City of Oakland
Budget Advisory Commission

Action Calendar
Wednesday, October 22, 2025

To: Honorable Members of the Oakland City Council
From: Budget Advisory Commission
Subject: Recommendation to Amend the Consolidated Fiscal Policy to Redefine "Excess" Real Estate Transfer Tax Revenues

Recommendation

Refer to the Finance and Management Committee to develop an ordinance amending Part C, Section 1 of the Consolidated Fiscal Policy (CFP) (Ordinance 13487 C.M.S.) to redefine "excess" Real Estate Transfer Tax (RETT) revenues as all projected RETT above $70 million in FY 2025 dollars, indexed annually to local CPI, in lieu of the current "15% of GPF revenues" test. Consider periodic updates to re-benchmark this threshold only after each economic downturns resulting in a substantial fall in RETT revenues.

Background and Overview

Oakland levies a progressively tiered RETT. Set forth in OMC Chapter 4.20 and approved by the voters in November 2018, the transfer tax is 1% for properties sold for $300,000 or less; 1.5% for properties between $300,001 and $2,000,000; 1.75% for properties between $2,000,001 and $5,000,000; and 2.5% for properties valued more than $5,000,001. In practice, this primarily works as a differentiated tax on different types of properties: single-family homes are largely subject to the 1.5% tax rate, small multi-unit buildings are generally subject to the 1.75% rate, and large apartment and commercial buildings are subject to the 2.5% rate.

While most RETT revenue is generated by single-family homes, up to 40% is derived from large apartment and commercial buildings, as shown in the tables below (drawn from the FY 19-20 Q4 Revenue and Expenses Report and the FY 23-24 Q4 Revenue and Expenses Report).

FY 2019-20 Sale price band	Statutory City rate	FY 2019-20 sales ($ M)	City RETT ($ M)	Share of FY 19-20 RETT
≤ $300k	1%	$53.7	$0.54	0.60%
300k–2m	1.5%	$3,092.10	$46.38	51.30%

2–5m	1.75%	$405.1	$7.09	7.80%
5m+	2.5%	$1,454.4	$36.36	40.20%
Total ($ M)		**$5,005.20**	**$90.37**	**100%**

FY 2023-24 Sale price band	Statutory City rate	FY 2023-24 sales ($ M)	City RETT ($ M)	Share of FY 23-24 RETT
≤ $300k	1%	$39.28	$0.39	0.7%
300k–2m	1.5%	$2,597.53	$38.96	66.9%
2–5m	1.75%	$474.03	$8.30	14.3%
5m+	2.5%	$423.30	$10.59	18.2%
Total ($ M)		**$3,534.14**	**$58.23**	**100%**

RETT revenues are tightly linked to sales of large apartment and commercial buildings: between FY 19-20 and FY 23-24, the RETT declined by $32.14 million. $25.77 million, or 80%, of this decline resulted from a drop in the sale of properties valued at $5 million or above.

During economic downturns like the COVID-19 pandemic or the Great Recession, business closures and rental market weaknesses drive down the demand for, and value of, larger buildings. As a result, the RETT is highly cyclical: it falls in times of economic weakness and rises in times of economic strength.

Because of this cyclical nature, relying on the RETT to fund ongoing City services and operations forces significant budget cuts during economic downturns, right when other revenue sources are also coming up short.

Current Situation and its Effects

Oakland's Consolidated Fiscal Policy sets forth a policy to avoid relying on the RETT to fund ongoing City services and operations. Part C establishes the City policy on "Use of Excess Real Estate Transfer Tax (RETT) Revenues", setting a limit on the use of RETT to fund ongoing services, and requiring "excess" RETT revenues to be allocated to the stabilization fund, to fund debt retirement and unfunded liabilities, and other one-time expenses.

In the CFP Part C, “excess” RETT revenues are defined as “any amount of projected RETT revenues that exceed 15% of the General Purpose Fund Tax Revenues (inclusive of RETT)”.

The FY 25-27 proposed policy budget provides for $788 million in general purpose fund (GPF) revenues in FY 25-26, and $856 million in GPF revenues in FY 26-27. 15% of these values are $118 million and $128 million, respectively.

