

File No. 180658

Committee Item No. 5

Board Item No. 27

### COMMITTEE/BOARD OF SUPERVISORS

#### AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Committee

Date February 8, 2018

Board of Supervisors Meeting

Date February 27, 2018

#### Cmte Board

- |                                     |                                     |  |
|-------------------------------------|-------------------------------------|--|
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Motion                                       |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Resolution                                   |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Ordinance                                    |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Legislative Digest                           |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Budget and Legislative Analyst Report        |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Youth Commission Report                      |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Introduction Form                            |
| <input checked="" type="checkbox"/> | <input checked="" type="checkbox"/> | Department/Agency Cover Letter and/or Report |
| <input type="checkbox"/>            | <input type="checkbox"/>            | MOU  |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Grant Information Form                       |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Grant Budget                                 |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Subcontract Budget                           |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Contract/Agreement                           |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Form 126 – Ethics Commission                 |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Award Letter                                 |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Application                                  |
| <input type="checkbox"/>            | <input type="checkbox"/>            | Public Correspondence                        |

OTHER (Use back side if additional space is needed)

- |                          |                                     |                               |
|--------------------------|-------------------------------------|-------------------------------|
| <input type="checkbox"/> | <input checked="" type="checkbox"/> | <u>Economic Impact Report</u> |
| <input type="checkbox"/> | <input type="checkbox"/>            | _____                         |
| <input type="checkbox"/> | <input type="checkbox"/>            | _____                         |
| <input type="checkbox"/> | <input type="checkbox"/>            | _____                         |
| <input type="checkbox"/> | <input type="checkbox"/>            | _____                         |
| <input type="checkbox"/> | <input type="checkbox"/>            | _____                         |
| <input type="checkbox"/> | <input type="checkbox"/>            | _____                         |
| <input type="checkbox"/> | <input type="checkbox"/>            | _____                         |
| <input type="checkbox"/> | <input type="checkbox"/>            | _____                         |
| <input type="checkbox"/> | <input type="checkbox"/>            | _____                         |
| <input type="checkbox"/> | <input type="checkbox"/>            | _____                         |

Completed by: Linda Wong

Date February 9, 2018

Completed by: Linda Wong

Date February 20, 2018

1 [Initiative Ordinance - Business and Tax Regulations and Administrative Codes - Commercial  
2 Rents Tax - Early Child Care and Education]

3 **Motion ordering submitted to the voters, at an election to be held on June 5, 2018, an**  
4 **Ordinance amending the Business and Tax Regulations Code and Administrative Code**  
5 **to impose an additional tax on the gross receipts from the lease of commercial space**  
6 **in the City, in the amount of 1% for warehouses and 3.5% for other commercial uses, to**  
7 **fund the Babies and Families First Fund for quality early care and education for**  
8 **children from birth through five years of age and the General Fund; exempting from the**  
9 **additional tax rents from industrial, artist, non-formula retail, nonprofit, and**  
10 **government uses; increasing the City's appropriations limit by the amount collected**  
11 **under the new tax for four years from June 5, 2018; and affirming the Planning**  
12 **Department's determination under the California Environmental Quality Act.**

13  
14 **MOVED**, That the Planning Department has determined that the actions contemplated  
15 in the following ordinance comply with the California Environmental Quality Act (California  
16 Public Resources Code Sections 21000 *et seq.*). Said determination is on file with the Clerk  
17 of the Board of Supervisors in File No. 180058 and is incorporated herein by reference. The  
18 Board affirms this determination; and be it further

19  
20 **MOVED**, That the Board of Supervisors hereby submits the following ordinance to the  
21 voters of the City and County of San Francisco, at an election to be held on June 5, 2018.

22  
23 **Ordinance amending the Business and Tax Regulations Code and Administrative Code**  
24 **to impose an additional tax on the gross receipts from the lease of commercial space**  
25 **in the City, in the amount of 1% for warehouses and 3.5% for other commercial uses, to**

1 fund the Babies and Families First Fund for quality early care and education for  
2 children from birth through five years of age and the General Fund; exempting from the  
3 additional tax rents from industrial, artist, non-formula retail, nonprofit, and  
4 government uses; increasing the City's appropriations limit by the amount collected  
5 under the new tax for four years from June 5, 2018; and affirming the Planning  
6 Department's determination under the California Environmental Quality Act.

7 NOTE: Unchanged Code text and uncodified text are in plain font.  
8 Additions to Codes are in *single-underline italics Times New Roman font*.  
9 Deletions to Codes are in *strikethrough italics Times New Roman font*.  
10 Asterisks (\* \* \* \*) indicate the omission of unchanged Code subsections or  
11 parts of tables.

12 Be it ordained by the People of the City and County of San Francisco:

13 Section 1. Pursuant to Article XIII C of the Constitution of the State of California, this  
14 ordinance shall be submitted to the qualified electors of the City and County of San Francisco  
15 at the June 5, 2018, consolidated statewide direct primary election.

16 Section 2. The Business and Tax Regulations Code is hereby amended by adding  
17 Article 21, consisting of Sections 2101 through 2116, to read as follows:

18 **ARTICLE 21: EARLY CARE AND EDUCATION COMMERCIAL RENTS TAX ORDINANCE**

19 **SEC. 2101. FINDINGS.**

20 *(a) For more than a decade, San Francisco has been a national leader in early care and*  
21 *education (ECE) with the introduction of the Preschool For All program in 2004. This revolutionary*  
22 *program expanded access, defined and measured quality programs, and supported educators to deliver*  
23 *high-quality early care and education to all children.*  
24  
25

1 high-quality early education. Ninety-two percent of San Francisco children attend preschool or  
2 transitional kindergarten before attending public kindergarten.

3 (b) Preschool enrollment of three- to five-year-olds in San Francisco rose from 57% in 2005 to  
4 71% in 2013. Citywide school readiness assessments in 2007 and 2009 charted a similar increase,  
5 from 72% of four-year-olds in 2007 to 83% in 2009. These accomplishments are due to the targeted  
6 and committed investments of the State and the City and the work of First 5 San Francisco and the  
7 Office of Early Care and Education.

8 (c) However, the City cannot claim the same success when it comes to infants and toddlers  
9 under the age of four. Despite medical professionals, child development specialists, and scientific  
10 researchers uniformly agreeing that the most critical time in brain development is from birth to age  
11 three, and that the brain is 90% developed before a child reaches age five, San Francisco has more  
12 than 2,400 children on the waitlist for subsidized ECE, and more than 1,600 of these children are  
13 under the age of three. When two-thirds of the children on the waitlist, and in these large numbers, are  
14 infants and toddlers, the critical and urgent need for targeted investment in infants and toddlers, akin  
15 to the level of City support prioritized for our four-year-olds, becomes dramatically evident.

