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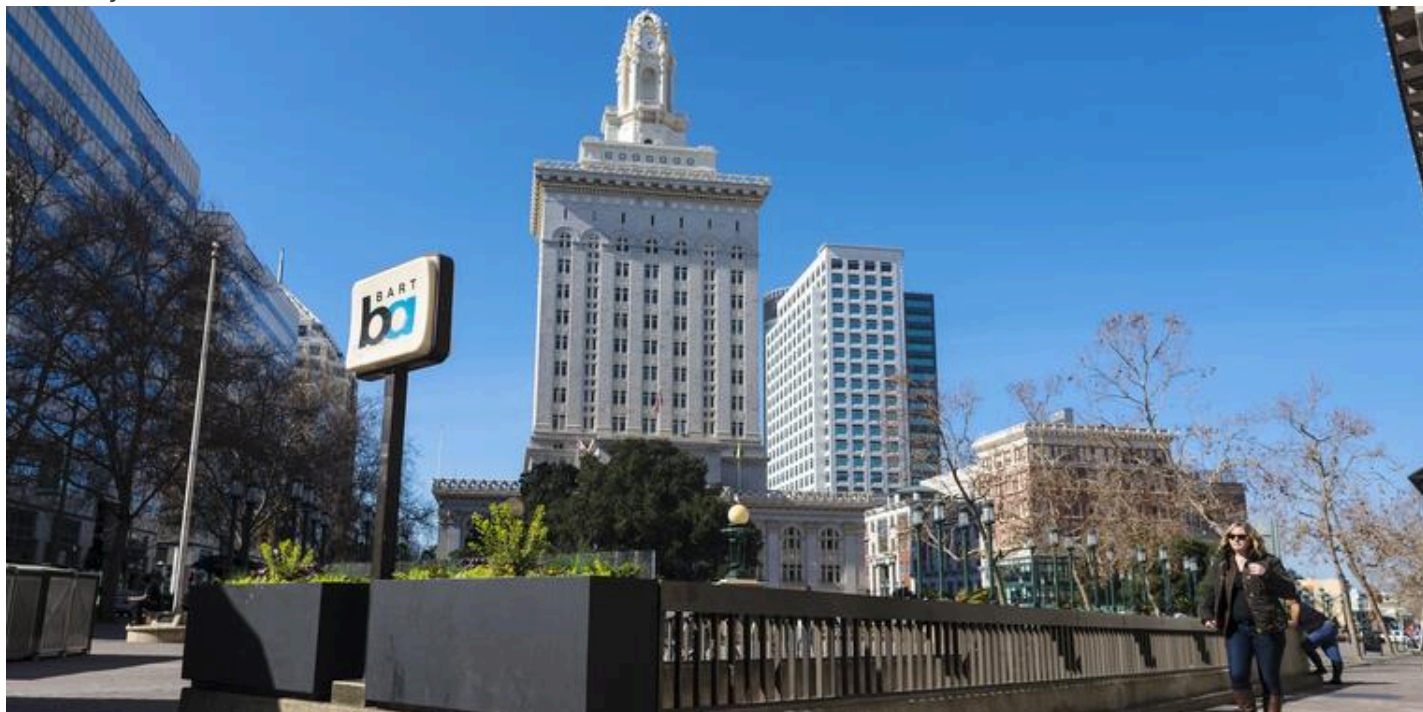
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What It Will Take to Close Oakland's Structural Deficit, Part 2: Budget-Setting, Spending, and Revenues

By Nicole Neditch, Governance and Economy Policy Director

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Addressing the City of Oakland's structural budget deficit and inflationary pressures will require policymakers, administrators, employee unions, and Oaklanders to understand the city's budget makeup, revenues, and spending constraints.

Photo by [Sergio Ruiz for SPUR](#)

This article is the second in a three-part series examining how Oakland can close its structural deficit and move toward fiscal solvency and economic growth. [Part 1](#) looked at the evolution of the city's budget woes.

Oakland city leaders must immediately close a \$129 million shortfall in this year's budget and have until June 30 to eliminate an additional \$280 million deficit projected over the next two years. Now, policymakers,

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What's the Process to Pass a Balanced Budget?

Every two years, city staff, the mayor, and the city council work together to adopt a balanced budget by June 30, before the start of the new fiscal year on July 1. The budget is divided into two one-year spending plans that establish the city's service and program priorities for that period and that allocate the resources to pay for them. By law, the budget must be balanced every year: there must be enough revenue coming in to meet planned expenditures.

