City of Oakland – FY 2023-24 Revenue Update

Business License Tax & Real Estate Transfer Tax

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Prepared by

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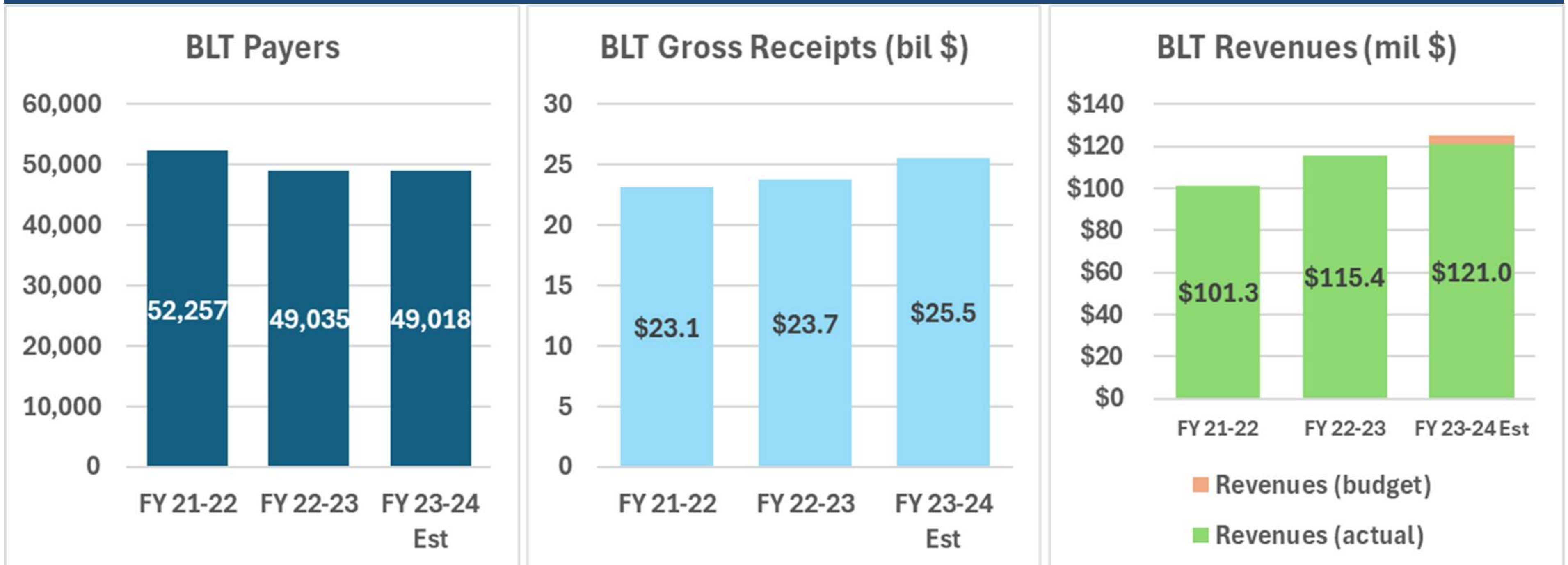
Introduction

- Presentation covers trends in Oakland economy as of third quarter of FY 2023-24 and associated impacts on the City's Business License Tax (BLT) and Real Estate Transfer Tax (RETT)
- As of last fiscal year, these revenue sources together accounted for $193 million (or 26.5%) of GPF revenue.
- BLT revenues are affected by a variety of local economic variables:
  - Steady citywide growth in employment and personal income continues to sustain City business activity, particularly in service sectors
  - Post-COVID population loss, combined with a recent decline in consumer demand—particularly at cannabis dispensaries—constrains the growth of the BLT tax base.
- RETT revenues are highly volatile and sensitive to changes in interest rates:
  - Spike in interest rates over CY 2022 has driven a sharp decline in sales activity across all sectors.
  - In most fiscal years, a small number of high-value transactions can account for over 30% of total revenues. Over FY 2023-24, RETT collections have benefitted from very few of these transactions.