16 (d) Three out of four families in San Francisco with children under the age of six have both  
17 parents working outside the home, making childcare a necessity, not a luxury. But, as of 2017, infant  
18 and toddler early education and childcare can cost a staggering \$20,000 a year in San Francisco; in  
19 comparison, tuition at UC Berkeley costs \$13,600 a year. The heavy toll that childcare costs can take  
20 on families is undeniable. In a 2016 poll conducted by the Robert Wood Johnson Foundation,  
21 Harvard's T.H. Chan School of Public Health, and National Public Radio, 71% of the over 1,100  
22 parents polled stated that the cost of childcare is a serious problem for their families.

23 (e) Without affordable and accessible childcare, one significant consequence is the loss of  
24 women from the workforce, a serious problem not just for those women, but for society at large. One  
25 stark consequence of losing women in our workforce is the difficulties they face when attempting to

1 return to work in the technology sector after having children. Recent research indicates that such  
2 women are 79% less likely to be hired and half as likely to be promoted as other employees, and are  
3 offered an average of \$11,000 less in salary upon trying to re-enter the technology workforce later in  
4 life.

5 (f) Further, as female employees leave the workforce, the lack of gender diversity in fields like  
6 technology and venture capital continues apace. A study conducted by the Deloitte University  
7 Leadership Center for Inclusion and the National Venture Capital Association, of 2,500 employees at  
8 217 venture capital firms nationwide, found that lack of family assistance and childcare may be  
9 hindering women's success in venture capital. The same study found that gender diversity in leadership  
10 results in greater returns, innovation, and success. Fortune 500 firms that aggressively promote  
11 women realize 34% higher profits than those that do not.

12 (g) Our San Francisco families want and need quality ECE for their children, and society as a  
13 whole benefits when we invest in them and their families. Rigorous long-term studies have found a  
14 return on investment averaging seven dollars for every dollar spent on quality early learning programs.  
15 In addition, children in these studies who have been followed into adulthood have benefitted from  
16 increased earnings.

17 (h) The most effective guarantee of quality ECE is workforce compensation. A 2014 UC  
18 Berkeley study showed that educator wages are one of the most important predictors of the quality of  
19 education children receive. But today, one third of full-time teaching staff in ECE programs use some  
20 form of public assistance to make ends meet. In San Francisco, 92% of our early childcare and  
21 education workforce are women; 83% are estimated to be women of color.

22 (i) Children who come to kindergarten without the skills they need often stay behind and  
23 struggle in school. Early childhood care and education programs give children a chance to learn,  
24 become excited about school, and be better students over their lifetimes. Investing in ECE helps ensure  
25

1 we have highly-trained and skilled educators, gives our babies and children the best possibility to  
2 succeed, while providing essential support for struggling working families.

3  
4 **SEC. 2102. SHORT TITLE.**

5 This Article 21 shall be known as the “Early Care and Education Commercial Rents Tax  
6 Ordinance,” and the tax it imposes shall be known as the “Early Care and Education Commercial  
7 Rents Tax.”

8  
9 **SEC. 2103. DEFINITIONS.**

10 (a) Unless otherwise defined in this Article 21, the terms used in this Article shall have the  
11 meanings given to them in Articles 6 and 12-A-1 of the Business and Tax Regulations Code, as  
12 amended from time to time. All references to Sections of the Planning Code are to the text of those  
13 Sections as of June 5, 2018.

14 (b) For purposes of this Article 21, the following definitions shall apply:

15 “Area Median Income” or “AMI” means Area Median Income for the San Francisco area,  
16 derived from the U.S. Department of Housing and Urban Development, adjusted solely for household  
17 size, as described in Administrative Code Section 10.100-81(c).

18 “Base Amount” means the Controller’s calculation of the amount of City appropriations (not  
19 including appropriations from the Fund and exclusive of expenditures funded by private funding,  
20 development impact fees, or prior period balances, or funded or mandated by state or federal law) for  
21 Baseline Programs for the Baseline Year, as adjusted in the manner provided in subsections (g) and (h)  
22 of Section 2112.

23 “Baseline Programs” means all programs serving children of all ages under six that are  
24 allocated funding through OECE.

25 “Baseline Year” means the Fiscal Year July 1, 2017 through June 30, 2018.

1 "Commercial Space" means any building or structure, or portion of a building or structure,  
2 that is not "residential real estate," as that term is defined in Section 954.1(e) of Article 12-A-1 of the  
3 Business and Tax Regulations Code, as amended from time to time. Notwithstanding the preceding  
4 sentence, Commercial Space shall not include any building or structure, or portion of a building or  
5 structure, that is used for: (a) Industrial Use as defined in Section 102 of the Planning Code; (b) Arts  
6 Activities as defined in Section 102 of the Planning Code; or (c) Retail Sales or Service Activities or  
7 Retail Sales or Service Establishments, as defined in Section 303.1(c) of the Planning Code, that are  
8 not Formula Retail uses as defined in Section 303.1(b) of the Planning Code.

9 "Eligible Programs" are described in Section 2112(d)(1) of this Article 21.

10 "Fiscal Year" means the period starting July 1 and ending on the following June 30.

11 "Fund" means the Babies and Families First Fund described in Section 2111 of this Article 21.

12 "OECE" means the City's Office of Early Care and Education, described in Section 2A.310 of  
13 the Administrative Code, or its successor.

14 "State Median Income" or "SMI" means the state median income, adjusted for family size,  
15 calculated by the California Department of Finance under California Education Code Section 8263.1.

16 "Warehouse Space" means Commercial Space that is used for Commercial Storage, for  
17 Volatile Materials Storage, for Wholesale Storage, or as a Storage Yard, as each of these capitalized  
18 terms is defined in Section 102 of the Planning Code.

19  
20 **SEC. 2104. IMPOSITION OF TAX.**

21 (a) Except as otherwise provided in this Article 21, for the privilege of engaging in the business  
22 of leasing Commercial Space in properties in the City, the City imposes an annual Early Care and  
23 Education Commercial Rents Tax on each person engaged in business in the City that receives gross  
24 receipts from the lease of Commercial Space in properties in the City. For purposes of this Article 21,  
25 the term "lease" includes any "sublease."