In the middle of each budget cycle, the city conducts a mid-cycle assessment to review variances in revenue projections, to identify any changes to spending priorities or needs, to assess changes to the city's financial outlook, and to adjust the budget accordingly.

Oakland's [Consolidated Fiscal Policy](#), adopted by the city council, provides a detailed framework for the city to follow from development to adoption of the final two-year budget. It establishes the roles of the city administrator, the mayor, and city council; defines milestones for each step of the process; and specifies requirements for public engagement.

November–December: City Finance Staff Set the Baseline and Establish Priorities

The budget-setting process begins with city staff about eight months before the start of the new fiscal year. In November, city finance staff develop a baseline budget using revenue forecasts and estimated expenses that predict whether there will be a budget surplus or shortfall in the next two years. Working with the [Budget Advisory Commission](#), city staff conduct a public survey to assess public concerns and spending priorities.

February–March: Mayor and Council Receive the Baseline Budget, and the City Administrator Releases the Forecast

The mayor and council hold a public workshop to receive city staff's baseline budget with preliminary revenue and expenditure projections based on financial and economic data. By March, the city administrator releases the [Five-Year Forecast](#). The forecast details anticipated future financial conditions over a five-year period to support long-range decision-making. It contains the two-year baseline budget plus additional three-year projections.

March: Council Sets Priorities

By March 15, the city council submits its budget priorities for the next two years to the city administrator and mayor to inform budget development.

April: Administrator Sets Milestones

By April 15, the administrator provides the city council with an overview of the budget process and identifies the date of the budget release and dates of community forums, council meetings, and final passage of the adopted budget.

May: Mayor Releases Proposed Budget

The mayor is required to publish and publicly release the proposed budget by May 1. By May 15, the city council holds a public meeting at which the mayor and city administrator present the proposed budget.

May–June: City Engages With the Public

City staff and the city council are required to hold at least one public budget forum in each council district.

June: Budget Advisory Commission Proposes Budget Amendments

By June 1, the Budget Advisory Commission submits comments and proposed amendments to the budget for the city council's consideration. By June 17, the council president presents the council's proposed budget at a special budget hearing. Finance staff prepare costing analyses of any council budget proposals. No

~~later than three days before final passage of the budget, any city councilmember may present additional~~

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These steps outlined in the Consolidated Fiscal Policy are not always followed. This year, for example, no funding was approved to conduct a statistically valid survey for assessing the public's concerns, so the Budget Advisory Commission worked to get a delayed google survey out instead.

Moreover, projections change throughout the process. When the city makes its first baseline projections about the upcoming fiscal year budget in February/March each year, it uses revenue data from only the two previous quarters (from July to December) to make predictions about what will happen in the next 6 to 12 months. The city typically uses very conservative estimates because the data can change quite a bit over a six-month period. It adjusts those projections several times during the budget process. By May and June, when the final budget is presented and deliberated, the city's revenue picture becomes clearer, and the projections are typically more accurate, often (but not always) showing a better financial outlook than had been conservatively predicted six months before.

Unlike the federal government, the city cannot operate at a deficit; the city charter requires the city to pass a balanced budget by June 30. If revenues are insufficient to cover expenditures, the city may defer certain costs, for example, delaying maintenance on city buildings or slowing down street repair. Authorized staff positions often remain vacant to save money. And in recent years, contrary to its own adopted fiscal policy and prudent financial best practice, the [city has used one-time funds](#) like federal COVID-relief money or the sale of city assets to pay for ongoing expenses.

Where Does the City's Revenue Come From?

The City of Oakland's [annual revenues](#) are a little more than \$2 billion dollars. Most of that revenue comes from taxes: property tax, sales tax, hotel tax, business license tax, real estate transfer tax, and voter-approved taxes, as well as service fees, grants, voter-approved bonds, and other sources.

Not All Revenues Collected in the City Go to the City

Not all the taxes collected in Oakland go to the city; other agencies share the revenues. For example, for every dollar that an Oakland resident pays in property tax, [the City of Oakland receives about 19 cents](#) of it to pay for city services, including parks, libraries, fire, and police. The other 81 cents goes to other local government agencies that provide public services, such as the East Bay Municipal Utility District for water and sewer; Alameda County for public health, homelessness, and supportive housing; AC Transit for bus transportation; and the Oakland Unified School District for public education. For every dollar spent in Oakland, the city receives [1 percent of the total 10.25% sales tax](#), meaning the city receives 1 cent on a \$1 purchase; the state, the county, and Bay Area Rapid Transit (BART) receive the rest.

