

## **Executive summary**

In this report, I calculate the dollar impact of five budget proposals on five hypothetical families. The purpose of this analysis is to help community organizations in Oakland develop a basic framework for thinking about equity as they review Oakland's budget options in the coming years. In addition, this analysis seeks to provide an analytical foundation that will help these organizations measure the impact of budget proposals on the families they serve.

Because of time and data constraints, my calculations are only a rough first attempt to measure the impact of these five proposals. There are many areas where I was forced to make educated estimates. Further studies are needed to confirm whether my calculations accurately approximate the real impact of these proposals on families in Oakland.

The five budget proposals that I consider are:

- A. Point five percent increase in the sales tax
- B. Flat parcel tax: \$80 for single-unit structures or \$56.44 per unit for multiple-unit structures
- C. Progressive parcel tax based proposal B, with a higher rate for commercial buildings
- D. Point five percent increase in the transfer tax for properties over \$1 million
- E. Fifteen percent across-the-board cut in services

My analysis measures the above proposals on the following five hypothetical family types. I purposefully selected the family types based on relevant characteristics of Oakland's primary demographic groups.

Type 1: A single African-American female with three children; renters in a multi-unit building; median income of \$18,200

Type 2: An Asian couple with three children and a grandmother; renters in a multi-unit building; median income of \$46,300

Type 3: An older African-American couple; owners of a single-family home; median income of \$51,400

Type 4: A White couple with two children; owners of a single-family home; median income of \$105,000

Type 5: An older White couple; owners of a single-family home and landlords of two other parcels; median income of \$162,000

The following two tables display my findings. The first shows the estimated dollar impact of each proposal on the families, and the second shows the estimated dollar impact as a percent of each family's income.

#### Estimated dollar impact of each proposal

Family type	0.5% increase in sales tax <sup>a</sup>	Flat parcel tax	Progressive parcel tax by use <sup>c</sup>	0.5% increase in the transfer tax for properties over \$1 million	15% cut in services <sup>e</sup>
Type 1	\$ 15.55	\$ 27.33 <sup>b</sup>	\$ 27.33	\$ 0	\$ 382.00
Type 2	\$ 32.75	\$ 27.33 <sup>b</sup>	\$ 27.33	\$ 0	\$ 396.00
Type 3	\$ 43.02	\$ 80.00	\$ 80.00	\$ 0	\$ 368.00
Type 4	\$ 79.05	\$ 80.00	\$ 80.00	\$ 0	\$ 340.00
Type 5	\$ 79.05	\$ 175.63	\$ 298.54	5.9 % of \$ 5,625 <sup>d</sup>	\$ 340.00
Money generated	\$ 16 million	\$ 11 million	\$ 14.3 million	\$ 1 million	\$ 55.8 million

<sup>a</sup> The range in this column is most likely greater than it appears because of differences in family size and how much each family tends to shop within the city of Oakland.

<sup>b</sup> These families qualify for section 8 housing. If they were part of this program, their dollar impact would instead be \$0.

<sup>c</sup> While this tax is more progressive than the flat tax for these family types, there is not sufficient evidence to conclude that higher income families in Oakland own a greater percent of commercial property.

<sup>d</sup> The transfer tax only impacts families that are selling or buying homes. I estimate that a family that owns its home has a 5.9 % chance annually of selling.

<sup>e</sup> These are not real dollar losses. They are the family's estimated share of the cost of loss services.

### Estimated dollar impact as a percent of family income of each proposal

Family type	0.5% increase in sales tax <sup>a</sup>	Flat parcel tax	Progressive parcel tax by use <sup>c</sup>	0.5% increase in the transfer tax for properties over \$1 million	15% cut in services <sup>e</sup>
Type 1	0.09 %	0.15 % <sup>b</sup>	0.15 %	0 %	2.10 %
Type 2	0.07 %	0.06 % <sup>b</sup>	0.06 %	0 %	0.86 %
Type 3	0.08 %	0.16 %	0.16 %	0 %	0.72 %
Type 4	0.08 %	0.08 %	0.08 %	0 %	0.32 %
Type 5	0.05 %	0.11 %	0.18 %	5.9 % of 3 % <sup>d</sup>	0.21 %
Money generated	\$ 16 million	\$ 11 million	\$ 14.3 million	\$ 1 million	\$ 55.8 million

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We can draw several conclusions from the above tables. Remember that all of the calculations in the tables are only rough first attempts. Therefore, all conclusions should be considered possibilities that need to be tested further, rather than facts.

We see that all but one of the proposals are at least somewhat regressive, though the impacts of the parcel taxes jump around instead of decreasing steadily between family type one and five. By “regressive” I mean that the lower the family's income is, the higher the tax rate is as a percentage of its income. The progressive parcel tax does achieve its objective of taxing the family with the highest income at the highest rate. However, this proposal (proposal D) is the most contrived. There is not sufficient evidence to conclude that raising parcel tax rates on commercial properties would result in real higher-income Oakland families paying more than lower-income families.

The flat parcel tax has the most negative impact on very low income renters and low to median income homeowners. The negative impact of a parcel tax will be greater in certain zip codes (predominately in East Oakland) that have more single unit structures

and higher homeownership rates. Families in these areas may be more resistant to a parcel tax because they might perceive it as unfair.

Interestingly, for all families but family type two, the flat parcel tax has more of a negative impact than the sales tax even though the sales tax generates more overall revenue. I think that this might be because families pay for the majority of a parcel tax, while other sectors like business and industry pay a percentage of the sales tax.

According to the City's financial statements, business and industry account for around 15 percent of all taxable sales in Oakland, and building and construction account for 10 percent (City of Oakland, 2010a). Because of this, it is possible that many families may prefer an increased sales tax to a parcel tax. However, this report did not consider the negative impact of raising the City's sales tax on the local economy. Families that work or own businesses in Oakland may be resistant to raise the sales tax for this reason.

Not surprisingly, the 0.5 percent increase in the transfer tax is the most progressive proposal. By "progressive," I mean that the proposal taxes the family with the highest income at the highest rate. However, this proposal generates the least amount of money by far.

On the other end of the spectrum, the 15 percent cut in services is notably the most regressive proposals, though it generates three and a half times more money than any other proposal. This may suggest that lower-income families would be willing to pay additional taxes in order to protect certain services from being cut, even though these taxes impact them disproportionately.

To put this in policy terms, Cities have very few tools for collecting taxes on only the highest income families. These tools, like an increased transfer tax for properties over \$1 million, tend to have a narrow reach that only affects a small number of wealthy families. The City cannot close a large budget deficit with these tools alone. In order to close the budget deficit, lower income families will necessarily be disproportionately impacted. This is because service cuts are regressive, and the primary revenue generating tools available to Cities are also regressive - namely property, sale and utility taxes.