1           **(b) The Early Care and Education Commercial Rents Tax shall be calculated by applying the**  
2 **following percentages to the person or combined group's gross receipts from the lease of Commercial**  
3 **Space in properties in the City:**

4                   **(1) 1% to the person or combined group's gross receipts from the lease of Warehouse**  
5 **Space in properties in the City; and**

6                   **(2) 3.5% to the person or combined group's gross receipts from the lease of all other**  
7 **Commercial Space in properties in the City.**

8           **(c) The Early Care and Education Commercial Rents Tax shall become operative on**  
9 **January 1, 2019.**

10  
11 **SEC. 2105. EXEMPTIONS AND EXCLUSIONS.**

12           **(a) An organization that is exempt from income taxation by Chapter 4 (commencing with**  
13 **Section 23701) of Part 11 of Division 2 of the California Revenue and Taxation Code or Subchapter F**  
14 **(commencing with Section 501) of Chapter 1 of Subtitle A of the Internal Revenue Code of 1986, as**  
15 **amended, as qualified by Sections 502, 503, 504, and 508 of the Internal Revenue Code of 1986, as**  
16 **amended, shall be exempt from taxation under this Article 21, only so long as those exemptions**  
17 **continue to exist under state or federal law.**

18           **(b) For purposes of this Article 21, gross receipts from the lease of Commercial Space shall not**  
19 **include receipts from the leasing of Commercial Space to (1) organizations described in subsection (a)**  
20 **of this Section 2105; or (2) federal, state, or local governments.**

21           **(c) For purposes of this Article 21, gross receipts from the lease of Commercial Space shall not**  
22 **include receipts from business activities if, and only so long as and to the extent that, the City is**  
23 **prohibited from taxing such receipts under the Constitution or laws of the United States or under the**  
24 **Constitution or laws of the State of California.**



1           (d) For only so long as and to the extent that the City is prohibited from imposing the Early  
2 Care and Education Commercial Rents Tax, any person upon whom the City is prohibited under the  
3 Constitution or laws of the State of California or the Constitution or laws of the United States from  
4 imposing the Early Care and Education Commercial Rents Tax shall be exempt from the Early Care  
5 and Education Commercial Rents Tax.

6  
7 **SEC. 2106. SMALL BUSINESS EXEMPTION.**

8           Notwithstanding any other provision of this Article 21, a person or combined group exempt  
9 from payment of the gross receipts tax under Section 954.1 of Article 12-A-1, as amended from time to  
10 time, shall also be exempt from payment of the Early Care and Education Commercial Rents Tax.

11  
12 **SEC. 2107. FILING; COMBINED RETURNS.**

13           (a) Persons subject to the Early Care and Education Commercial Rents Tax shall file returns at  
14 the same time and in the same manner as returns filed for the gross receipts tax (Article 12-A-1),  
15 including the rules for combined returns under Section 956.3, as amended from time to time.

16           (b) If a person is subject to the Early Care and Education Commercial Rents Tax but is not  
17 required to file a gross receipts tax return, such person or combined group's Early Care and Education  
18 Commercial Rents Tax return shall be filed at the same time and in the same manner as if such person  
19 or combined group were required to file a gross receipts tax return.

20           (c) For purposes of this Article 21, a lessor of residential real estate is treated as a separate  
21 person with respect to each individual building in which it leases residential real estate units,  
22 notwithstanding Section 6.2-15 of Article 6, as amended from time to time, or subsection (a) of this  
23 Section 2107. This subsection (c) applies only to leasing residential real estate units within a building,  
24 and not to any business activity related to other space, either within the same building or other  
25

1 buildings, which is not residential real estate. The Tax Collector is authorized to determine what  
2 constitutes a separate building and the number of units in a building.

3  
4 **SEC. 2108. TAX COLLECTOR AUTHORIZED TO DETERMINE GROSS RECEIPTS.**

5 The Tax Collector may, in his or her reasonable discretion, independently establish a person or  
6 combined group's gross receipts from the lease of Commercial Space in properties in the City and  
7 establish or reallocate gross receipts among related entities so as to fairly reflect the gross receipts  
8 from the lease of Commercial Space in properties in the City of all persons and combined groups.

9  
10 **SEC. 2109. CONSTRUCTION AND SCOPE OF THE EARLY CARE AND EDUCATION**  
11 **COMMERCIAL RENTS TAX ORDINANCE.**

12 (a) This Article 21 is intended to authorize application of the Early Care and Education  
13 Commercial Rents Tax in the broadest manner consistent with its provisions and with the California  
14 Constitution, the United States Constitution, and any other applicable provision of federal or state law.

15 (b) The Early Care and Education Commercial Rents Tax imposed by this Article 21 is in  
16 addition to all other City taxes, including the gross receipts tax imposed by Article 12-A-1 of the  
17 Business and Tax Regulations Code, as amended from time to time. Accordingly, by way of example  
18 and not limitation, persons subject to both the Early Care and Education Commercial Rents Tax and  
19 the gross receipts tax shall pay both taxes. Persons exempt from either the gross receipts tax or the  
20 Early Care and Education Commercial Rents Tax, but not both, shall pay the tax from which they are  
21 not exempt.

1 SEC. 2110. ADMINISTRATION OF THE EARLY CARE AND EDUCATION COMMERCIAL  
2 RENTS TAX ORDINANCE.

3 Except as otherwise provided under this Article 21, the Early Care and Education Commercial  
4 Rents Tax Ordinance shall be administered pursuant to Article 6 of the Business and Tax Regulations  
5 Code, as amended from time to time.

6  
7 SEC. 2111. DEPOSIT OF PROCEEDS.

8 All monies collected under the Early Care and Education Commercial Rents Tax Ordinance  
9 shall be deposited to the credit of the Babies and Families First Fund, established in Administrative  
10 Code Section 10.100-36. The Fund shall be maintained separate and apart from all other City funds  
11 and shall be subject to appropriation. Any balance remaining in the Fund at the close of any fiscal  
12 year shall be deemed to have been provided for a special purpose within the meaning of Charter  
13 Section 9.113(a) and shall be carried forward and accumulated in the Fund for the purposes described  
14 in Section 2112(d) of this Article 21.

15  
16 SEC. 2112. EXPENDITURE OF PROCEEDS

17 Monies in the Babies and Families First Fund shall be used exclusively for the purposes  
18 specified in this Section 2112. Subject to the budgetary and fiscal provisions of the Charter, monies in  
19 the Fund shall be appropriated on an annual or supplemental basis and used exclusively for the  
20 following purposes:

21 (a) Up to 2% of the proceeds of the Early Care and Education Commercial Rents Tax,  
22 distributed in any proportion to the Tax Collector and other City departments, for administration of the  
23 Early Care and Education Commercial Rents Tax;

24 (b) Refunds of any overpayments of the Early Care and Education Commercial Rents Tax  
25 imposed by this Article 21;

1           (c) Fifteen percent of all amounts remaining after application of subsections (a) and (b) to the  
2 General Fund, to be expended for any purposes of the City; and

3           (d) All remaining amounts to funding, including administrative costs, Eligible Programs.

4                 (1) "Eligible Programs" means:

5                         (A) Support for quality early care and education for children under the age of  
6 six in San Francisco families at 85% or less of State Median Income (SMI);

7                         (B) Support for quality early care and education for children under the age of  
8 four in San Francisco families earning up to 200% of the Area Median Income (AMI);

9                         (C) Investment in comprehensive early care and education services that support  
10 the physical, emotional, and cognitive development of children under the age of six; and

11                         (D) Increasing compensation (including but not limited to wages, benefits, and  
12 training) of care professionals and staff in order to improve the quality and availability of early care  
13 and education for children under the age of six.