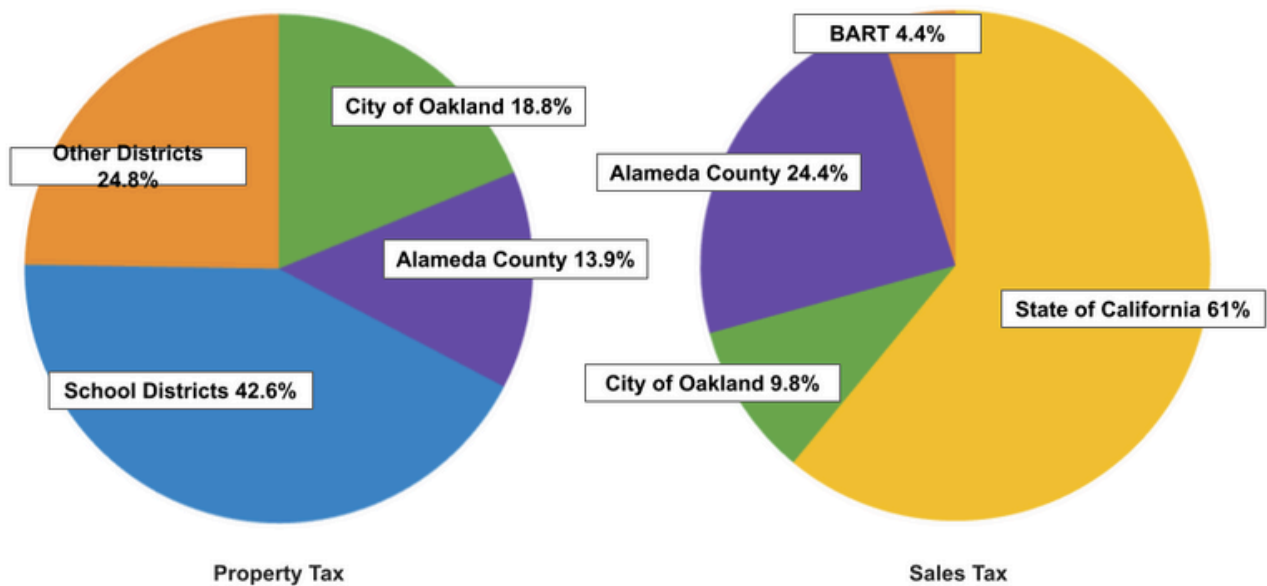
Property Tax and Sales Tax Distributions

The City of Oakland receives only a portion of the taxes collected in the city. The rest of the money goes to other agencies to provide services in Oakland.

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Source: State Board of Equalization, [Property Tax Allocations](#), 2023–2024.

Notably, Proposition 13 has limited the ability of Oakland and other California cities to meet new fiscal obligations and to adapt to local changes while contributing to [income inequality and the racial wealth gap](#). Prop. 13, which passed in 1978, reduced the tax rate on properties to 1% of a property’s value and artificially constrained yearly increases in property values to 2% of assessed value or the rate of inflation, whichever is lower. In essence, a property will always be assessed at the price it last sold for — no matter how long ago that was.

Revenue Is Restricted for Specific Uses

Oakland’s budget has grown to a little more than \$2 billion dollars annually. Nearly two-thirds (61%) of the city’s revenue comes with legal restrictions, meaning it can be used only to support the specific programs and services it is intended for; this money is put into dedicated accounts. For example, in 2024, Oakland Hills voters approved Measure MM, a special district tax designed to fund fire prevention in the areas at greatest risk of wildfires. The funds raised from this tax must be used only for this purpose; they cannot be repurposed to instead fund other important needs such as maintaining the city’s roads or building more housing.

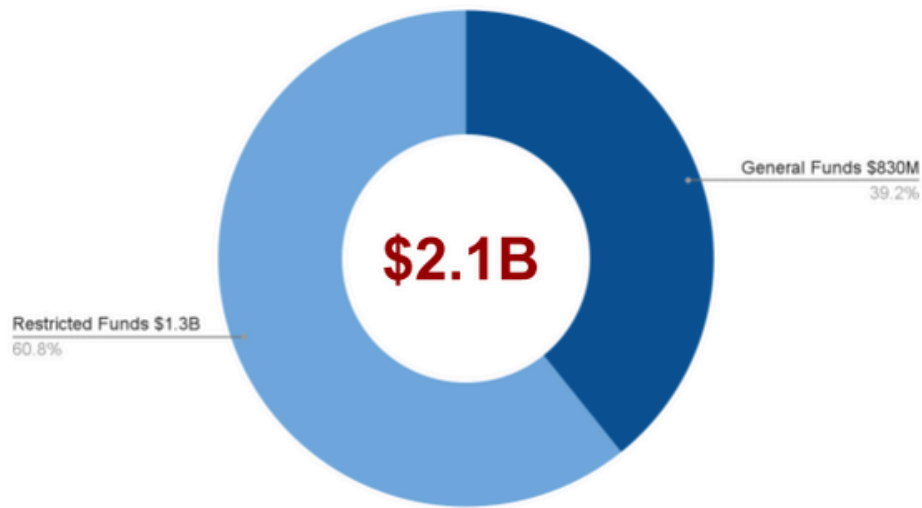
The remaining 39% of the city’s budget is considered general purpose funds; these funds are more flexible and are used to pay for expenditures that don’t have restricted revenue sources.

