estimates that the minimum number of positions needed to carry out the tasks and responsibility identified above is 3 FTE, for a total recurring annual cost of about \$452,000 including fringe, overhead, and O&M.

FISCAL IMPACT

Estimated Revenue

It is difficult to estimate the amount of revenue that could be generated because there are many unknown factors, such as the number of parcels that could ultimately be exempted, the number of taxable residential and nonresidential parcels, excluding vacant parcels, as in bare land. Focusing solely on the 4,403 vacant parcels in Oakland according to data received from Alameda County, and assuming many will qualify for exemptions, staff estimates that the annual revenue could be in the range of \$6 to \$10.5 million.

Vacant Parcels: 4,400			
	25%	30%	40%
Number of Taxable Parcels	1,100	1,320	1,760
Estimated Revenue	\$ 6,600,000	\$ 7,920,000	\$ 10,560,000

Estimated One-Time and Recurring Costs

For the one-time cost associated with the *Implementation of the Special Tax*, including costs for the development of a web/public portal and ancillary costs, such as for the document production and mailing services, staff estimates that the minimum cost is about \$100,000. For the recurring costs associated with the on-going *Administration of the Special Tax*, staff estimates that the minimum number of positions needed to carry out the tasks and responsibility identified above is 3 FTE for a total recurring annual cost of about \$452,000, including fringe, overhead costs, and O&M.

Start-up, staffing, and ancillary costs will need to be included in the adjusted FY 2018-19 and added to the Bi-Annual Budget if the ballot measures passes, and funded from the Vacant Parcel Tax Fund.

PUBLIC OUTREACH / INTEREST

Public outreach for this report was not deemed necessary beyond the standard posting of the Council Agenda.

COORDINATION

Preparation of this report has been coordinated with the Office of City Attorney.

SUSTAINABLE OPPORTUNITIES

Economic: Vacant properties, either by choice of or neglected by their owners, leave the City to prevent them from becoming crime magnets, fire hazards or illegal dumping grounds. The special tax provides a dedicated source of revenue to be used for housing and other homeless programs and services with minimal impact to the General Purpose Fund.

Environmental: The special tax will help maintain neighborhoods free from vacant and abandoned properties that could becoming public nuisances that affect health and the environment.

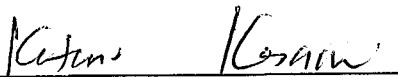
Social Equity: Vacant properties depress value across an entire neighborhood and generate little or no tax revenues themselves. The special tax offers a source of funding to help with the cleanup and therefore increases the property values.

ACTION REQUESTED OF THE CITY COUNCIL

Consider adoption of a resolution on the City Council's own motion submitting to the voters at the statewide general election on November 6, 2018, a proposed ordinance to adopt a special parcel tax on vacant properties to fund solutions for homelessness, illegal dumping remediation, and related programs; and directing the City Clerk to take any and all actions necessary under law to prepare for and conduct the November 6, 2018 statewide general election.

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

Respectfully submitted,



Katano Kasaine
Director of Finance
Finance Department

Prepared by:
Margaret O'Brien
Revenue and Tax Administrator
Revenue Management Bureau