14                 (2) Monies in the Fund shall be allocated between the purposes set forth in subsections  
15 (d)(1)(A), (d)(1)(B), (d)(1)(C), and (d)(1)(D), as provided by the Board of Supervisors or OECE.

16           (e) Commencing with a report filed with the Board of Supervisors not later than January 1,  
17 2030, and every ten years thereafter, or as directed by the Board of Supervisors, OECE shall file a  
18 "needs assessment" containing recommendations for expenditures from the Fund for the following ten  
19 years to support quality early care and education for children under the age of six through the Eligible  
20 Programs.

21           (f) The intent of subsection (d) of this Section 2112 is to provide dedicated revenues to increase  
22 funding for quality early care and education for San Francisco children under the age of six. It is not  
23 intended to supplant existing funding. Therefore, except as otherwise specified in this Section 2112,  
24 revenues in the Fund may only be expended for the purposes specified in Section 2112(d) in years when  
25 the Controller certifies that appropriations contained in the adopted budget from other funding sources

1 exceed those in a given year, as measured and adjusted by the Controller pursuant to subsections (g)  
2 and (h) of this Section 2112.

3 (g) Expenditures After Baseline Year. No monies in the Fund shall be expended pursuant to  
4 subsection (d) of this Section 2112 in any Fiscal Year in which the amount appropriated for Baseline  
5 Programs (not including appropriations from the Fund and exclusive of expenditures funded by private  
6 funding, development impact fees, or prior period balances, or funded or mandated by state or federal  
7 law) is below the Base Amount. All funds unexpended in accordance with the preceding sentence shall  
8 be held in the Fund and may be expended in any future Fiscal Year in which other expenditures from  
9 the Fund may be made. The Controller shall adjust the Base Amount for each Fiscal Year after the  
10 Baseline Year based on calculations consistent from Fiscal Year to Fiscal Year by the percentage  
11 increase or decrease in aggregate City discretionary revenues. In determining aggregate City  
12 discretionary revenues, the Controller shall include only revenues received by the City that are  
13 unrestricted and may be used at the option of the Mayor and the Board of Supervisors for any lawful  
14 City purpose. The method used by the Controller to determine discretionary revenues shall be  
15 consistent with the method used by the Controller to determine the Library and Children's Fund  
16 Baseline calculations, as provided in Charter Section 16.108(h). The change in aggregate  
17 discretionary revenues shall be adjusted following the end of the Fiscal Year when final revenues are  
18 known.

19 (h) Suspension of Growth in Base Amount. The City may suspend growth in the Base Amount  
20 pursuant to subsection (g) of this Section 2112 in Fiscal Year 2018-2019 if the City's projected budget  
21 deficit for that year at the time of the Joint Report or Update to the Five Year Financial Plan as  
22 prepared jointly by the Controller, the Mayor's Budget Director, and the Board of Supervisors' Budget  
23 Analyst under Chapter 3, Section 3.6 of the Administrative Code, exceeds \$200 million. For Fiscal  
24 Year 2019-2020 and thereafter, the City may suspend growth in the Base Amount pursuant to  
25 subsection (g) of this Section 2112 in any year that the City's projected budget deficit for that year at

1 the time of the Joint Report or Update to the Five Year Financial Plan as prepared jointly by the  
2 Controller, the Mayor's Budget Director, and the Board of Supervisors' Budget Analyst under  
3 Chapter 3, Section 3.6 of the Administrative Code exceeds \$200 million adjusted annually by changes  
4 in aggregate City discretionary revenues as defined in subsection (g) of this Section 2112.

5 (i) Annual Reports. Commencing with a report filed no later than February 15, 2020, covering  
6 the Fiscal Year ending on June 30, 2019, the Controller shall file annually with the Board of  
7 Supervisors, by February 15 of each year, a report containing the amount of monies collected in and  
8 expended from the Fund during the prior Fiscal Year, the status of all Eligible Programs, and such  
9 other information as the Controller, in the Controller's sole discretion, shall deem relevant to the  
10 operation of this Article 21.

11 (j) Administration of Fund. The Fund shall be maintained by the Controller's Office, which  
12 shall record all receipts and expenditures.

13  
14 **SEC. 2113. AMENDMENT OF ORDINANCE.**

15 The Board of Supervisors may amend or repeal this Article 21 by ordinance without a vote of  
16 the people except as limited by Articles XIII A and XIII C of the California Constitution.

17  
18 **SEC. 2114. EFFECT OF STATE AND FEDERAL AUTHORIZATION.**

19 To the extent that the City's authorization to impose or to collect any tax imposed under this  
20 Article 21 is expanded or limited as a result of changes in state or federal statutes, regulations, or other  
21 laws, or judicial interpretations of those laws, no amendment or modification of this Article shall be  
22 required to conform the taxes to those changes; and the taxes are hereby imposed in conformity with  
23 those changes, and the Tax Collector shall collect them to the full extent of the City's authorization up  
24 to the full amount and rate of the taxes imposed under this Article.

1 **SEC. 2115. SEVERABILITY.**

2 (a) Except as provided in Section 2115(b), below, if any section, subsection, sentence, clause,  
3 phrase, or word of this Article 21, or the application thereof to any person or circumstance, is for any  
4 reason held to be invalid or unconstitutional by a decision of any court of competent jurisdiction, such  
5 decision shall not affect the validity of the remaining portions of this Article, including the application  
6 of such portions to other persons or circumstances. The People of the City and County of San  
7 Francisco hereby declare that, except as provided in Section 2115(b), they would have adopted each  
8 section, subsection, sentence, clause, phrase, and word of this Article not declared invalid or  
9 unconstitutional without regard to whether any other portion of this Article would be subsequently  
10 declared invalid or unconstitutional.

11 (b) If the imposition of the Early Care and Education Commercial Rents Tax in Section 2104 of  
12 this Article 21 is held in its entirety to be facially invalid or unconstitutional in a final court  
13 determination, the remainder of this Article 21 shall be void and of no force and effect, and the City  
14 Attorney shall cause it to be removed from the Business and Tax Regulations Code, and likewise cause  
15 Section 10.100-36 to be removed from the Administrative Code.

16  
17 **SEC. 2116. SAVINGS CLAUSE.**

18 No section, clause, part, or provision of this Article 21 shall be construed as requiring the  
19 payment of any tax that would be in violation of the Constitution or laws of the United States or of the  
20 Constitution or laws of the State of California.

21  
22 Section 3. The Administrative Code is hereby amended by adding Section 10.100-36,  
23 to read as follows:  
24  
25

1 **SEC. 10.100-36. BABIES AND FAMILIES FIRST FUND.**

2 (a) Establishment of Fund. The Babies and Families First Fund ("Fund") is established as a  
3 category four fund as defined in Section 10.100-1 of the Administrative Code, and shall receive all  
4 taxes, penalties, interest, and fees collected from the Early Care and Education Commercial Rents Tax  
5 imposed under Article 21 of the Business and Tax Regulations Code.