General vs. Restricted Funds

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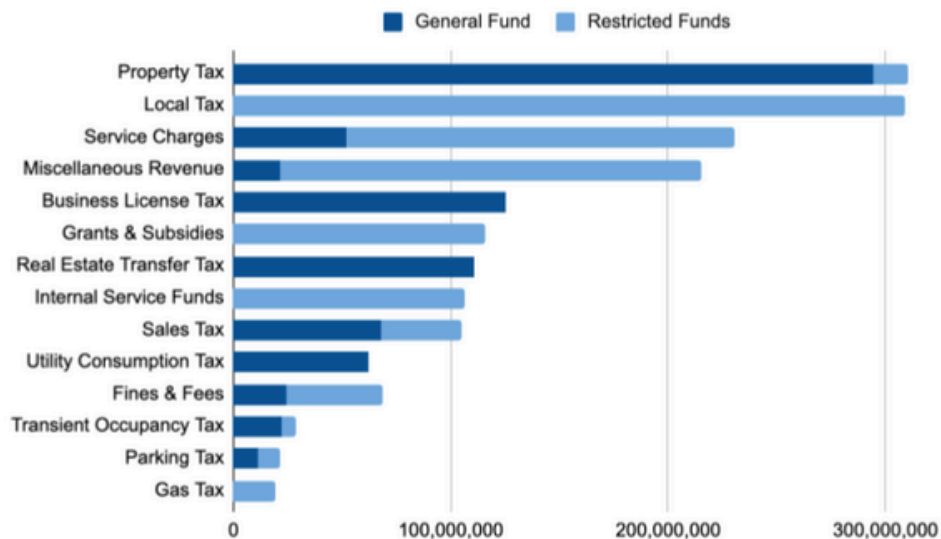
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Source: SPUR analysis of “Budget Overview,” [FY 2023–25 Adopted Policy Budget](#).

Revenue Sources

While property tax tends to be an unrestricted revenue source, local taxes are typically voter-approved and designated for specific purposes.



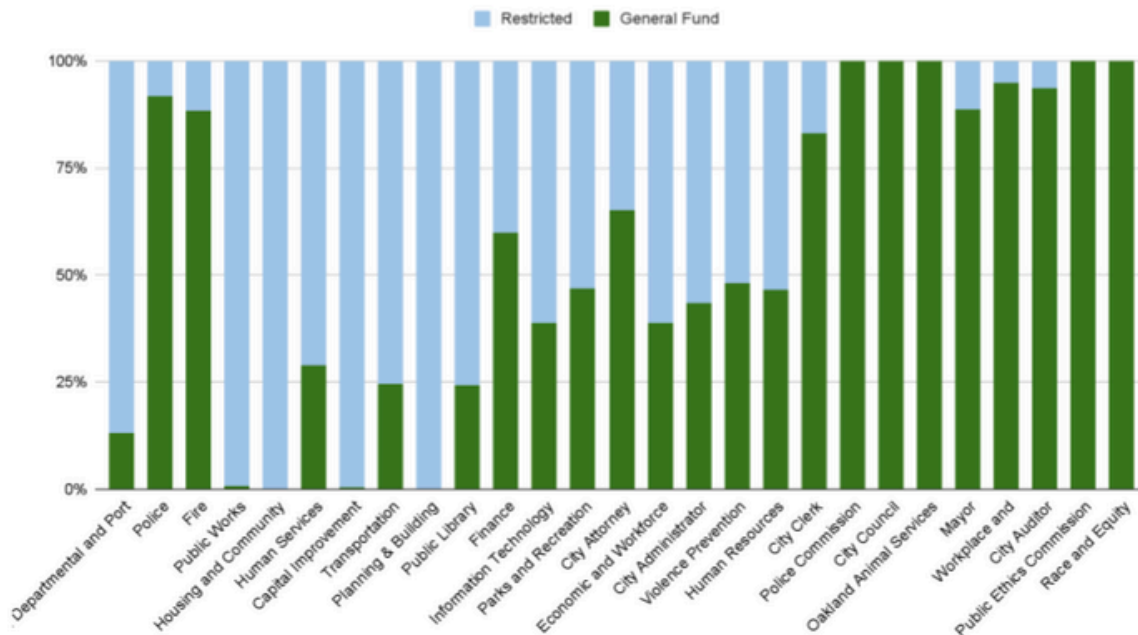
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Departmental Funding Sources