BLT revenues are expected to increase by $6 million – but fall $4 million short of the Adopted Budget



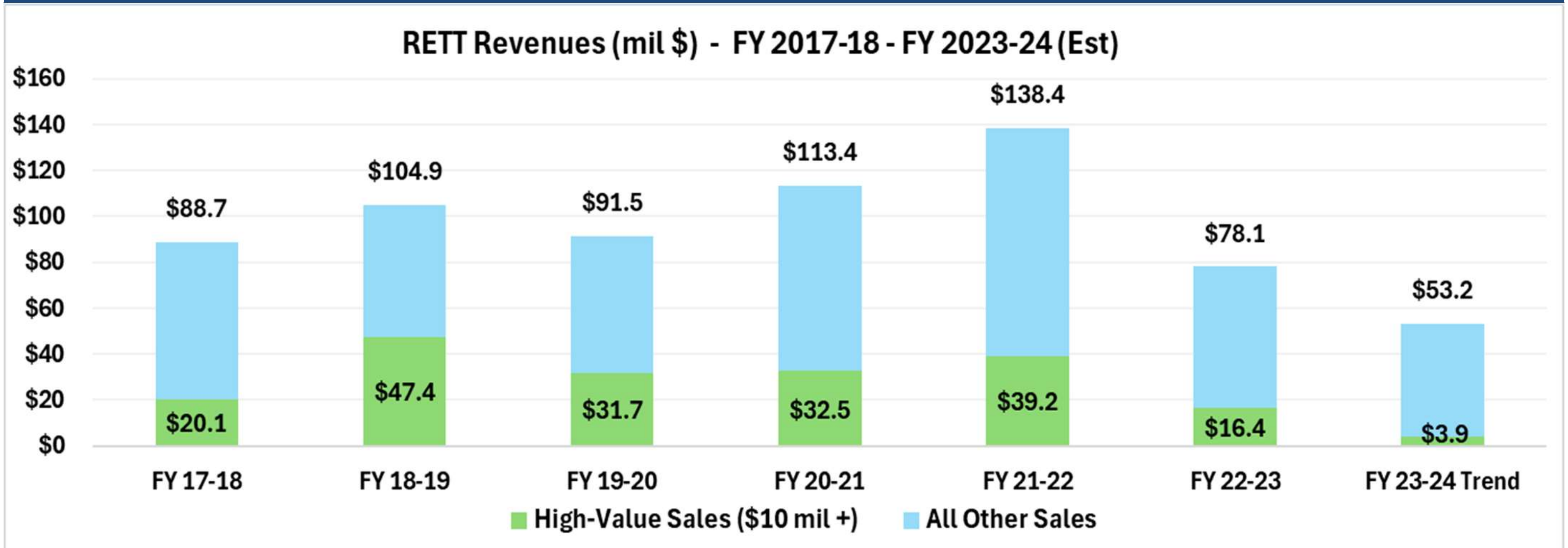
- Last year's ransomware attack during the budget forecasting process masked a steep decline in FY 2022-23 cannabis revenues, leading to an overestimate of FY 2023-24 BLT revenues.
- Tax rate increases approved by voters in November 2022 may have contributed to decline in city business taxpayers, though total gross receipts across all businesses continues to rise

Decline in BLT cannabis revenue offset by gains from professional firms and other commercial sectors

Change in BLT Revenues by Sector -- FY 2023-24 Estimated vs. FY 2022-23 Actual		
Sector	**$ Change (*thous*)**	**% Change**
F - PROFESSIONAL/SEMI-PROFESSIONAL	$3,628	14.5%
K - ADMIN HEADQUARTERS	$1,137	34.0%
G - RECREATION/ENTERTAINMENT	$840	98.0%
D - WHOLESALE SALES	$722	20.7%
O - COMMERCIAL RENTAL PROPERTY	$470	2.7%
C - AUTOMOBILE SALES	$437	26.1%
E - BUSINESS/PERSONAL SVCS	$326	3.8%
All Other BLT Sectors / Uncategorized	$231	6.7%
O - RESIDENTIAL RENTAL PROPERTY	($236)	-1.0%
H - CONTRACTORS	($259)	-3.9%
P - CANNABIS	($1,693)	-26.3%
Total Change	**$5,603**	**4.9%**