6 (b) Use of Fund. Subject to the budgetary and fiscal provisions of the Charter, monies in the  
7 Fund shall be used exclusively for the purposes described in Section 2112 of Article 21 of the Business  
8 and Tax Regulations Code.

9 (c) The Controller shall report to the Board of Supervisors as required by subsection (i) of  
10 Section 2112 of the Business and Tax Regulations Code.

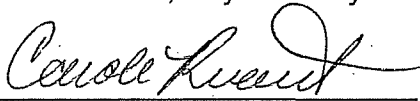
11  
12 Section 4. Appropriations Limit Increase. Pursuant to California Constitution  
13 Article XIII B and applicable laws, for four years from June 5, 2018, the appropriations limit for  
14 the City shall be increased by the aggregate sum collected by the levy of the tax imposed  
15 under this ordinance.

16  
17 Section 5. Effective and Operative Date. The effective date of this ordinance shall be  
18 ten days after the date the official vote count is declared by the Board of Supervisors. This  
19 ordinance shall become operative on January 1, 2019.

20  
21 APPROVED AS TO FORM:

22 DENNIS J. HERRERA, City Attorney

23  
24 By:

  
25 CAROLE RUWART  
Deputy City Attorney

n:\egana\as2017\1800227\01244430.docx



**LEGISLATIVE DIGEST**

[Initiative Ordinance - Business and Tax Regulations and Administrative Codes - Commercial Rents Tax - Early Child Care and Education]

**Motion ordering submitted to the voters, at an election to be held on June 5, 2018, an Ordinance amending the Business and Tax Regulations Code and Administrative Code to impose an additional tax on the gross receipts from the lease of commercial space in the City, in the amount of 1% for warehouses and 3.5% for other commercial uses, to fund the Babies and Families First Fund for quality early care and education for children from birth through five years of age and the General Fund; exempting from the additional tax rents from industrial, artist, non-formula retail, nonprofit, and government uses; increasing the City's appropriations limit by the amount collected under the new tax for four years from June 5, 2018; and affirming the Planning Department's determination under the California Environmental Quality Act.**

Existing Law

Businesses that receive rent or other amounts from the lease of real property in the City currently pay a gross receipts tax under Article 12-A-1 of the Business and Tax Regulations Code. The maximum rates are 0.285% of such gross receipts for gross receipts between \$0 and \$5,000,000, and 0.3% of such gross receipts for gross receipts above \$5,000,000. The maximum rate for businesses with over \$25,000,000 in gross receipts will be 0.325% beginning in tax year 2021.

Businesses with \$1,000,000 or less in total gross receipts within the City (whether from commercial rents or any other line of business), adjusted for inflation, are generally exempt from the gross receipts tax in Article 12-A-1. Certain other businesses (e.g., certain non-profits, banks, insurance companies, etc.) are also exempt.

Amendments to Current Law

Effective January 1, 2019, this ordinance would impose an additional gross receipts tax on businesses that receive rent or other amounts from the lease of commercial space (i.e., non-residential real estate) in the City. The rate would be 1% for gross receipts from warehouse uses, and 3.5% for all other commercial rents. The additional tax would not apply to gross receipts from the lease of any portion of a building or structure used for industrial, arts, or non-formula retail uses, even though the existing gross receipts tax applies to receipts from these uses. And, amounts received from non-profits exempt from federal and state income tax, and from federal, state, and local governments, would be excluded from this additional tax, but not from the existing gross receipts tax.

As with the existing gross receipts tax, businesses with \$1,000,000 or less in total gross receipts within the City (whether from commercial rents or any other line of business),

adjusted for inflation, would be exempt from this additional tax. Certain other businesses exempt from the existing gross receipts tax (e.g., certain non-profits, banks, insurance companies, etc.) would also be exempt from this additional tax.

The additional tax would establish and fund the Babies and Families First Fund (Fund). After administrative costs of the tax, fifteen percent would be dedicated to the General Fund. The remainder would be dedicated to funding quality early care and education for children under six years of age. The Fund's expenditures would be administered by the City's Office of Early Care and Education (OECE), for four purposes: 1) quality early care and education for children under the age of six in San Francisco families at 85% or less of State Median Income (SMI); 2) quality early care and education for children under the age of four in San Francisco families earning up to 200% of the Area Median Income (AMI); 3) investment in services that support the physical, emotional, and cognitive development of children under the age of six; 4) increasing compensation (including but not limited to wages, benefits, and training) of care professionals and staff in order to improve the quality and availability of early care and education for children under the age of six.

This ordinance would also increase the City's appropriations limit under Article XIII B by the amounts collected from the additional tax, for four years from June 5, 2018.

n:\vegana\as2018\1800227\01243286.docx

BOARD of SUPERVISORS



City Hall  
Dr. Carlton B. Goodlett Place, Room 244  
San Francisco 94102-4689  
Tel. No. 554-5184  
Fax No. 554-5163  
TDD/TTY No. 554-5227

January 12, 2018

File No. 180058

Lisa Gibson  
Acting Environmental Review Officer  
Planning Department  
1650 Mission Street, Suite 400  
San Francisco, CA 94103

Dear Ms. Gibson:

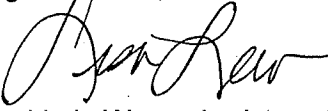
On January 9, 2018, Supervisor Kim introduced legislation for the following proposed Charter Amendment for the June 5, 2018, Election:

**File No. 180058**

**Motion ordering submitted to the voters, at an election to be held on June 5, 2018, an Ordinance amending the Business and Tax Regulations Code and Administrative Code to impose an additional tax on the gross receipts from the lease of commercial space in the City, in the amount of 1% for warehouses and 3.5% for other commercial uses, to fund the Babies and Families First Fund for quality early care and education for children from birth through five years of age and the General Fund; exempting from the additional tax rents from industrial, artist, non-formula retail, nonprofit, and government uses; increasing the City's appropriations limit by the amount collected under the new tax for four years from June 5, 2018; and affirming the Planning Department's determination under the California Environmental Quality Act.**

This legislation is being transmitted to you for environmental review.