Public safety departments (police and fire) and departments that manage government operations — such as information technology, human resources, city attorney, city clerk, finance, and administration — are almost entirely funded by the General Fund. Departments that manage the city’s infrastructure (public works, transportation) and housing development rely primarily on bond funding and voter-approved measures that are generally restricted.



Source: SPUR analysis of “Expenditures By Department and Fund, 23–24 Biennial,” [FY 2023-25 Adopted Policy Budget](#).
General

Over time, the city has placed many constraints on expenditures in the General Fund. For example, the city has passed policies (some through local legislation and others through ballot measures) that require a minimum number of sworn police officers and minimum staffing levels for offices and commissions like the Public Ethics Commission and the City Auditor’s Office. Nevertheless, General Fund revenue sources remain somewhat flexible; the city council can reallocate these funds in case of fiscal necessity.

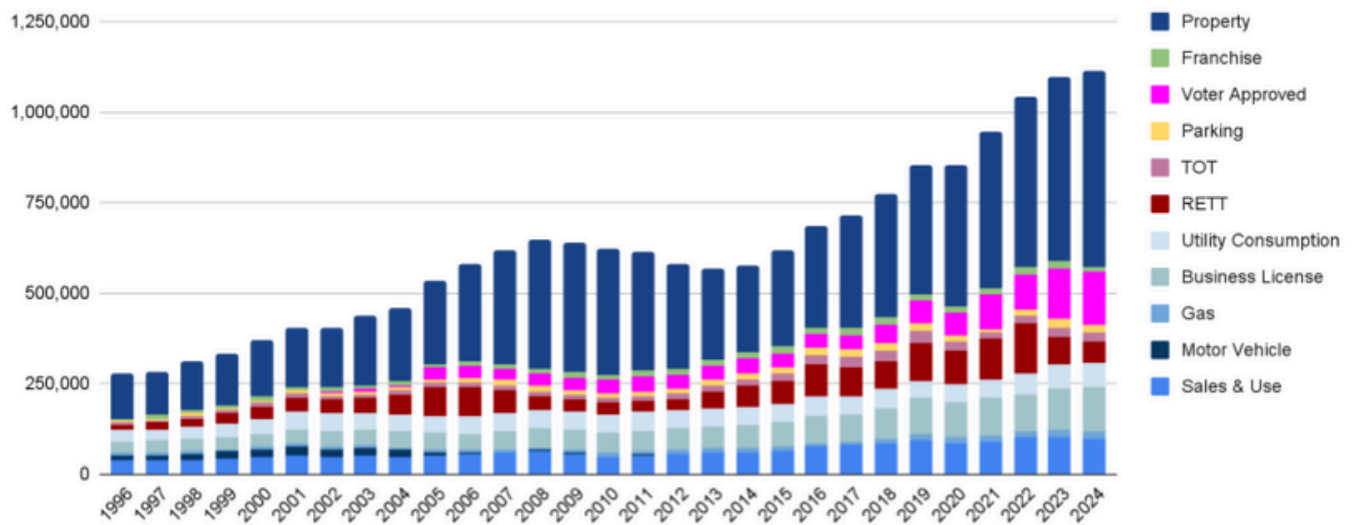
Revenue Sources Vary Based on Market Conditions

Property taxes and real estate transfer taxes contribute the most amount of money to the General Fund, but they can be volatile because of market conditions. During the Great Recession from 2008 to 2012, when the global housing market collapsed, Oakland’s real estate transfer tax plummeted, leading to a significant General Fund shortfall. As the housing market has slowed over the last couple of years, in part due to rising interest rates, the real estate transfer tax has again come in much lower than projected.

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Source: SPUR analysis of “Tax Revenue by Source, Governmental Funds” and “Changes in Fund Balances Governmental Funds,” [Oakland Annual Comprehensive Financial Reports](#). Not adjusted for inflation.

Voter-approved initiatives and other policies have shifted many expenses from the General Fund to other, dedicated funding sources. As a result, the fund is primarily used to cover costs like fire, police, and general government operations that the city doesn’t charge service fees for.