As observed during the COVID-19 pandemic, the lowest amount of RETT revenues that can be anticipated in a downturn is approximately $60-70 million (in 2025 dollars). As a result, the CFP’s 15% threshold is far in excess of a level that can be responsibly budgeted for.

This 15% threshold was adopted in December 2014. However, the City first adopted an excess RETT policy in June 2009, at the trough of the Great Recession. During the Great Recession, Oakland faced record budget deficits and was forced to make major cuts to core services, in large part driven by a shortfall in the RETT. In June 2009, Council adopted a policy defining the excess RETT as any amount greater than $40 million (about $60 million in present dollars). This policy was set prior to the 2018 updates that created a tiered RETT structure.

After the City emerged from the Great Recession, city leaders wanted to utilize the excess revenues from the RETT for ongoing services. In December 2014, Council amended the CFP to define excess RETT as 15% of the GPF, instead of $40 million. However, in 11 of the past 15 years, the RETT has fallen short of this 15% threshold. As a result, in nearly three out of every four years, no excess RETT has been available for the Vital Services Stabilization Fund, debt retirement, or other one-time expenses or augmenting reserves. Instead, the City has adopted budgets that rely on this highly volatile source of funding meeting or exceeding its projections; when it falls short, City leaders are forced to make difficult cuts.

Figure 1 shows the cyclical nature of the RETT from FY 2011 through FY 2025 and how it compares against the City’s current 15% GPF benchmark, and against the proposed $70 million (adjusted annually for inflation) benchmark.

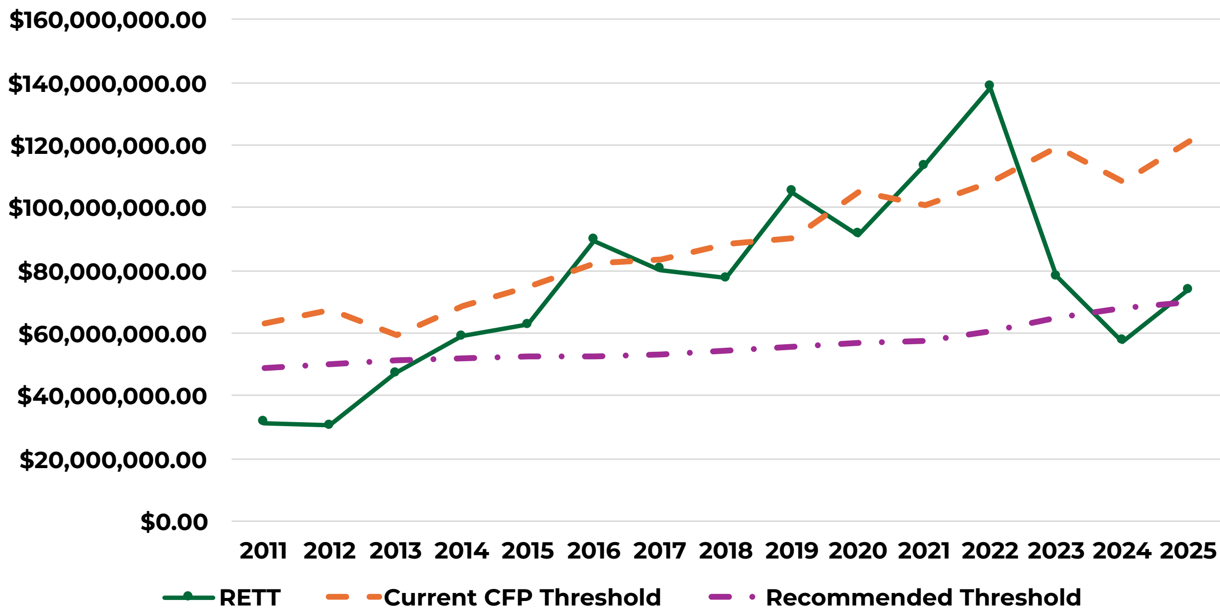

Figure 1. RETT Over Time vs Threshold

Even as transfer taxes were increased in 2018, generating substantial new revenue, general economic growth and new general taxes have continued to bolster the GPF, including the sugar-sweetened beverage tax (2016), an increase in business license taxes (2022), a sales tax increase (2025), and a proposed parcel tax increase (2026). These increasing taxes and other general growth in the GPF ensures that RETT levels will continue to regularly fall short of the 15% threshold. Effectively, the 15% threshold is an aspirational target; realistically, the City is forced to budget every available dollar of the RETT and cut back on core programs and services when it falls short (as it often does).