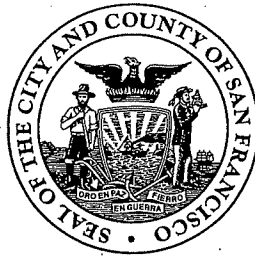
Angela Calvillo, Clerk of the Board

*for*   
By: Linda Wong, Assistant Clerk  
Budget and Finance Committee

Attachment

c: Joy Navarrete, Environmental Planner  
Laura Lynch, Environmental Planner

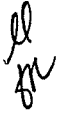
BOARD of SUPERVISORS



City Hall  
Dr. Carlton B. Goodlett Place, Room 244  
San Francisco 94102-4689  
Tel. No. 554-5184  
Fax No. 554-5163  
TDD/TTY No. 554-5227

## MEMORANDUM

TO: Ben Rosenfield, City Controller, Office of the Controller

FROM:  Linda Wong, Assistant Clerk, Budget and Finance Committee  
Board of Supervisors

DATE: January 12, 2018

SUBJECT: CHARTER AMENDMENT INTRODUCED  
June 5, 2018 Election

---

The Board of Supervisors' Budget and Finance Committee has received the following Charter Amendment for the June 5, 2018, Election, introduced by Supervisor Kim on January 9, 2018. This matter is being referred to you in accordance with Rules of Order 2.22.4.

**File No. 180058**

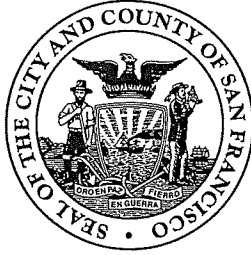
**Motion ordering submitted to the voters, at an election to be held on June 5, 2018, an Ordinance amending the Business and Tax Regulations Code and Administrative Code to impose an additional tax on the gross receipts from the lease of commercial space in the City, in the amount of 1% for warehouses and 3.5% for other commercial uses, to fund the Babies and Families First Fund for quality early care and education for children from birth through five years of age and the General Fund; exempting from the additional tax rents from industrial, artist, non-formula retail, nonprofit, and government uses; increasing the City's appropriations limit by the amount collected under the new tax for four years from June 5, 2018; and affirming the Planning Department's determination under the California Environmental Quality Act.**

Please review and prepare a financial analysis of the proposed measure prior to the first Budget and Finance Committee hearing.

If you have any questions or concerns, please call me at (415) 554-7711 or email: [linda.wong@sfgov.org](mailto:linda.wong@sfgov.org). To submit documentation, please forward to me at the Board of Supervisors, City Hall, Room 244, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

c: Todd Rydstrom, Deputy City Controller  
Peg Stevenson, City Performance Director

BOARD of SUPERVISORS



City Hall  
Dr. Carlton B. Goodlett Place, Room 244  
San Francisco 94102-4689  
Tel. No. 554-5184  
Fax No. 554-5163  
TDD/TTY No. 554-5227

## MEMORANDUM

TO: Regina Dick-Endrizzi, Director  
**Small Business Commission, City Hall, Room 448**

FROM: *ll*  
*lw* Linda Wong, Assistant Clerk  
Budget and Finance Committee

DATE: January 12, 2018

SUBJECT: REFERRAL FROM BOARD OF SUPERVISORS  
Budget and Finance Committee

The Board of Supervisors' Budget and Finance Committee has received the following legislation, which is being referred to the Small Business Commission for comment and recommendation. The Commission may provide any response it deems appropriate within 12 days from the date of this referral.

**File No. 180058**

**Motion ordering submitted to the voters, at an election to be held on June 5, 2018, an Ordinance amending the Business and Tax Regulations Code and Administrative Code to impose an additional tax on the gross receipts from the lease of commercial space in the City, in the amount of 1% for warehouses and 3.5% for other commercial uses, to fund the Babies and Families First Fund for quality early care and education for children from birth through five years of age and the General Fund; exempting from the additional tax rents from industrial, artist, non-formula retail, nonprofit, and government uses; increasing the City's appropriations limit by the amount collected under the new tax for four years from June 5, 2018; and affirming the Planning Department's determination under the California Environmental Quality Act.**

Please return this cover sheet with the Commission's response to me at the Board of Supervisors, City Hall, Room 244, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

\*\*\*\*\*

RESPONSE FROM SMALL BUSINESS COMMISSION - Date: \_\_\_\_\_

\_\_\_\_ No Comment

\_\_\_\_ Recommendation Attached

\_\_\_\_\_  
Chairperson, Small Business Commission


BOARD of SUPERVISORS



City Hall  
Dr. Carlton B. Goodlett Place, Room 244  
San Francisco 94102-4689  
Tel. No. 554-5184  
Fax No. 554-5163  
TDD/TTY No. 554-5227

## MEMORANDUM

TO: Mawuli Tugbenyoh, Liaison to the Board of Supervisors, Mayor's Office  
Jon Givner, Deputy City Attorney, Office of the City Attorney  
John Arntz, Director, Department of Elections  
LeeAnn Pelham, Executive Director, Ethics Commission  
Naomi Kelly, City Administrator, Office of the City Administrator  
Jose Cisneros, Treasurer, Office of the Treasurer & Tax Collector  
September Jarrett, Director, Office of Early Care and Education  
Harvey Rose, Budget Analyst, Budget and Legislative Analyst

FROM:  Linda Wong, Assistant Clerk, Budget and Finance Committee  
Board of Supervisors

DATE: January 12, 2018

SUBJECT: CHARTER AMENDMENT INTRODUCED  
June 5, 2018 Election

---

The Board of Supervisors' Rules Committee has received the following Charter Amendment for the June 5, 2018, Election, introduced by Supervisor Kim on January 9, 2018. This matter is being referred to you in accordance with Rules of Order 2.22.4.

**File No. 180058**

**Motion ordering submitted to the voters, at an election to be held on June 5, 2018, an Ordinance amending the Business and Tax Regulations Code and Administrative Code to impose an additional tax on the gross receipts from the lease of commercial space in the City, in the amount of 1% for warehouses and 3.5% for other commercial uses, to fund the Babies and Families First Fund for quality early care and education for children from birth through five years of age and the General Fund; exempting from the additional tax rents from industrial, artist, non-formula retail, nonprofit, and government uses; increasing the City's appropriations limit by the amount collected under the new tax for four years from June 5, 2018; and affirming the Planning Department's determination under the California Environmental Quality Act.**

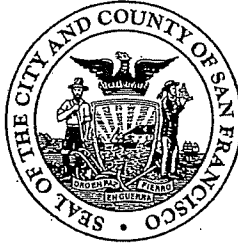
Please review and submit any reports or comments you wish to be included with the legislative file.