Economic downturns, like the current post-COVID period, result in shortfalls in General Fund revenues. These shortfalls disproportionately affect departments funded by the General Fund. With 61% of the city’s funds restricted, the options available to balance the budget are constrained. Because police and fire services make up 65% of the General Fund, it’s difficult to adjust the budget without impacting them.

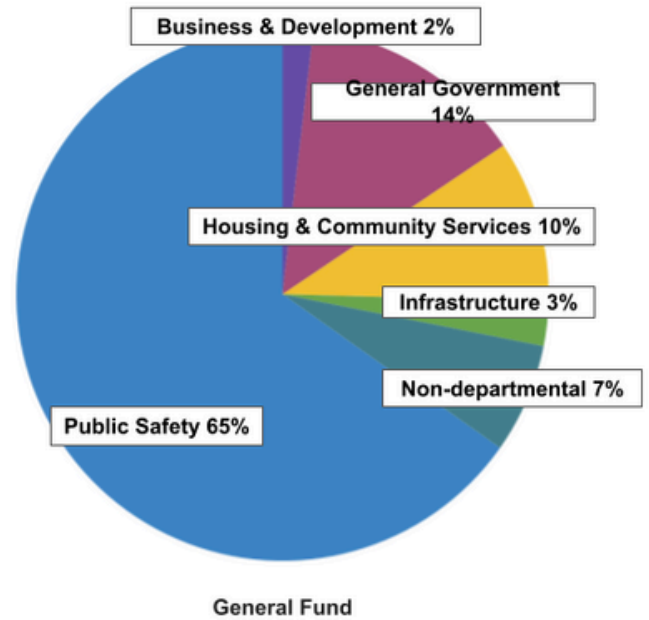
Expenditures by Function

Although public safety expenditures account for only 29% of the total budget, they make up 65% of the unrestricted General Fund budget.

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Source: SPUR analysis of [FY 2023–25 Adopted Policy Budget](#).

Where Does the City Spend Its Money?

The city spends money in two main categories: (1) personnel, including employee salaries, overtime, retirement, and healthcare, which are fixed costs; and (2) operations and maintenance, which covers contracts, supplies and materials, equipment, and debt payment.

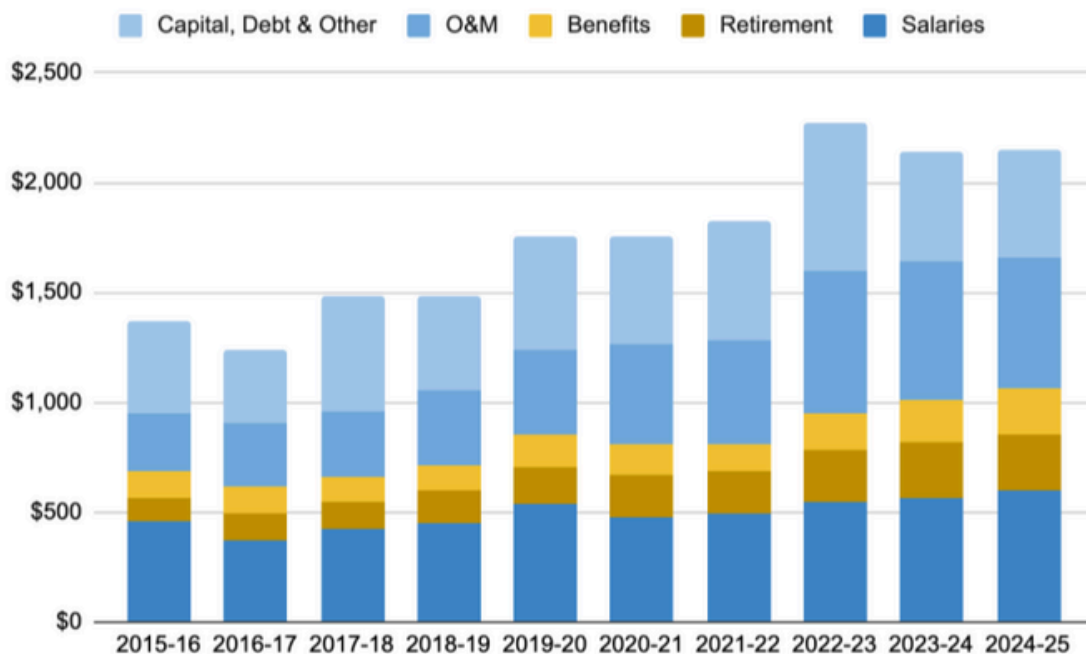
Expenditures by Type, 2015–16 to 2024–25

Retirement and operations and maintenance costs have more than doubled in the last 10 years while salaries have grown only slightly.