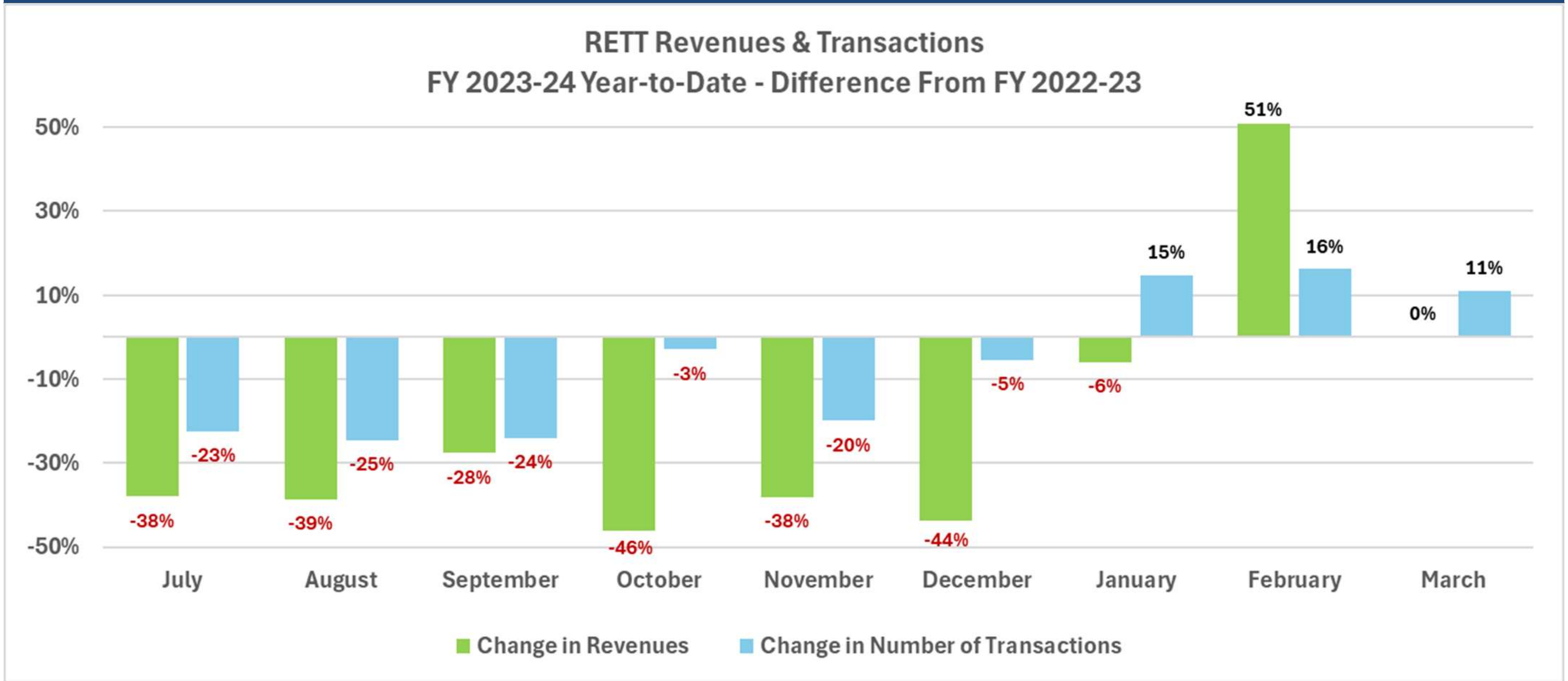
- Tax rate cuts and falling consumer demand have combined to reduce cannabis sector revenues by 26% from FY 2022-23 and by 60% from FY 2021-22.
- Professional services sector revenue increased 14.5% as a result of a 5% increase in the number of filers and a 9% increase in average taxes paid per filer.
- Despite increases in office vacancy, commercial rental revenues are up slightly over FY 2022-23, though residential landlord revenues are down as rents continue their post-COVID decline.

RETT revenues have declined nearly 30% year-on-year



- Through the first three quarters of FY 2023-24, RETT revenues were 30% below their FY 2022-23 level.
- Persistent inflation has contributed to elevated interest rates, driving declines in sales activity across both residential and commercial sectors
- A steep drop in the number of high-value sales ($10+ million) accounts for nearly half of the overall decline in revenue, with office and retail markets experiencing very little activity.

Recent real estate transaction and RETT revenue data show signs of modest recovery



- RETT data from the most recent three-month period shows increasing sales activity.
- Mortgage interest rates are likely to remain elevated through the end of the Fiscal Year and into FY 2024-25, limiting any increase in transactions

Questions