If you have any questions or concerns, please call me at (415) 554-7719 or email: [linda.wong@sfgov.org](mailto:linda.wong@sfgov.org). To submit documentation, please forward to me at the Board of Supervisors, City Hall, Room 244, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

c:     Shahde Tavakoli, Mayor's Office  
       Kyle Kundert, Ethics Commission  
       Lynn Khaw, Office of the City Administrator  
       Lihmeei Leu, Office of the City Administrator  
       Amanda Kahn Fried, Office of the Treasurer & Tax Collector  
       Vanessa Price-Cooper, Office of Early Care and Education  
       Debra Newman, Budget and Legislative Analyst  
       Severin Campbell, Budget and Legislative Analyst  
       Gabriela Loeza, Budget and Legislative Analyst



BOARD of SUPERVISORS



City Hall  
Dr. Carlton B. Goodlett Place, Room 244  
San Francisco 94102-4689  
Tel. No. 554-5184  
Fax No. 554-5163  
TDD/TTY No. 554-5227

January 12, 2018

File No. 180058

Lisa Gibson  
Acting Environmental Review Officer  
Planning Department  
1650 Mission Street, Suite 400  
San Francisco, CA 94103

Dear Ms. Gibson:


On January 9, 2018, Supervisor Kim introduced legislation for the following proposed Charter Amendment for the June 5, 2018, Election:

**File No. 180058**

**Motion ordering submitted to the voters, at an election to be held on June 5, 2018, an Ordinance amending the Business and Tax Regulations Code and Administrative Code to impose an additional tax on the gross receipts from the lease of commercial space in the City, in the amount of 1% for warehouses and 3.5% for other commercial uses, to fund the Babies and Families First Fund for quality early care and education for children from birth through five years of age and the General Fund; exempting from the additional tax rents from industrial, artist, non-formula retail, nonprofit, and government uses; increasing the City's appropriations limit by the amount collected under the new tax for four years from June 5, 2018; and affirming the Planning Department's determination under the California Environmental Quality Act.**

This legislation is being transmitted to you for environmental review.

Angela Calvillo, Clerk of the Board

*for* By:  Linda Wong, Assistant Clerk  
Budget and Finance Committee

Attachment

c: Joy Navarrete, Environmental Planner  
Laura Lynch, Environmental Planner

Not defined as a project under CEQA Guidelines Sections 15378 and 15060(c)(2) because it does not result in a physical change in the environment.

Joy Navarrete

Digitally signed by Joy Navarrete  
DN: cn=Joy Navarrete, o=Planning,  
ou=Environmental Planning,  
email=joy.navarrete@sfgov.org, c=US  
Date: 2018.01.30 09:20:43 -08'00'

# Introduction Form

By a Member of the Board of Supervisors or Mayor

RECEIVED  
BOARD OF SUPERVISORS  
SAN FRANCISCO

2010 JAN 19 PM 2:24  
Timestamp  
or meeting date

I hereby submit the following item for introduction (select only one):

- 1. For reference to Committee. (An Ordinance, Resolution, Motion or Charter Amendment).
- 2. Request for next printed agenda Without Reference to Committee.
- 3. Request for hearing on a subject matter at Committee.
- 4. Request for letter beginning : "Supervisor [redacted] inquiries"
- 5. City Attorney Request.
- 6. Call File No. [redacted] from Committee.
- 7. Budget Analyst request (attached written motion).
- 8. Substitute Legislation File No. [redacted]
- 9. Reactivate File No. [redacted]
- 10. Question(s) submitted for Mayoral Appearance before the BOS on [redacted]

Please check the appropriate boxes. The proposed legislation should be forwarded to the following:

- Small Business Commission
- Youth Commission
- Ethics Commission
- Planning Commission
- Building Inspection Commission

**Note: For the Imperative Agenda (a resolution not on the printed agenda), use the Imperative Form.**

Sponsor(s):

Kim; Yee, Ronen, Fewer, Peskin

Subject:

Childcare Initiative Ordinance

The text is listed:

Please see attached.

Signature of Sponsoring Supervisor:

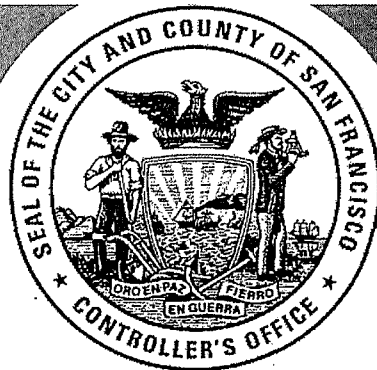


For Clerk's Use Only

# Commercial Rent Taxes for Child Care, Homeless Services, and Transportation

Economic Impact Report

2593



**CITY & COUNTY OF SAN FRANCISCO**

Office of the Controller

Office of Economic Analysis

02.08.2018

## Purpose of this Report

Since December, 2017, three proposed taxes have been introduced that would raise the gross receipts tax on lessors, and sub-lessors, of commercial real estate in San Francisco. Effectively, the proposals are **taxes on commercial rent**, paid by the landlord, not the tenant.

- Supervisor Peskin introduced a tax to fund City transportation operations and infrastructure.
- Supervisors Kim, Yee, Ronen, Fewer, and Peskin sponsored a tax to fund early childhood education.
- Supervisors Safai, Sheehy, Tang, Cohen, and Farrell sponsored a tax to fund affordable housing and homeless services.
- The Office of Economic Analysis has prepared this report after determining that each proposal would materially affect the city's economy.

# Details of the Proposals

## Common Features of All Three Proposals

All three tax proposals are considered **dedicated taxes** – meaning the revenues raised from the taxes must be spent on programs that are specified in the legislation. New dedicated taxes require voter approval, by a two-thirds majority. Each of the proposals sets aside 2% of the revenue to administer the tax, and to refund any over-payments.

All three proposals exempt commercial landlords with less than \$1 million in gross receipts from taxation.

In addition, all three proposals necessarily exclude certain financial corporations (such as banks), insurance companies, and transportation companies, as these businesses are exempted from all local taxation under State law.

Finally, all three allow commercial landlords to exempt gross receipts from non-profit tenants.

# Details of the Proposals

4

## Safai et. al. Proposal

The Safai et. al. proposal is the narrowest of the three proposals. Gross receipts from all retail trade, accommodations, arts/entertainment/recreation, and production/distribution/repair tenants are exempt from the tax.

Nevertheless, we estimate that 71% of all commercial gross receipts in the city would be subject to the tax, as a majority is received by large office buildings. These non-exempt gross receipts would be taxed at a rate of 2%.

The tax revenues would be dedicated to the following programs. The proposal does not prohibit the Mayor and Board of Supervisors from reducing these programs' General Fund support in the future.

- Acquisition/rehabilitation of permanent supportive housing, single-room occupancy buildings, and rent-controlled buildings to make them permanently affordable to low- and middle-income households.
- Rental subsidies to low-income households.
- A \$1.5M - \$3M contribution to the General Fund in fiscal years 2018-19 and 2019-20.

# Details of the Proposals

5

## Kim et. al. Proposal

The Kim et. al. proposal features the highest rate of the three, 3.5%, but would exclude from the tax any receipts from government, arts, industrial, and non-formula retail\* uses, in addition to the common exemptions discussed on page 3. In addition, Warehouse uses would be taxed at a rate of 1%.

We estimate that all of the above exemptions represent about 20% of the tax base, so 80% of the commercial gross receipts in the city would be subject to the tax.