Rationale for Recommendation

Oakland's 15% "excess" RETT value is effectively aspirational: all RETT is currently used for ongoing programs and services. When RETT falls – by as much as 30 or 50% in an economic downturn – Oakland is forced to cut services. These service cuts frequently have a disproportionate impact on the most vulnerable in our community.

The use of RETT funds above a minimum reliable amount also jeopardizes the City's long-term fiscal health in other ways, by shortchanging it of needed one-time funds for infrastructure investments, debt repayments, and replenishing reserve funds.

Amending the excess RETT policy to a threshold of $70 million, adjusted for inflation, will better ensure that the City's fiscal policies align with the financial realities of a boom-and-bust RETT revenue cycle. It will provide greater stability and certainty for long-term budget planning, help bolster City reserves in advance of the next downturn, and reduce the likelihood that future revenue shocks will translate into abrupt layoffs and painful service cuts for Oakland residents – particularly those who depend most on the City's core programs.

Based on the past 15 years of data, setting a threshold of $70 million would require no changes to currently adopted budgets while still ensuring that excess RETT revenue is available in nearly 3 out of every 4 years. Had this policy been in place, since 2011, the City would have collected nearly $337 million in excess RETT and faced only $51 million in RETT shortfalls (below the $70 million threshold), leaving some $286 million available for other uses such as building up reserves (to offset other shortfalls), one-time expenditures like street repairs and infrastructure (eg software or vehicle) upgrades, debt repayment, unfunded liabilities, or other permissible uses.

In contrast, the current policy means excess RETT is *unavailable* in nearly 3 out of every 4 years, and the City has faced a $205 million shortfall in RETT when compared against the 15% GPF benchmark.

Fiscal Impacts of Recommendation
No direct cost to implement. This change to the CFP would not result in any change to the currently adopted FY 25-27 budget: the currently adopted RETT budgets are less than the recommended limit (assuming at least 1% inflation for FY 26-27). However, in future years this could mean that RETT revenue in excess of the new limit is redirected towards rebuilding reserve funds, paying off debts, and other one-time expenses, instead of being available for ongoing programs and services.

Alternative Actions Considered
BAC considered a more stringent threshold of $60 million, in line with the original 2009 recommendations, but determined that the 2018 RETT tax increase generated enough additional revenue to set a $70 million threshold.

BAC considered a less stringent threshold of $90 million, but determined that such a threshold would be significantly in excess of historical (inflation-adjusted) lows, and would likely result in major cuts to ongoing programs in future downturns.

BAC considered taking no action, but determined that amending the CFP is necessary to ensure the long-term fiscal health of the city, and that amending the policy now would best support long-term fiscal planning around future revenue measures, debt obligations, and reserve fund replenishment.

Equity Impacts
Oakland's low-income and disadvantaged communities rely on a bevy of city services, including libraries, parks, youth programs, homeless and senior services, first responders, and more. The volatility of the RETT means that many of these services are in jeopardy during an economic downturn, and a reduction in services can upend communities and lives. Often, these services are in greatest need specifically during economic downturns.

Restoring funding in later years does not undo this harm. Even with funding restored, it can take years to rebuild staffing and programs within departments or nonprofit service providers that may have faced cuts.

Setting an excess RETT threshold at $70 million would result in no cuts to existing programs today. However, it provides much greater certainty and stability for these ongoing services in the future: by adopting this threshold, it redirect excess RETT to rebuilding the City's reserves, adding a buffer that disadvantaged communities can count on to provide continuity of service through economic downturns. It also makes more RETT funding available for one-time expenditures, such as infrastructure upgrades that can enable the City to operate more efficiently and provide better service at the same or lower cost.

Households with fewer resources have fewer alternatives available to City-provided programs. Updating the CFP to set the excess RETT threshold to $70 million helps ensure stability and continuity of services for low-income and disadvantaged households, particularly in times of critical need during economic downturn.

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