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Source: SPUR analysis of “Expenditures By Type,” [FY 2023–25 Adopted Policy Budget](#) (in millions), 2015–2023 actuals, and 2023–2024 projected.

Oakland is contending with the same inflationary pressures facing households with respect to insurance, utilities, fuel, and healthcare. So even though revenues have been growing each year, expenditures have been growing faster, outpacing revenue growth and leading to ongoing shortfalls. This situation is what’s known as a “structural deficit,” meaning the gap between revenues and expenditures is a chronic and ongoing problem.

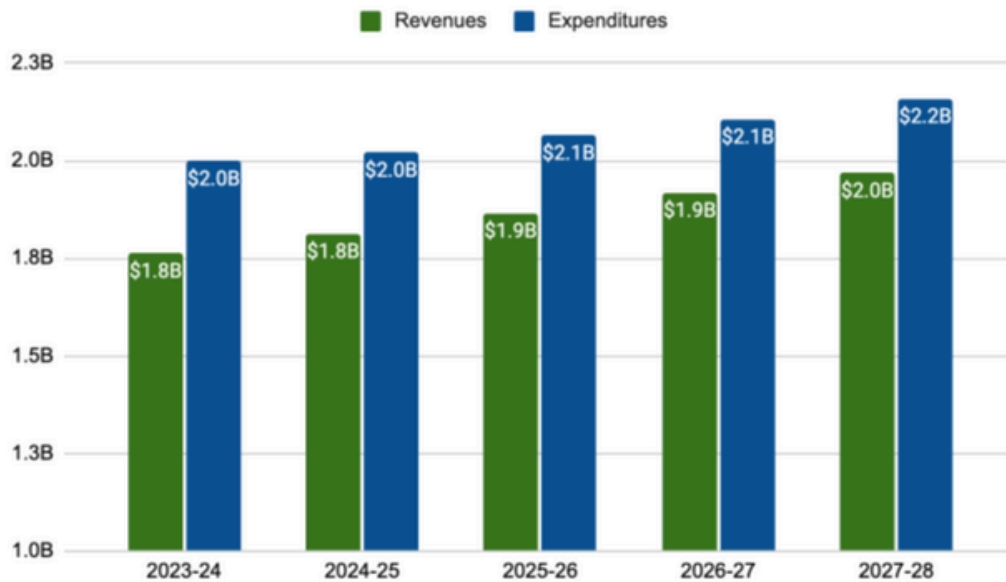
Expenditures vs. Revenues, Five-Year Forecast

The last five-year forecast that the city produced, in 2023, shows that, absent corrective measures, shortfalls will persist throughout the forecast period.

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Source: [City of Oakland 2023–28 5-Year Financial Forecast](#).

Another factor that constrains the city’s budget is its unfunded pension liabilities. According to the [2024–2028 Five-Year Forecast](#), the city’s obligations to current and past city employees for retiree medical care amount to \$1.2 billion. These long-term liabilities are not fully funded; instead, the city “pays as it goes.” In the last decade, the city — as well as the State of California, which administers the CalPERS program — implemented several significant reforms to begin addressing this long-term challenge. Because of these reforms, the outlook is improving, but the costs will continue to increase until the liabilities are paid. Starting in 2013, statewide pension reform changed the CalPERS retirement and health calculations by increasing the minimum retirement age, decreasing the pension benefit, and capping the annual salary used to calculate final compensation. These changes apply to employees hired after January 2013. As employees in the “classic” program retire and new employees are hired at the lower pension rate, the city’s pension costs will rise more slowly.