The tax revenues would be dedicated to the following programs. **The proposal prohibits the Mayor and Board of Supervisors from reducing these programs' General Fund support in the future.**

- Early childhood care and education.
- Increasing the compensation of child care of professionals and staff.
- 15% of the revenue would be contributed to the General Fund, for any government purpose.

\**Formula retail* is a term in the City's Planning Code which essentially refers to chain stores.

# Details of the Proposals

6

## Peskin Proposal

The Peskin proposal is the broadest of the three, with exemptions only for commercial landlords (receiving less than \$1 million in rent), and receipts received from non-profit tenants.

Otherwise, commercial rents would be taxed at a rate of 2%.

The tax revenues are dedicated to the following uses. However, the legislation does not prohibit reducing current levels of General Fund support to transportation.

- Transportation operations
- Transportation infrastructure

This report assesses the impact of increasing spending on transit operations. Depending on the specific programs funded, the spending may also raise productivity by reducing average commuting. Without further detail on the spending, these productivity effects cannot be estimated for this report.



# Tax Rate Summary

In each proposal, different tax rates would apply, depending on the type of occupant of the commercial real estate.

| Type of Tenant                         |                                  | Peskin | Kim et. al. | Safai et. al. |
|--|----------------------------------|--------|-------------|---------------|
| Production, Distribution, Repair (PDR) | Industrial                       | 2%     | 3.5%        | 0%            |
|  | Warehouse (except Self-Storage)  | 2%     | 1%          | 0%            |
|  | Other PDR                        | 2%     | 3.5%        | 0%            |
| Retail                                 | Non-Formula Retail               | 2%     | 0%          | 0%            |
|  | Formula Retail                   | 2%     | 3.5%        | 0%            |
| Entertainment, Arts, Recreation        | Arts Activities                  | 2%     | 0%          | 0%            |
|  | Other Entertainment / Recreation | 2%     | 3.5%        | 0%            |
| Visitors (Accommodations)              |                                  | 2%     | 3.5%        | 0%            |
| Non-Profits                            |                                  | 0%     | 0%          | 0%            |
| State/Federal/Local Government         |                                  | 2%     | 0%          | 1.7%          |
| All Others                             |                                  | 2%     | 3.5%        | 1.7%          |

# Revenue Estimates

The table below details our estimates of the tax base, the percent exempted under each proposal, the tax rate, and the projected annual tax revenue.

|  | Peskin | Kim et. al. | Safai et. al. |
|--|--------|-------------|---------------|
| Total Commercial Gross Receipts (2016, \$B)    | \$5.3  | \$5.3       | \$5.3         |
| % of the Tax Base Exempted Under Each Proposal | 5%     | 20%         | 29%           |
| Tax Rate                                       | 2%     | 3.5% / 1%   | 1.7%          |
| Annual Tax Revenue (\$M)                       | \$103  | \$146       | \$64          |

## Cost of Higher Taxes, Benefits of Higher Spending

Imposing a new gross receipts tax on commercial real estate would reduce revenues to that industry. Some of the cost of the tax would be passed through to tenants, in the form of higher base rents. On the margin, a small amount of commercial space would be left vacant or put to other uses:

Additionally, tenants whose rent would be exempt, or taxed at a lower rate, in a proposal could be advantaged in the rental market. A second impact of the proposal would be to marginally shift employment among these advantaged and disadvantaged groups of tenants.

Thirdly, the spending associated with the new tax revenue would create benefits for the city's economy. Higher transportation, child care, or housing would benefit residents and businesses, and tend to expand the local economy through positive multiplier effects.

The overall economic impact depends upon the relative magnitude of these costs and benefits.

## Estimating the Pass-Through

In order to estimate how much of the tax on commercial landlords will be ultimately passed through to tenants in other industries, we needed to statistically estimate:

- the sensitivity of commercial tenants to changes in rents – to what extent do tenants release commercial space when rents rise, or only choose to occupy space when rents fall?
- the sensitivity of commercial real estate owners to changes in rents– to what extent do developers add new space, or owners of existing buildings withdraw space from the commercial market, when rents fluctuate?

Our modeling indicates that, in the short run, commercial tenants are fairly insensitive to changes in rent, but commercial property owners are extremely insensitive to changes in rent.

In economic theory, the party with the least sensitivity to price changes bears the brunt of the pass-through. Consequently, we project that, at least in the short run, **commercial real estate will ultimately bear 88% of the tax burden, and tenants pay only 12%.**

## Benefits of Higher Spending

While the multiplier effects of higher government spending can readily be modelled, the three proposals would likely also generate broader economic benefits that cannot be estimated for this report, given the level of detail in the legislation.

- Greater support for childcare can lead to higher levels of labor force participation, particularly for women, which grows the economy.
- Investment in transportation infrastructure can improve its efficiency and raise productivity.
- Investments in supportive and permanently-affordable housing reduce the long-term costs of housing and social services.

Instead, as shown on the next page, we have assumed that the spending expands other sectors of the economy – the child care sector, maintenance services, real estate, etc.

# Economic Impact Assessment

The table below indicates the estimated first-year distribution of the economic costs and benefits to different sectors of the economy, for each proposal.

|   | Peskin | Kim et. al. | Safai et. al. |
|---|--------|-------------|---------------|
| Annual Tax Revenue (\$M)                            | \$103  | \$146       | \$64          |
| Economic Costs (\$M):                               |        |             |               |
| Revenues of Commercial Real Estate                  | -\$92  | -\$132      | -\$57         |
| Rent Increase to Tenants                            | \$13   | \$18        | \$8           |
| Economic Benefits (\$M):                            |        |             |               |
| Investment in Childcare/Compensation                |        | \$121       |               |
| Investment in Housing / Rental Subsidies            |        |             | \$61          |
| Investment in Transportation                        | \$101  |             |               |
| Local Government (General Fund, Tax Administration) | \$2    | \$25        | \$3           |

# Economic Impact Assessment

This table indicates how each of the three proposals would affect the overall economy, as indicated by employment GDP, and per capita income. The figures below are average impacts over the next 20 years.

|   | Peskin | Kim et. al. | Safai et. al. |
|---|--------|-------------|---------------|
| Citywide Employment Change                  | -184   | -746        | -358          |
| Employed San Francisco Residents            | -161   | -540        | -251          |
| GDP Change (2017\$, million)                | -\$98  | -\$76       | -\$80         |
| Disposable Income Per Capita (real 2017 \$) | -\$14  | -\$54       | -\$24         |

## Conclusions

The model results suggest that the economic costs modestly outweigh the spending benefits of the three proposals.

On average over the next twenty years, the impacts on real GDP, and total employment range from -0.04% to -0.08%.

By way of context, real GDP has grown by an average of 3.2% per year, and total employment has grown by an average of 2.6%, in San Francisco from 2007 to 2017.



# Staff Contacts

15

Ted Egan  
Chief Economist  
[ted.egan@sfgov.org](mailto:ted.egan@sfgov.org)