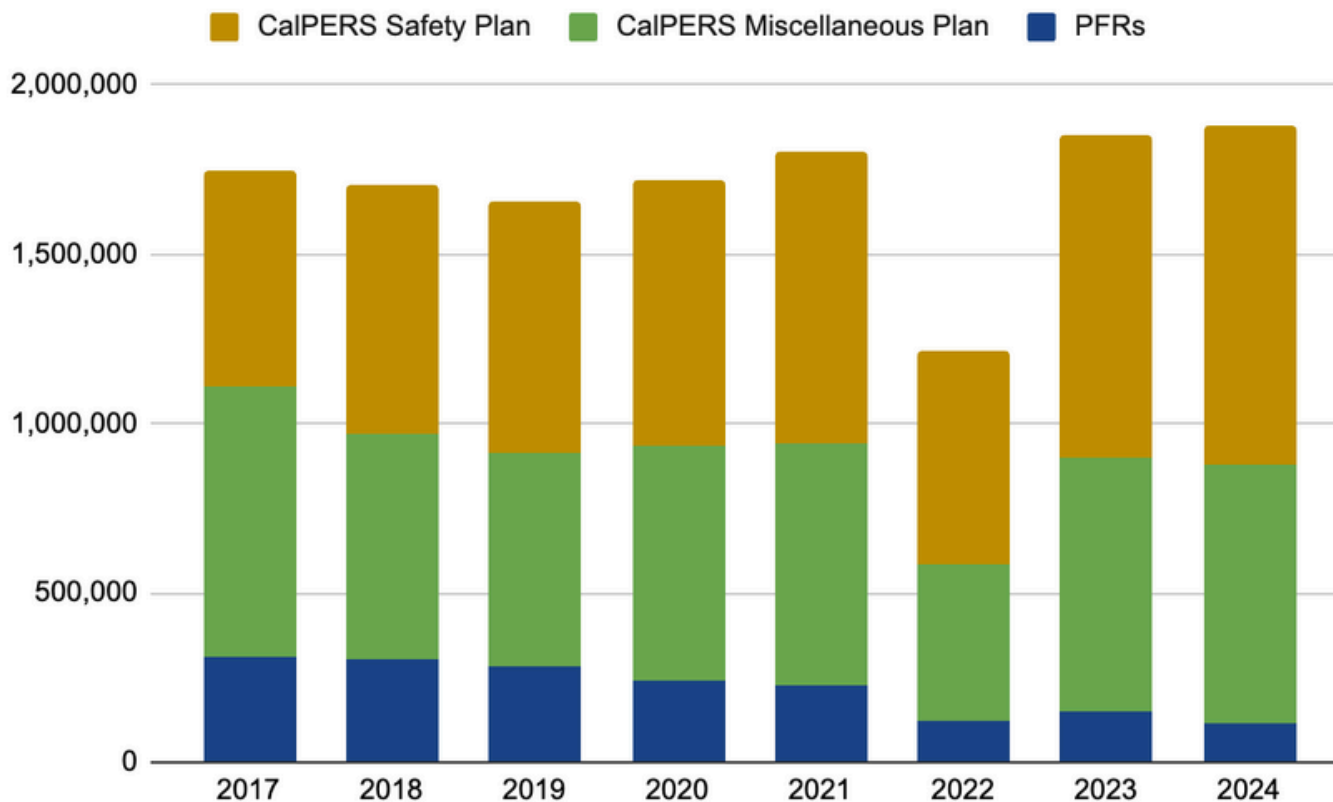
CalPERS Pension Liabilities

The outlook for pension liabilities is improving thanks to statewide pension reform that changed CalPERS retirement and health calculations.

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Source: “Required Supplementary Information,” 2017–2024 [Oakland Annual Comprehensive Financial Reports](#).
 Note: The dramatic drop in net pension liability in 2022 was mainly due to an increase in the net investment income in each plan’s fiduciary fund.

In 2018 and 2019, Oakland’s police and fire unions agreed to cap their medical benefits after retirement, and in 2019, the city began contributing \$10 million per year into a trust to fund future retiree benefits. These changes reduced the city’s long-term obligations for retiree medical costs by \$240 million.

Just as revenue sources have changed over the years, spending patterns have also evolved to meet changing community needs and priorities, requiring different kinds of investments. But with budgeting constraints, the city has few options to adapt to current challenges without significant structural changes.

What’s Ahead?

City leaders face a daunting challenge. Given the many revenue constraints on the General Fund described above, coupled with rising costs and significant long-term liabilities, there will be no easy choices when it comes to balancing the budget. Doing so will require the political will to make hard decisions and a collective effort to make short-term sacrifices for long-term financial stability. Many of Oakland’s programs and departments will be affected.

Closing a structural deficit will require structural changes, long-term thinking, and strict adherence to sound fiscal practices, for example, not using one-time money for ongoing expenses. The city’s budget needs to be stable and strong so that it can once again invest in important community priorities.

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- [Wednesday, March 5, 81st Avenue Library, 5:30–7:30 p.m.](#)
- [Tuesday, March 11, Oakland Main Library, 5–7 p.m.](#)

Join us at one of the upcoming sessions or contact us at nneditch@spur.org if you would like to host one of your own.

Part 3 of our coverage of Oakland's budget crisis will examine Oakland's revenue sources and expenditures and how they have changed to support service delivery over time.

[Read Part 1 in this article series](#)

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